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POWERCO LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

POWERCO LIMITED

Financial Statements as required by the Gas (Information Disclosure) Regulations

for the year ended 31 March 1998

POWERCO LIMITED

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY LINE OWNERS OTHER THAN TRANSPOWER

We, Barry Raymond Upson, director, and Simon Paul Moutter, principal of Powerco Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

(a) The attached audited financial statements of Powerco Limited, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, give a true and fair view of the matters to which they relate and comply with the requirements of that regulation; and

(b) The attached information, being financial performance measures, energy delivery efficiency performance measures, statistics, and reliability performance measures in relation to Powerco Limited, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

The valuations on which those financial performance measures are based are as at 31 March 1998.

Director

Principal

20 August 1998

Deloitte Touche Tohmatsu

POWERCO LIMITED

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification by Auditor in Relation to Financial Statements

We have examined the attached financial statements prepared by Powerco Limited dated 20 August 1998 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997.

We certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hamilton
20 August 1998

Deloitte Touche Tohmatsu

POWERCO LIMITED

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification of Performance Measures by Auditor

We have examined the performance measures set out in Note 12 to the attached financial statements being:

(a) Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997;

(b) Financial components of the efficiency performance measures specified in clause 2 of Part 2 of that schedule;

and having been prepared by Powerco Limited and dated 20 August 1998 for the purposes of regulations 15 and 16 of those regulations.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hamilton
20 August 1998

POWERCO LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 1998

	Notes	31 March 1998 Gas Distribution $000	Gas Retailing $000	Other $000	31 March 1997 Gas Distribution $000	Gas Retailing $000	Other $000
EQUITY							
Share capital	2	17,219	316	104,541	17,219	316	79,034
Reserves	3						25,506
Asset Revaluation Reserves	4	9,262		84,479	10,014		58,396
Retained earnings		801	48	11,743	1,149	(280)	8,935
		27,282	364	200,763	28,382	36	171,871
NON CURRENT LIABILITIES							
Term advances facility	5	(8,142)	(13)	12,455		737	17,504
Commercial Paper	6	11,544		86,325			
Deferred taxation		1,558		18,595	2,303		13,430
		4,960	(13)	117,375	2,303	737	30,934
CURRENT LIABILITIES							
Overdraft		39	12	483			
Accounts payable		817	661	12,654	429	845	8,870
Provision for dividend		1,456	177	9,834	504		7,315
Provision for employee entitlements		164	9	1,829	309	12	1,630
		2,476	859	24,800	1,242	857	17,815
TOTAL EQUITY AND LIABILITIES		$34,718	$1,210	$342,938	$31,927	$1,630	$220,620
							$
NON CURRENT ASSETS							
Fixed assets	7	29,308		302,616	29,045	419	172,645
Current account		3,905		(3,905)			
Goodwill on consolidation				21,309			
Investments in associates				399			242
Other investments				205			15,237
		33,213		320,624	29,045	419	188,124
CURRENT ASSETS							
Cash					1,060		13,623
Receivables and prepayments		1,318	1,064	20,406	1,408	1,211	17,111
Tax receivable		58	47	895	2		25
Inventories		129	99	1,013	412		1,737
		1,505	1,210	22,314	2,882	1,211	32,496
TOTAL ASSETS		$34,718	$1,210	$342,938	$31,927	$1,630	$220,620

POWERCO LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 1998

	Notes	Gas Distribution $000	Gas Retailing $000	Other $000	Gas Distribution $000	Gas Retailing $000	Other $000
OPERATING REVENUE	8	9,093	7,343	152,546	8,316	7,575	111,562
OPERATING SURPLUS BEFORE TAXATION	9	4,162	508	27,431	2,812	(296)	23,603
Taxation expense	10	1,231	150	7,798	881	(93)	7,405
OPERATING SURPLUS AFTER TAXATION		2,931	358	19,633	1,931	(203)	16,198
Share of retained surplus (losses) in associate companies after tax				170			37
OPERATING SURPLUS ATTRIBUTABLE TO THE SHAREHOLDERS		$2,931	$358	$19,803	$1,931	($203)	$16,235

POWERCO LIMITED
STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 MARCH 1998

	Notes	Gas Distribution $000	Gas Retailing $000	Other $000	Gas Distribution $000	Gas Retailing $000	Other $000
EQUITY AT 1 APRIL 1997		28,382	36	171,871	17,370	239	110,856
Operating surplus attributable to the shareholders		2,931	358	19,803	1,931	(203)	16,235
Pre-acquisition operating surplus of Egmont Electricity Limited transferred to goodwill				(2,060)			
Revaluation of network assets				25,331	12,374		72,159
Deferred taxation in respect of revaluation					(2,360)		(13,763)
Total recognised revenue and expenses for the year.		2,931	358	43,074	11,945	(203)	74,631
Contributions from shareholders							
Partly paid shares received					8		48
Opening equity adjustment		(1,715)	252	1,463			(12)
		(1,715)	252	1,463	8		36
Distributions to shareholders							
Share repurchase							
Dividends - paid	11	(860)	(105)	(5,811)	(437)		(6,337)
- proposed	11	(1,456)	(177)	(9,834)	(504)		(7,315)
		(2,316)	(282)	(15,645)	(941)		(13,652)
EQUITY AT 31 MARCH 1998		$27,282	$364	$200,763	$28,382	$36	$171,871

POWERCO LIMITED
Notes to the Financial Statements for the year ended 31 March 1998

1. Statement of Accounting Polices

Reporting Entity

Powerco Limited is a company registered under the Companies Act 1993. The group consists of Powerco Limited, its subsidiaries and its associate.

In accordance with the requirements of the Ministry of Commerce, the Financial Statements for the year ended 31 March 1998 include the trading activities of Egmont Electricity Limited for the full year, including pre acquisition activities from 1 April 1997 to 31 August 1997.

The following activities are the principal activities undertaken by Powerco Limited throughout the financial year:

- Distribution and retailing of electricity and value added services.
- Distribution and retailing of gas and value added services.
- Hydro electricity generation.

These financial statements have been prepared to comply with the provisions of Section 44 of the Energy Companies Act 1992, the Companies Act 1993, the Financial Reporting Act 1993.

Measurement Basis

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain fixed assets have been revalued.

Specific Accounting Policies

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

a) Basis of Consolidation

The consolidated financial statements include those of Powerco Limited and its wholly owned subsidiary, Egmont Electricity Limited. All significant inter-company transactions and balances are eliminated on consolidation. In the parent company financial statements investments in subsidiaries are stated at cost.

b) Associate Companies

These are companies in which the group holds substantial shareholdings and exercises significant influence in commercial and financial policy decisions.

Associate companies have been reflected in the consolidated financial statements on an equity accounting basis which shows the group's share of profits in the consolidated statement of financial performance and its share of post acquisition increases or decreases in net assets, in the consolidated statement of financial position.

c) Fixed Assets

The capital value of fixed assets is the value at either Optimised Depreciated Replacement Cost (ODRC), economic value or cost.

Valuations were completed by Coopers and Lybrand Independent Consultants. These valuations are recorded in the financial statements at the date of valuation being 31 March 1998. Assets are recorded as follows:

- Electricity and gas network assets of the company - ODRC
- The five generating stations owned by the company - Economic value.

The capital values of all other assets are recorded at cost.

d) Depreciation of Fixed Assets

Depreciation rates for major classes of asset are:

Land	Not Depreciated
Buildings	1% SL
Furniture and Fittings	10% to 20% DV
Office Equipment	10% to 33% DV
Motor Vehicles	20% DV
Network Systems and Generation	1.8% to 2% SL and 5% to 14.4% DV

These rates were revised as at 31 March 1998 in conjunction with the revaluation of fixed assets as at that date. The revised rates which will be applicable from 1 April 1998 are in accordance with industry guidance as to best practice.

e) Receivables

Accounts receivable are valued at expected realisable value, after providing for doubtful debts. All known bad debts have been written off during the period under review.

f) Income Tax

The income tax expense charged to the Statement of Financial Performance includes both the current years expense and the income tax effect of timing differences using the liability method on a comprehensive basis.

g) Inventory

Inventory is valued at the lower of historical cost and net realisable value. The weighted average method has been used to determine historical cost. The quantity of gas in pipes has been estimated by Powerco Limited's gas engineers, and valued at average purchase cost per unit.

h) Investments

Investments are valued at the lower of cost and net realisable value.

i) Revenue Recognition

Revenue from the sale of energy and value added services is recognised when invoices are issued plus an accrual is made for unread meters at balance date.

j) Financial Instruments

The company has various financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in electricity unit prices and interest rates. While these financial instruments are subject to risk that the market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

Financial instruments purchased with the intention of being held for the long term or until maturity are recorded at cost which is adjusted for the amortisation of premiums and accretion of discounts to maturity.

k) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business or shares in a subsidiary or an associate company.

Goodwill is amortised on a systematic basis over the period benefits are expected to arise, which will generally be twenty years or less.

Changes in Accounting Policies

There have been no changes to accounting policies. All policies have been applied on a basis consistent with prior years.

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

2 SHARE CAPITAL

	1998 $000	1997 $000
Issued capital	**122,076**	96,569
less uncalled capital		56
Opening issued and paid up capital as at 31 March 1997	**$122,076**	96,513
Calls on capital		56
Closing issued and paid up capital as at 31 March 1998	**$122,076**	$96,569

Total number of ordinary shares issued as of 31 March 1998 amounted to 52,123,989.

3 RESERVES

	1998 $000	1997 $000
Balance as at 31 March 1997	**25,506**	25,506
Transfer to share capital	**(25,506)**	
Balance as at 31 March 1998		$25,506

4 ASSET REVALUATION RESERVE

	1998 $000	1997 $000
Balance as at 31 March 1997	**68,410**	
Network asset revaluation	**25,331**	84,533
less Deferred taxation on asset revaluation		(16,123)
Balance as at 31 March 1998	**$93,741**	$68,410

5 WORKING CAPITAL ADVANCES FACILITY

The company has established a Wholesale Working Capital Advances Facility with the BNZ Bank of up to $15 million dollars. At 31 March 1998 the amount drawn down from this facility amounted to $4.3 million. Interest is charged to the company according to the daily wholesale lending rate. The facility is based on a revolving credit and as such does not have set repayment dates.

6 COMMERCIAL PAPER FACILITY

The company established a commercial paper facility in December 1997 with ANZ Investment Bank, Bank of New Zealand and WestpacTrust. This is a 90 day rolling facility with a maximum amount of $200 million. At year end $97,868,870 had been drawn down.

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

7 FIXED ASSETS

Fixed Assets as at 31 March 1998	Gas Distribution 1998 $000	Gas Retailing 1998 $000	Other 1998 $000
Land			
Capital value	32		2,817
Buildings			
Capital value	15		12,555
less Accumulated depreciation			1,460
	15		11,095
Furniture and Fittings			
Capital value	783		2,544
less Accumulated depreciation	372		1,842
	411		702
Office Equipment			
Capital value	1,444		16,750
less Accumulated depreciation	815		9,266
	629		7,484
Motor Vehicles			
Capital value	79		3,234
less Accumulated depreciation	45		2,334
	34		900
Network Systems and Generation			
Capital value	40,411		441,612
less Accumulated depreciation	12,418		163,561
	27,993		278,051
Work in Progress	194		1,567
Total Fixed Assets	$29,308		$302,616

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

Fixed Assets as at 31 March 1997	**Gas Distribution 1997 $000**	**Gas Retailing 1997 $000**	**Other 1997 $000**
Land			
Capital value	54	46	2,048
Buildings			
Capital value	261	225	9,970
less Accumulated depreciation	29	25	1,122
	232	200	8,848
Furniture and Fittings			
Capital value	80	69	3,046
less Accumulated depreciation	48	41	1,829
	32	28	1,217
Office Equipment			
Capital value	253	218	9,640
less Accumulated depreciation	132	113	5,028
	121	105	4,612
Motor Vehicles			
Capital value	80	69	3,038
less Accumulated depreciation	58	50	2,218
	22	19	820
Network Systems and Generation			
Capital value	28,558		154,084
less Accumulated depreciation			
	28,558		154,084
Work in Progress	26	21	1,016
Total Fixed Assets	$29,045	$419	$172,645

8 OPERATING REVENUE

Operating Revenue for the year ended 31 March 1998	**Gas Distribution 1998 $000**	**Gas Retailing 1998 $000**	**Other 1998 $000**
Comprises:			
Sales	**9,066**	**7,334**	**148,954**
Profit on Sale of Investments			**1,875**
Interest revenue	**27**	**9**	**330**
Dividend revenue			**1,387**
	9,093	**7,343**	**152,546**

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

Operating Revenue for the year ended 31 March 1997	**Gas Distribution 1997 $000**	**Gas Retailing 1997 $000**	**Other 1997 $000**
Comprises:			
Sales	8,316	7,575	107,675
Interest revenue			2,117
Dividend revenue			1,770
	8,316	7,575	111,562

9 **OPERATING SURPLUS BEFORE TAXATION**

	Gas Distribution 1998 $000	**Gas Retailing 1998 $000**	**Other 1998 $000**
Operating Surplus Before Taxation for the year ended 31 March 1998	**4,162**	**508**	**27,431**
After Charging			
Energy purchases and transmission	**1,460**	**6,684**	**80,553**
Repairs and maintenance costs	**228**		**2,047**
Personnel costs	**1,135**	**65**	**12,625**
Depreciation	**1,011**		**12,662**
Interest expense	**896**		**6,698**
Bad debts	**21**	**17**	**323**
Loss on sale of fixed assets			**(289)**
Rental and operating lease costs	**104**	**2**	**1,085**
Audit fees	**7**		**7**
Other fees paid to auditors	**24**		**216**
Directors remuneration	**20**		**180**
Other	**25**	**67**	**9,008**

	Gas Distribution 1997 $000	**Gas Retailing 1997 $000**	**Other 1997 $000**
Operating Surplus Before Taxation for the year ended 31 March 1997	2,812	(296)	23,603
After Charging			
Energy purchases and transmission	2,523	6,874	61,086
Repairs and maintenance costs	230		1,713
Personnel costs	1,001	2	8,889
Depreciation	607	2	4,650
Interest expense	9	130	695
Write-down of building value	32	14	526
Bad debts	19	8	287
Loss on sale of fixed assets			23
Rental and operating lease costs	60	56	867
Audit fees	6	5	80
Other fees paid to auditors	3	3	46
Directors remuneration	14	13	198
Other	1,000	764	8,899

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

10 TAXATION

Taxation for the year ended 31 March 1998	Gas Distribution 1998 $000	Gas Retailing 1998 $000	Other 1998 $000
Operating surplus before taxation	4,162	508	27,431
Prima facie taxation @ 33%	1,374	168	9,052
Plus/(less) tax effect of permanent timing differences:	(92)	(18)	882
Pre acquisition taxation effect of Egmont Electricity Limited			(1,276)
Deferred taxation	(51)		(608)
Prior year over provision			(252)
Taxation expense	$1,231	$150	$7,798

Taxation for the year ended 31 March 1997	Gas Distribution 1997 $000	Gas Retailing 1997 $000	Other 1997 $000
Operating surplus (deficit) before taxation	2,812	(296)	23,603
Prima facie taxation @ 33%	928	(98)	7,789
Plus/(less) tax effect of permanent timing differences:	(8)	(1)	(27)
Deferred taxation	(39)	6	(357)
Taxation expense (benefit)	$881	($93)	$7,405

Imputation Credit Account

	1998 $000	1997 $000
Balance as at 31 March 1997	5,148	5,556
Imputation credits attached to dividends received during the year	450	321
Imputation credits attached to dividends paid during the year	(7,188)	(8,086)
Income tax payments made during the year	9,779	7,357
Balance as at 31 March 1998	$8,189	$5,148

11 DIVIDENDS

	1998 $000	1997 $000
Interim distributions:		
-Dividends paid on ordinary shares	6,775	6,774
Proposed distributions:		
-Proposed dividend on ordinary shares	11,467	7,819
	$18,242	$14,593

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

12 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 15 AND PART II OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Financial Performance Measures	1998	1997
(i) Accounting Return on Total Assets	**15.18%**	8.21%
(ii) Accounting Return on Equity	**10.40%**	6.33%
(iii) Accounting Rate of Profit	**11.63%**	8.17%

Efficiency Performance Measures		
(iv) Direct Line Cost per Kilometre	**$1,742.75**	$2,118.03
(v) Indirect Line Cost per Gas Customer	**$32.45**	$94.64

Indirect line costs for the 1998 year have been ascertained using the new draft allocation methodology.

13 CONTINGENT LIABILITIES AND COMMITMENTS

There are no capital commitments as at balance date.

The company has guaranteed the obligations of its associate company as they relate to energy purchases on its behalf. The company has also made arrangements with its bankers to provide guarantees up to $16.8 million to enable Energy Brokers New Zealand Limited to trade in the wholesale market.

14 SUBSEQUENT EVENTS

Subsequent to balance date the Government has passed legislation which regulates the ability of electricity supply companies to own various assets.

The legislation requires legal separation of the company's existing line distribution and energy trading assets. Further, it will restrict ownership of the various types of assets existing and requires the company to transfer part of its existing assets to another entity.

No adjustments to carrying values of assets recorded in these financial statements have been made as a result of any possible impact of the amended legislative environment.

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 1998

15 FINANCIAL INSTRUMENTS

(i) Credit risk

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. The five largest accounts receivable balances as at 31 March 1998 comprise 8.87% of total accounts receivable. Cash deposits are only made with registered banks, no specific concerns regarding credit risk exist.

The company performs credit evaluations on customers where possible. New customers with known high credit risk are required to pay a bond before energy is supplied to them.

(ii) Interest Rate Risk

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The company's short-term borrowings are on a floating daily interest rate. Long-term debt is funded via Powerco's Commercial Paper program based on the Bank bill rates every 90 days.
Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its Commercial Paper program. At 31 March 1998 the company had interest rate swap agreements outstanding with commercial banks. The total notional principal amount of these arrangements totalled $58.55 million with the last of these agreements maturing within 7yrs.
The weighted average of these swap agreements give an interest of 7.8%.

(iii) Wholesale electricity purchases

The company has exposure to wholesale electricity price fluctuations in respect of the purchase of electricity, in respect of commercial sales commitments at fixed prices over periods of one to two years through its associate company, and domestic sales at prices which may be changed by the company within commercial limits. The price fluctuation risks are minimised by entering into back to back electricity hedge contracts through its associate company, which are fixed forward supply agreements to ensure the supply of electricity at predetermined prices.

The balance of off Statement of Financial Position financial instruments of the company are as follows:

	1998		1997	
	Contract Amount $000	**Fair Value $000**	**Contract Amount $000**	**Fair Value $000**
Electricity Purchase Contracts	**32,250**	**32,250**	**9,000**	**9,000**

16 RELATED PARTY TRANSACTIONS

As an integrated company, Powerco's corporate function provides services to both the line and energy functions. These services include billing, meter reading, call centre services, in addition to other normal corporate activities. These costs have been allocated between the functions to reflect the costs incurred.

17 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 17 AND PART III OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

		1998	1997
17.1	**Energy delivery efficiency measures**		
	(a) Load Factor	70.00%	63.60%
	(b) Un-accounted for Gas Ratio	2.06%	0.79%
17.2	**Statistics**		
	(a) System Length	457.30 km	454.93 km
	(b) Maximium monthly amount entering the system	198,050 GJ	278,367 GJ
	(c) Total amount of gas conveyed	1,721,733 GJ	2,089,567 GJ
	(d) Total amount of gas conveyed on behalf of other persons	0 GJ	0 GJ
	(e) Total customers	16,405	16,286

18 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 18 AND PART IV OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

18.1	**Un-planned interruptions in transmission systems**	0	0
18.2	**Un-planned interruptions in distribution systems**		
	(a) Un-planned interruptions other than those directly resulting from un-planned interruptions of a transmission system.	0	0
	(b) Un-planned interruptions directly resulting from un-planned interruptions of a transmission system.	0	0

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

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