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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 1998

	Notes	1998 $M	1997 $M
CONTINUING ACTIVITIES			
Revenue	2	928	990
Operating expenses		443	530
Net finance costs	3	90	82
		395	378
Gain on sale of Mangahao power station		30	-
Matahina dam costs		31	-
Operating profit from continuing activies		394	378
DISCONTINUED ACTIVITIES			
Revenue	2	-	93
Operating expenses	2	-	93
Operating profit from discontinued activities		-	-
Profit before taxation	4	394	378
Taxation	5	94	111
Net profit for the year		300	267

Statement of Movement in Equity for the year ended 30 June 1998

	Notes	1998 $M	1997 $M
Equity at start of the year		2,003	1,937
Net profit for the year		300	267
Surplus arising on fair valuation	1	-	105
		2,303	2,309
Dividends payable:			
Ordinary dividends paid or provided	6	68	148
Special dividends paid	6	-	158
		68	306
Equity at end of the year		2,235	2,003

Electricity Corporation of New Zealand Limited
Statement of Financial Position as at 30 June 1998

	Notes	1998 $M	1997 $M
Assets			
Current assets	7	318	246
Non current assets			
Term assets	8	112	59
Fixed assets	9	3,263	3,241
Total assets		3,693	3,546
Liabilities and equity			
Current liabilities	10	359	383
Non current liabilities			
Term liabilities	11	989	1,002
Deferred taxation	12	110	158
Total liabilities		1,458	1,543
Equity	13	2,235	2,003
Total liabilities and equity		3,693	3,546

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

1. Statement of accounting policies

Reporting entity

These consolidated 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.

These consolidated financial statements are for Electricity Corporation of New Zealand Limited (ECNZ) and Kinleith Cogeneration Limited as required to comply with Regulation 4 of the Electricity (Information Disclosure) Regulations 1994.

Constitution, ownership and activities

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

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'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.

Principles of consolidation

The consolidated financial statements are prepared from the financial statements of the Parent Company and its subsidiaries as at 30 June 1998, using the purchase method.

All transactions between ECNZ companies are eliminated on consolidation.

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 exchange rate ruling on the date the transaction occurred or the hedged rate.

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.

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, less unamortised premium or discount.

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 or premiums which are amortised to interest expense or interest income on a straight-line 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 the weighted average interest rate of ECNZ's debt portfolio.

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 or 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 and currency 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. Any unrealised gains or losses are offset against foreign exchange gains or losses on the related asset or liability.

Off balance sheet 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.

Changes in accounting policies

The accounting policies applied during the year 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

	1998 $M	1997 $M
2. Revenue		
Continuing activities		
Sale of electricity	915	964
Other sales revenue - external	-	2
Other income	13	24
Total revenue from continuing activities	928	990

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). From 1 February to 30 September 1996, ECNZ sold electricity in relation to these stations on behalf of Contact, at nil margin.

	1998 $M	1997 $M
3. Net finance costs		
Loan interest	113	101
Less: Interest capitalised	13	3
	100	98
Less: Investment income		
Interest from investments	10	10
Dividends received from subsidiaries	-	6
Total investment income	10	16
Net finance costs	90	82
4. Profit before taxation		
Profit before taxation is stated after charging:		
Depreciation	110	87
Research	6.4	3.0
Write down of assets	2.9	2.2
Operating lease and rental costs	2.6	2.3
Amounts received by the auditors for:		
Auditing the financial statements	0.3	0.3
Other services	1.2	1.1
Directors' fees	0.3	0.3
Donations	0.2	0.1
5. Taxation		
Profit before taxation	394	378
Prima facie tax at 33%	130	125
Less: Tax effect of:		
Permanent differences	(9)	(13)
Prior year provisions no longer required	(27)	(1)
Taxation expense	94	111
The taxation expense is represented by:		
Tax payable in respect of the current year	143	123
Deferred taxation (note 12)	(49)	(12)
	94	111

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

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1998 $M	1997 $M
Imputation credit account		
Imputation credits at start of the year	704	576
Plus: Income tax paid	104	131
Imputation credits attached to dividends received	-	1
Transfers to subsidiaries	1	(4)
Imputation credits at end of the year	809	704

6. Dividends

	1998 $M	1997 $M
Ordinary shares:		
Interim dividend paid	68	81
Final dividend recommended by directors (note 10)	-	67
	68	148
Special dividend paid	-	158
Total dividends paid or provided	68	306

7. Current assets

	1998 $M	1997 $M
Cash	3	8
Short term deposits	88	1
Fuel stocks	38	39
Consumable spares	12	12
Prepayments	7	2
Accounts receivable	165	176
Taxation receivable	-	5
Other current assets	5	3
Total current assets	318	246

8. Term assets

	1998 $M	1997 $M
Investment in subsidiaries	45	48
Resource consents	8	8
Other term assets	59	3
Total term assets	112	59

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1998 $M	1997 $M
9. Fixed assets		
Generation plant (including land and buildings)		
Cost	3,252	3,279
Less: Accumulated depreciation	262	176
Book value	2,990	3,103
Other freehold land		
Cost	15	12
Other freehold buildings		
Cost	15	11
Less: Accumulated depreciation	3	2
Book value	12	9
Capital work in progress		
Cost	215	91
Other plant and equipment		
Cost	82	62
Less: Accumulated depreciation	51	36
Book value	31	26
Total fixed assets		
Cost	3,579	3,455
Less: Accumulated depreciation	316	214
Total book value	3,263	3,241

The aggregate of the latest available Government valuations of other freehold land is $35 million (1997 $31 million). Separate valuations of buildings are not available, but the aggregate valuation shown above would not differ materially from net current values.

10. Current liabilities

	1998 $M	1997 $M
Accounts payable	116	148
Dividend payable (note 6)	-	67
Taxation payable	15	-
Accrued personnel costs	7	9
Loans repayable within one year	142	94
Other current liabilities	79	65
Total current liabilities	359	383

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1998 $M	1997 $M
11. Term liabilities		
ECNZ bond programme		
Face value of bonds on issue	761	761
Fair valuation	28	34
	789	795
Less: Bonds defeased (note 18)	70	70
	719	725
Less: Unamortised discount	26	33
	693	692
Loans from other sources	572	693
Less: Loans defeased (note 18)	138	349
	434	344
Term liabilities including current portion	1,127	1,036
Less: Current portion	138	34
Total term liabilities	989	1,002

Term liabilities are repayable as follows:

	1998 $M	1997 $M
Between one and two years	85	73
Between two and three years	69	142
Between three and four years	488	67
Between four and five years	232	477
Later than five years	115	243
Total	989	1,002

Interest rates payable, after giving effect to interest rate swaps, forward rate agreements and interest rate options on term liabilities, range from 7.3% to 9.6% (1997 6.6% 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.

The interest repricing profiles for the ECNZ are as follows:

	1998 $M	1997 $M
Within one year	325	340
Between one and two years	63	-
Between two and three years	68	141
Between three and four years	462	24
Between four and five years	55	387
Later than five years	130	113
Total	1,103	1,005

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

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 (1997 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

	1998 $M	1997 $M
Deferred taxation at start of the year	159	290
On profit for the year (note 5)	(49)	(12)
Deferred tax effect of fair valuation	-	(120)
Deferred taxation at end of the year	110	158

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.

14. Capital commitments

Commitments in respect of contracts for capital expenditure	160	254

15. Operating lease commitments

Operating lease commitments are payable:

Within one year	2	2
Between one and two years	1	1
Between two and five years	4	5
Later than five years	8	12
Total	15	20

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.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

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 per cent of the relevant employee's basic salary. These contributions are charged against profit.

17. Financial instruments

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:

	1998 $M	1997 $M
Cross currency interest rate swaps	991	1,237
Forward foreign exchange contracts	124	163

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's 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	833	736
Forward rate agreements (FRAs)	193	163
Interest rate options	196	497
Interest rate futures	-	183

The cash settlement requirement of interest rate swaps is the net interest receivable of $4,034,539 (1997 $2,671,751 receivable).

The best approximation for FRAs is the current market value at balance date which is $337,689 (1997 $36,921).

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 $74,631 (1997 $852,997).

Futures are cash settled each day to reflect the market value at the 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 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.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

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.

Fair values

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

	1998		1997	
	Carrying value $M	Fair value $M	Carrying value $M	Fair value $M
Short term loans	4	4	60	60
Term liabilities	1,127	1,157	1,086	1,122
Currency and interest rate swaps	-	22	-	28

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

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. Since 1 February 1996 $211 million of the defeased debt has matured.

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. .

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

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 Transpower. Transpower operates the national electricity distribution grid. During the year ECNZ received $18 million (1997 $22 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 $84 million (1997 $112 million).

ECNZ holds a 33 per cent share in EMCO Limited (EMCO) which functions as a clearing house for the wholesale electricity market. Electricity sales revenues received by ECNZ from EMCO acting in its role as a clearing house are not considered to be related party transactions. ECNZ paid service fees of $4 million (1997 $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 $152,215 (1997 $86,264) to Beca Carter Hollings & Ferner Limited which is wholly owned by Beca Group Limited of which Sir R P Carter is the Executive Chairman and a minority shareholder. Sir R P 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 $18,874 (1997 $6,635) outstanding at balance date is included in accounts payable.

During the year ECNZ also paid professional engineering fees of $118,552 (1997 $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 $18,468 (1997 $998) outstanding at balance date is included in accounts payable.

21. Investments

Company name	Percentage	Principal activity	Balance date
Subsidiary companies			
*Coleridge Power Station Limited	100	Property management	30 June
*ECNZ Energy Limited	100	Energy	30 June
*ECNZ Insurance Limited	100	Insurance	30 June
*ECNZ International Limited	100	Finance	30 June
*Kinleith Cogeneration Limited	100	Construction	30 June
+Kupe Development Limited	65	Holding company	30 June
^Kupe Mining (No 1) Limited	100	Oil and gas exploration	30 June
^Kupe Mining (No 2) Limited	100	Oil and gas exploration	30 June
*Customer Services Limited (formerly Energy Promoters Limited)	100	Retail energy sales	30 June
*Mangahao Power Station Limited	100	Property management	30 June
*Methven Management 1997 Limited	100	Dormant	30 June
#PT ECNZ Services Indonesia	100	Geothermal power station operations and maintenance	31 December
*Rakaia Power Station Limited	100	Retail energy sales	30 June
*Rutherford House Limited	100	Property management	30 June
Associate companies			
Electricity Market Company Limited (EMCO)	33	Wholesale market operations	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
\# 99% owned by ECNZ International Limited
1% owned by ECNZ Limited

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 relationships

(a) ECNZ has entered into a contract with Contact Energy Limited 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 $236 million.

(b) 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 $26 million.

(c) ECNZ has entered into contracts with the Tuaropaki Power Company Limited with respect to the Mokai geothermal field. These interrelated contracts cover electricity price hedges, investment, and operations and maintenance.

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(d) ECNZ has entered into a heads of agreement with Fletcher Challenge Energy Limited which makes provision for the purchase of specified annual gas quantities from 1 October 2000 to 30 September 2017. The terms and conditions of supply have yet to be finalised.

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 eight power stations to Contact. These stations accounted for 29% of ECNZ generating capacity as at the MoU date.

(b) revalued its assets as at 1 February 1996;

(c) agreed to sell eight small 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. Mangahao power station was sold on 22 December 1997. Subsequent to balance date ECNZ sold Coleridge power station to The Alpine Consortium for approximately $90 million.

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 any increase in Huntly thermal power station's capacity above 1,000MW.

(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 10MW; and
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

(d) Acquiring energy companies

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

25. Industry Review

The Government has announced its intention to split ECNZ into three separate state owned enterprises (SOEs) by 1 April 1999. SOE 1 comprises the Waikato catchment hydro power stations. SOE 2 comprises Huntly thermal power station and the Tongariro catchment hydro power stations. SOE 3 comprises the Waitaki catchment and Manapouri hydro power stations.

The assets and liabilities will be transferred to the new entities on a book value basis. Any assets, liabilities or contingent liabilities not transferred to the new entities will remain with ECNZ on a basis as yet to be determined. The company will retain sufficient assets and/or shareholder guarantees to enable it to meet all future obligations.

The shareholder has appointed a reform unit to advise them on the best means of achieving the Crown's industry restructuring objectives.

The restructure will also have an impact on some of the matters covered in note 24.

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.

3 November 1998

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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 3 November 1998 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
9 November 1998

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