# New Zealand Gazette

OF THURSDAY, 26 NOVEMBER 1998

**WELLINGTON: MONDAY, 30 NOVEMBER 1998 — ISSUE NO. 193**


# TRANSPOWER NEW ZEALAND LIMITED

## INFORMATION FOR DISCLOSURE

### PURSUANT TO THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**
**FOR THE YEAR ENDED 30 JUNE 1998**

| | Notes | 1998 $000 | 1997 $000 |
|---|---|---|---|
| Operating revenue | 3 | 556,893 | 550,342 |
| Operating expenses | 4 | 348,774 | 323,926 |
| | | 208,119 | 226,416 |
| Net finance costs | 6 | 113,537 | 107,055 |
| Surplus (deficit) from operations before tax and revaluation | | 94,582 | 119,361 |
| Less transfer from revaluation reserve | 15 | 407,147 | - |
| Surplus (deficit) from operations before tax | | (312,565) | 119,361 |
| Tax expense | 7 | 25,494 | 26,465 |
| Operating surplus (deficit) after tax | | (338,059) | 92,896 |
| Share of post tax acquisition surplus (deficit) of the Transpower Group associate | 9 | 533 | (115) |
| **Net surplus (deficit) attributable to shareholders** | | (337,526) | 92,781 |

These statements are to be read in conjunction with the accompanying notes.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 1998**

| | Notes | 1998 $000 | 1997 $000 |
|---|---|---|---|
| **Equity at the beginning of the year** | | 1,345,260 | 1,329,797 |
| Net surplus (deficit) attributable to shareholders | | (337,526) | 92,781 |
| Net revaluation (devaluation) of assets through reserves | | (41,382) | (12,372) |
| Total récognised revenue and expenses for the year | | 966,352 | 1,410,206 |
| Distribution to owners during the year | 16 | (59,283) | (64,946) |
| **Equity at the end of the year** | | 907,069 | 1,345,260 |

These statements are to be read in conjunction with the accompanying notes.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 1998**

| | Notes | 1998 $000 | 1997 $000 |
|---|---|---|---|
| **Assets Employed** | | | |
| Current assets | 8 | 101,003 | 102,830 |
| Investments | 9 | 4,015 | 4,681 |
| Fixed assets | 10 | 2,310,024 | 2,853,366 |
| **Total Assets Employed** | | 2,415,042 | 2,960,877 |
| **Funds Employed** | | | |
| **Liabilities** | | | |
| Current liabilities | 11 | 417,887 | 284,437 |
| Lease liabilities | 12 | - | - |
| Long term debt | 13 | 1,090,086 | 1,331,180 |
| **Total Liabilities** | | 1,507,973 | 1,615,617 |
| **Equity** | | | |
| Capital | 14 | 1,200,000 | 1,200,000 |
| Reserves | 15 | 8 | 43,835 |
| Retained earnings | 16 | (292,939) | 101,425 |
| **Total Equity** | | 907,069 | 1,345,260 |
| **Total Funds Employed** | | 2,415,042 | 2,960,877 |

These statements are to be read in conjunction with the accompanying notes.

For, and on behalf of, the Board

**David G Sadler**
**Director**

**Alison M Paterson**
**Director**

**16th November 1998**

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 1998**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS** | | |
| **Cash was provided from:** | | |
| Receipts from customers | 556,126 | 541,104 |
| Cross border lease | - | 11,386 |
| Interest received | 1,426 | 8,376 |
| **Cash was applied to:** | | |
| Payments to suppliers and employees | (176,640) | (174,128) |
| Tax payments | (32,904) | (42,967) |
| Interest paid | (116,527) | (124,162) |
| **Net cash flow from operations** | 231,481 | 219,609 |
| **CASH FLOW FROM INVESTMENTS** | | |
| **Cash was provided from:** | | |
| Sale of assets | 2,175 | 1,961 |
| Sale of shares in listed companies | 9 | - |
| Investment in Transpower Group associate | 1,190 | 333 |
| Short term investments | 720,022 | 1,331,642 |
| **Cash was applied to:** | | |
| Capitalised interest | (1,261) | (3,965) |
| Purchase of fixed assets | (64,407) | (115,969) |
| Investment in associate | - | (1,260) |
| Short term investments | (718,337) | (1,192,324) |
| **Net cash flow (to)/from investments** | (60,609) | 20,418 |
| **CASH FLOW FROM FINANCING** | | |
| **Cash was provided from:** | | |
| Increase in loans | 1,015,750 | 1,235,984 |
| **Cash was applied to:** | | |
| Dividends paid | (66,647) | (57,013) |
| Repayment of loans | (1,123,659) | (1,419,535) |
| **Net cash flow (to)/from financing** | (174,556) | (240,564) |
| Net increase/(decrease) in cash held | (3,684) | (537) |
| Opening balance brought forward | (143) | 394 |
| **Closing net cash carried forward** | (3,827) | (143) |
| **Closing net cash carried forward comprises:** | | |
| Bank overdraft | (3,832) | (143) |
| Cash and bank | 5 | - |
| | (3,827) | (143) |

These statements are to be read in conjunction with the accompanying notes.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**CONSOLIDATED STATEMENT OF CASH FLOWS (cont.)**
**FOR THE YEAR ENDED 30 JUNE 1998**

**Reconciliation Of "Operating Surplus After Tax" With "Net Cash Flow From Operations"**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **Operating surplus after tax** | (338,059) | 92,896 |
| **Add/(deduct) non-cash items:** | | |
| Depreciation | 117,756 | 106,203 |
| Infrastructure asset service potential adjustment | 22,443 | 24,205 |
| Transfer from revaluation reserve | 407,147 | - |
| Income tax expense | 25,494 | 26,465 |
| Increase/(decrease) in provisions | (270) | (479) |
| **Other movements in working capital items*:** | | |
| Decrease/(increase) in trade and other receivables | (5,587) | (22,393) |
| Decrease/(increase) in prepayments | 509 | (508) |
| Decrease/(increase) in stocks of materials | 7,798 | 7,123 |
| (Decrease)/increase in trade and other liabilities, interest payable and deferred income | 9,048 | 21,056 |
| Tax received from subsidiaries | - | - |
| (Decrease)/increase in taxation payable | (32,904) | (42,967) |
| **Add/(deduct) items classified as investing activities:** | | |
| Fixed asset write-offs and loss on sale | 18,106 | 8,008 |
| **Net Cash Flow from Operations** | 231,481 | 219,609 |

* Other movements in working capital items relate to operating activities

These statements are to be read in conjunction with the accompanying notes.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 1. STATEMENT OF ACCOUNTING POLICIES

***Reporting Entity***
These financial statements report on Transpower New Zealand Limited (Transpower) and its subsidiaries and associate (the Transpower Group) as disclosed in Note 22.

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986 and have been prepared in accordance with the Financial Reporting Act 1993. The Transpower Group is registered under the Companies Act 1993.

***Measurement Base***
The measurement basis is historical cost except as modified by the revaluation of certain assets and investments.

**Accounting Policies**

The following accounting policies have been applied:

***(a) Principles of Consolidation***

The Transpower Group financial statements are prepared from the financial statements of Transpower and its subsidiaries as at 30 June 1998. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

The equity method is used for the associate company. An associate company is one over which the Transpower Group exercises significant influence, but does not have control.

***(b) Revenue***

Revenue shown in the Statements of Financial Performance comprises the amounts received and receivable by the Transpower Group for transmission services, wholesale market services and lease revenue. Dividends received and interest income from investments are included within net finance costs.

***(c) Goods and Services Tax (GST)***

The Statements of Financial Performance and the Statements of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statements of Financial Position are stated net of GST with the exception of receivables and payables which include GST invoiced.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

***(d) Current Assets***

Receivables are stated at their estimated net realisable value.

Short term investments are recorded at their original cost which is adjusted for the amortisation of premiums and accrual of discounts to maturity.

Stocks of materials are valued at the lower of cost, calculated on the weighted average cost basis, or estimated net realisable value.

***(e) Investments***

Investments in subsidiaries are recorded at net tangible asset value. Other investments are recorded at the lower of cost or net realisable value.

***(f) Fixed Assets***

***Modified Historical Cost Measurement***
Fixed assets are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out each year by, or under the guidance of, independent experts using the optimised deprival valuation methodology (ODV).

Under modified historical cost, an asset revaluation, which reflects the difference between the net carrying value of the assets and the ODV value, is recorded in the asset revaluation reserve. The net carrying value is determined after writing any accumulated depreciation or infrastructure asset service potential adjustment back against the asset value.

Upon the disposal or write off of a non infrastructure asset the revaluation increment or decrement relevant to that asset is transferred from the revaluation reserve to retained earnings.

The physical disposal or write off of individual component assets that form the infrastructure asset is only recognised in the financial statements where the operating capability of the infrastructure asset has decreased.

***Capital Work in Progress***
Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the fixed assets to their location and condition. Finance costs incurred during the period of time that is required to complete and prepare the fixed asset for its intended use are capitalised for all projects having a cost in excess of $1 million dollars as part of the total cost for capital work in progress.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

*(f) Fixed Assets (cont.)*

The finance costs capitalised are based on the actual costs directly attributable to the construction of the asset. Where this is not clearly identifiable, Transpower's weighted average cost of capital is used.

Assets are transferred from capital work in progress to fixed assets as they become operational and available for use.

*(g) Infrastructure Asset*

The infrastructure accounting methodology is applied to the infrastructure asset. The infrastructure asset consists of the individual asset components that form the network of transmission lines comprising the National Grid. These individual components are regarded together as a single asset. All other assets are classified as non infrastructure assets.

It is the Transpower Group's intention to maintain the operating capability of the transmission line network into the foreseeable future.

Operating capability refers to the output of service of the infrastructure asset at a point in time and is determined by reference to attributes such as physical output capacity, associated operating costs and quality of output.

Transpower's asset management practices result in the infrastructure asset having an extremely long life. Having regard to the life and residual value of the infrastructure asset the Directors consider that the depreciation of the asset is immaterial. Accordingly, no depreciation is charged on the infrastructure asset. Expenditure incurred to maintain the operating capability of the infrastructure asset is treated as an expense in the Statements of Financial Performance. This treatment differs from standard accounting for fixed assets which allocates the cost of the asset over its estimated economic life and capitalises any expenditure that extends the asset's life.

Expenditure on the infrastructure asset that enhances or develops the operating capability of the asset is capitalised.

Service potential refers to the ability of the asset to provide a satisfactory level of operating capability into the future. If, in any year, the level of expenditure required to maintain the operating capability of the infrastructure asset is insufficient to preserve the service potential of the asset, the net book value of the infrastructure asset is reduced and the Statements of Financial Performance are charged with this shortfall. This is called the "infrastructure asset service potential adjustment". Expenditure in subsequent periods to redress this shortfall and bring the infrastructure asset back to the requisite level of service potential increases the net book value of the infrastructure asset.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

***(h) Depreciation***

Depreciation of non infrastructure fixed assets is calculated using the straight line method to allocate the cost or valuation of the fixed assets over their expected useful lives, after due allowance for their expected residual value. The estimated economic lives are as follows:

| | |
|---|---|
| Freehold buildings | 20-25 years |
| Substations | 25-55 years |
| HVDC link | 30 years |
| HVDC leased assets | 30 years |
| Communications | 10-25 years |
| Minor assets | 3-10 years |

***(i) Leased Assets***

The Transpower Group leases certain plant, equipment, land, and buildings.

Finance leases effectively transfer substantially all of the risks and benefits incidental to the ownership of the leased item to the entity. Assets acquired by means of a finance lease are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. Leased assets are depreciated over their economic lives. A corresponding liability is also established at the inception of each lease and each lease payment is allocated between the liability and finance costs.

Under operating leases all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the Statements of Financial Performance as expenses, in the period in which they are incurred.

***(j) Statements of Cash Flows***

The following are the definitions of the terms used in the Statements of Cash Flows:

(i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.

(ii) Operating activities comprise the transmission of bulk electricity, wholesale market services and related support, maintenance, administration and interest costs.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

***(j) Statements of Cash Flows (cont.)***

(iii) Investing activities comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.

(iv) Financing activities include changes in equity, borrowings and dividends paid on equity. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

***(k) Taxation***

The Transpower Group follows the liability method of accounting for deferred tax applied on a partial basis.

The tax expense charged against the surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences plus any adjustments arising from prior years.

The partial basis considers the cumulative income tax effect of all timing differences. The income tax effect of timing differences is only recognised as deferred tax for those timing differences that can be expected to reverse in the foreseeable future.

Under the application of this method, timing differences that are not recognised in the Statements of Financial Position are disclosed in Note 7.

Future tax benefits attributable to losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the losses will be utilised.

***(l) Foreign Currencies***

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Monetary assets and liabilities at balance date are translated at exchange rates current at balance date. Where transactions are hedged they are translated at the hedge rate.

Gains and losses due to currency fluctuations on foreign currency receivables and payables are included in the Statements of Financial Performance. Gains or losses from exchange rate fluctuations do not arise in respect of hedged foreign currency borrowings.

Exchange differences and associated costs on hedging transactions undertaken to establish the price of a particular purchase, are deferred and are included in the measurement of the purchase transaction as at the transaction date.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

***(m) Financial Instruments***

Derivative financial instruments including foreign exchange contracts, forward rate agreements, foreign exchange options, cross currency interest rate swaps, interest rate swaps and interest rate options are entered into for the purpose of reducing exposure to fluctuations in interest rates and foreign exchange rates. While these financial instruments are subject to the risk that market rates will change subsequent to acquisition, such changes would generally be offset by an opposite effect on the items being hedged.

For interest rate swaps, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest or expense over the life of the swap. Premiums paid on interest rate options are amortised over the period to maturity. The settlement cash flows on the maturity of forward rate agreements are amortised over the period of the underlying asset or liability that the financial instrument is hedging.

Foreign exchange contracts and cross currency interest rate swaps entered into as hedges of foreign currency assets and liabilities are valued at exchange rates prevailing at balance date. Any unrealised gains and losses are offset against foreign currency gains or losses on the related asset or liability.

Pursuant to the introduction of the wholesale electricity market Transpower has offered certain transmission hedge contracts for the period 1 November 1996 to 30 June 1999. Under these contracts, customers can fix their nodal energy price at certain locations relative to the price at specific North Island and South Island reference points.

Additional information about financial instruments to which the Transpower Group is a party is provided in Note 21.

***(n) Reclassifications***

Certain reclassifications of prior year balances have been made to conform with current year classifications.

**Changes in Accounting Policies**

There have been no changes in accounting policies and all policies have been applied on a basis consistent with those used in previous periods.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 2. RELATED PARTY

As a State Owned Enterprise (SOE), shares in Transpower are held by the shareholding ministers on behalf of the Crown. Related party transactions have been entered into with other State Owned Enterprises, principally Electricity Corporation of New Zealand (ECNZ) Group, Contact Energy Limited and Broadcast Communications Limited (BCL, a subsidiary of Television New Zealand Limited) and the Crown.

On 8 November 1996 Works Consultancy Services Limited was sold, and therefore ceased to be a related party. Related party transactions have been disclosed for comparative purposes.

The associated and subsidiary companies identified in Note 22 are related parties of Transpower.

Transactions entered into with related parties are disclosed as follows:

* Revenue income from the ECNZ Group, Contact Energy, BCL and the Transpower Group associate are disclosed in Note 3.

* Operating expenses and financing costs/income in relation to the ECNZ Group, Contact Energy, BCL, Works Consultancy Services Limited, the Crown and the Transpower Group associate and subsidiary companies are disclosed in Note 4 and Note 6.

* Annual capital work in progress expenditure paid to the ECNZ Group, Works Consultancy Services Limited and BCL are disclosed in Note 10.

* Outstanding balances due from and to, the ECNZ Group, Contact Energy, BCL, the Crown and the Transpower Group associate and subsidiary companies are disclosed in Note 8, 9, 11 and 12.

Carole Durbin, Deputy Chairman to 30th September 1997, is a partner in the law firm Simpson Grierson. Other partners and staff of that firm have rendered various legal services to the Transpower Group in the ordinary course of business.

All related party transactions are conducted on a commercial basis. No related party debts have been written off or forgiven during the year.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 3. REVENUE

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Transmission services revenue | 505,203 | 511,863 |
| Wholesale market services revenue | 42,953 | 32,069 |
| Other revenue | 8,737 | 6,410 |
| **Total Revenue** | 556,893 | 550,342 |

**Related Party Transactions**

| | | |
|---|---|---|
| **Transmission services revenue from:** | | |
| ECNZ Group | 79,235 | 79,042 |
| Contact Energy | 13,900 | 17,126 |
| Transpower Group associate | 29,598 | 21,170 |
| **Wholesale market services revenue from:** | | |
| ECNZ Group | 5,595 | 7,213 |
| Contact Energy | 2,146 | 1,437 |
| Transpower Group associate | 11,370 | 8,878 |
| **Other revenue from:** | | |
| ECNZ Group | 128 | 273 |
| Contact Energy | 486 | - |
| Transpower Group associate | 286 | 349 |
| BCL | 3 | 95 |
| | 142,747 | 135,583 |

Transmission revenue consists of charges for the transmission of electricity from the point of generation to the point of supply.

Wholesale market services revenue includes revenue from a range of security service products and grid operator services. The associated costs for security products, which are passed onto the end users, are disclosed in Note 4.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 4. OPERATING EXPENSES

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Administration and general costs | 50,791 | 56,741 |
| Asset operation and maintenance costs | 96,252 | 97,190 |
| Security product costs | 24,241 | 24,726 |
| ***Charges in respect of assets:*** | | |
| Depreciation - leased assets | 9,133 | 9,439 |
| Depreciation - owned assets | 108,623 | 96,764 |
| Infrastructure asset service potential adjustment | 22,443 | 24,205 |
| Stock and asset write offs | 20,521 | 11,257 |
| ***Charges in respect of receivables:*** | | |
| Bad debts written off | 7 | - |
| Movement in the provision for doubtful debts | (1,500) | 806 |
| Directors' fees | 221 | 239 |
| Donations | 316 | 285 |
| Lease and rental costs | 2,219 | 2,274 |
| Restructuring Costs (TP2000) | 15,507 | - |
| **Total Operating Expenses** | 348,774 | 323,926 |

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **Related Party Transactions** | | |
| **Expenses charged by :** | | |
| ECNZ Group | 18,923 | 22,981 |
| BCL | 284 | 227 |
| Works Consultancy Services | - | 1,744 |
| Contact Energy | 6,061 | 4,899 |
| Transpower Group subsidiaries | - | - |
| | 25,268 | 29,851 |

Expenses charged by the ECNZ Group relate to contracts for the operation and maintenance of the National Grid, systems costs and consultancy services. Systems costs are also charged by Contact Energy. Lease costs for communications sites are charged by BCL. Works Consultancy Services provided engineering consultancy services.

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **Net loss on the disposal of fixed assets included in stock and asset write offs:** | | |
| Net loss on the disposal of fixed assets | 18,105 | 8,008 |
| | 18,105 | 8,008 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 5. REMUNERATION OF AUDITORS

| | 1998 | 1997 |
|---|---|---|
| **Fees paid or payable to PricewaterhouseCoopers** | **$000** | **$000** |
| As auditor of Transpower and Transpower Group subsidiaries | 185 | 130 |
| For other services | 1,124 | 1,296 |
| | 1,309 | 1,426 |

## 6. NET FINANCE COSTS

| | 1998 | 1997 |
|---|---|---|
| Finance costs | 116,226 | 130,108 |
| Lease costs | - | - |
| Capitalised interest | (1,261) | (3,965) |
| Interest received | (1,426) | (7,698) |
| Gain on cross border leases | - | (11,386) |
| Dividends received | (2) | (4) |
| **Net Finance Costs** | 113,537 | 107,055 |
| **Related Party Transactions** | | |
| **Finance costs charged by:** | | |
| Crown | - | 6,609 |
| Transpower Group subsidiaries | - | - |
| | - | 6,609 |
| **Lease costs charged by:** | | |
| Transpower Group subsidiaries | - | - |
| **Interest received from:** | | |
| ECNZ Group | (18) | (301) |
| Contact Energy | (487) | (100) |
| Transpower Group associate | (136) | (119) |
| Transpower Group subsidiaries | - | - |
| | (641) | (520) |
| **Gain on cross border leases received from:** | | |
| ECNZ Group | - | (1,143) |
| **Dividends received from:** | | |
| Transpower Group subsidiaries | - | - |

Interest is capitalised on capital work in progress in accordance with the accounting policy outlined in Note 1(f). The gain on the cross border lease for the year ended 30 June 1997 arises from the net settlement of the lease liabilities which arose in respect of the leases on certain HVDC converter stations and submarine cables. These gains were net of any associated costs.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 7. TAXATION

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Operating surplus (deficit) before tax | (312,565) | 119,361 |
| Prima facie tax at 33% | (103,146) | 39,389 |
| **Tax effect of:** | | |
| timing differences not recognised | | |
| - current period excluding revaluation adjustment | (6,479) | (9,344) |
| - current period revaluation adjustment | 134,452 | - |
| - permanent differences | (175) | 226 |
| Income tax charge in respect of the current year | 24,652 | 30,271 |
| Under/(over) provision in prior years | 842 | (3,806) |
| **Tax Expense** | 25,494 | 26,465 |
| **The income tax charge is represented by:** | | |
| Tax payable in the current year | 24,652 | 30,271 |
| Deferred tax | - | - |
| | 24,652 | 30,271 |

**Deferred tax liability memorandum account**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Balance at the beginning of the year | 231,920 | 219,607 |
| Increase (reduction) in deferred tax liability | (127,314) | 9,344 |
| Deferred tax reversed from prior period | - | 2,969 |
| **Balance at the end of the year** | 104,606 | 231,920 |

These timing differences predominantly relate to depreciation and infrastructure asset service potential adjustment in respect of fixed assets, and are not recognised in the financial statements.

**Imputation credit memorandum account**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Balance at the beginning of the year | 35,470 | 20,584 |
| Transfer to subsidiaries | - | - |
| Imputation credits on dividends received | 191 | - |
| Tax payments made | 49,766 | 42,967 |
| Imputation credits attached to dividends paid to shareholders | (32,826) | (28,081) |
| **Balance at the end of the year** | 52,601 | 35,470 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 8. CURRENT ASSETS

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Cash and bank | 5 | - |
| Short term investments | - | 1,685 |
| Trade receivables | 86,258 | 80,487 |
| Other receivables | 359 | 554 |
| Stocks of materials | 10,313 | 18,111 |
| Prepayments | 1,484 | 1,993 |
| Current Tax | 2,584 | - |
| **Total Current Assets** | 101,003 | 102,830 |

**Related Party Transactions**
**Included in trade receivables:**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| ECNZ Group | 27,993 | 19,380 |
| Contact Energy | 13,097 | 12,527 |
| BCL | - | 93 |
| Transpower Group associate | 4,249 | 6,504 |
| Transpower Group subsidiaries | - | - |
| | 45,339 | 38,504 |

## 9. INVESTMENTS

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Investment in Transpower Group associate | 4,015 | 4,672 |
| Shares in listed companies | - | 9 |
| Investment in Transpower Group subsidiaries | - | - |
| **Total Investments** | 4,015 | 4,681 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**9. INVESTMENTS (cont.)**

| **Investment in associate company comprises:** | **1998 $000** | **1997 $000** |
|---|---|---|
| Ordinary shares at cost | 778 | 778 |
| Accumulated share of post acquisition retained earnings | (80) | (613) |
| | 698 | 165 |
| Advances to associate company | 3,317 | 4,507 |
| | 4,015 | 4,672 |

For the year ended 30 June 1998 Transpower has recognised a profit of $533,000 being the final share of the associate's post tax surplus for the year ended 30 June 1998 (1997: post tax deficit of $115,000).

There is no tax expense/benefit recognised in the financial statements of the associate. Net dividends of $387,872 were received from the associate for the year ended 30 June 1998 (1997: nil).

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 10. FIXED ASSETS

| | Valuation 1998 $000 | Valuation 1997 $000 |
|---|---|---|
| **Infrastructure Asset** | | |
| Transmission lines | 852,433 | 1,090,458 |
| **Non Infrastructure Assets** | | |
| Freehold land | 28,991 | 33,358 |
| Freehold buildings | 49,936 | 54,016 |
| Substations | 821,799 | 993,943 |
| HVDC link | 81,219 | 123,448 |
| HVDC leased assets | 327,067 | 369,812 |
| Communications | 65,390 | 104,062 |
| Minor assets | 31,674 | 35,757 |
| Capital work in progress | 51,515 | 48,512 |
| **Total Non Infrastructure Assets** | 1,457,591 | 1,762,908 |
| **Total Fixed Assets** | 2,310,024 | 2,853,366 |

Minor assets include plant, equipment, furniture, and motor vehicles.

The fixed assets of the Group were revalued at 30 June in accordance with the Optimised Deprival Value methodology (ODV). The valuation was completed by Transpower, and independently reviewed by The L|E|K Partnership as valuation experts.

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **Related Party Transactions** | | |
| **Annual capital work in progress expenditure with:** | | |
| ECNZ Group | - | 3,547 |
| Works Consultancy Services | - | 21 |
| BCL | 55 | 18 |
| | 55 | 3,586 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 11. CURRENT LIABILITIES

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Bank overdrafts | 3,832 | 143 |
| Trade creditors | 62,563 | 55,287 |
| Interest payable | 20,622 | 22,187 |
| Employee entitlements | 3,770 | 5,101 |
| Other provisions | - | 433 |
| Provision for dividend | 32,308 | 39,672 |
| Provision for current tax | - | 4,827 |
| Short term debt | 46,668 | 127,232 |
| Current portion of long term debt | 227,834 | 14,085 |
| Current portion of lease liabilities | - | - |
| Deferred income | 20,290 | 15,470 |
| Other liabilities | - | - |
| **Total Current Liabilities** | 417,887 | 284,437 |

**Related Party Transactions**
**Included in trade creditors:**

| | 1998 $000 | 1997 $000 |
|---|---|---|
| ECNZ Group | 19,774 | 7,703 |
| Transpower Group associate | - | 46 |
| Contact Energy | 8,171 | 3,574 |
| Design Power | 53 | - |
| BCL | 5 | - |
| | 28,003 | 11,323 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 11. CURRENT LIABILITIES (cont.)

| | 1998 $000 | 1997 $000 |
|---|---|---|
| **Reconciliation of provision for current tax payable:** | | |
| Tax payable in the current year (refer Note 7) | 24,652 | 30,271 |
| Provisional tax payments made during the year | (28,988) | (37,700) |
| Under provision in prior years | 1,752 | 12,256 |
| **Total provision for current tax payable (receivable)** | (2,584) | 4,827 |

## 12. LEASE LIABILITIES

The Transpower Group has two cross border leases.

The HVDC converter plant at the Haywards and Benmore substations were previously leased to a subsidiary company Haywards Limited, by ECNZ. The equipment was then sub-leased by Haywards Limited to Transpower. The head lease arrangement was renegotiated last year with a third party and became subject to a cross border lease.

The submarine cables are subject to a cross border lease arrangement entered into by Oteranga Bay Limited in the period ended 30 June 1996.

The Transpower Group does not recognise a lease liability with respect to either of these cross border leases as Haywards Limited and Oteranga Bay Limited have prepaid their obligations to the respective lessors for all rental payments in respect of the primary period of each lease and for the call option exercise price in respect of each lease.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 13. LONG TERM DEBT

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Between one to two years | - | 225,764 |
| Between two to five years | 591,001 | 434,348 |
| Greater than five years | 499,085 | 671,068 |
| **Total Long Term Debt** | 1,090,086 | 1,331,180 |

The following loan arrangements included within long term debt have a face value as follows:

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Bonds | 622,731 | 622,583 |
| Euro medium term notes | 709,961 | 722,682 |
| | 1,332,692 | 1,345,265 |

The nature of security provided against amounts borrowed is as follows:

**Bonds**
Bonds are issued under a trust deed dated 6 April 1995 between Transpower, the Initial Guaranteeing Subsidiaries (including Transpower Finance Limited) and The New Zealand Guardian Trust Company Limited. Pursuant to the trust deed, Transpower, Transpower Finance Limited and Transpower Finance Limited's fellow subsidiaries (the "Guaranteeing Group") have given a negative pledge that while any of the stock issued under the trust deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. Each member of the Guaranteeing Group has guaranteed all amounts payable on redemption or repayment of the Bonds and the payment of interest during the term of the Bonds.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 13. LONG TERM DEBT (cont.)

**Euro Medium Term Notes**
Under the Euro Medium Term Note Programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US$1,000,000,000 (NZ$1,976,089,000) as at 30 June 1998, (US$750,000,000 (NZ$1,106,357,870) as at 30 June 1997) or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance Limited have given a negative pledge and guarantee payment of all principal and interest amounts.

## 14. CAPITAL

Transpower has contributed paid in capital of $1,200,000,000 (1997: $1,200,000,000).

## 15. RESERVES

| | 1998 $000 | 1997 $000 |
|---|---|---|
| *Capital redemption reserve* | | |
| Balance at the beginning of the year | 8 | 8 |
| Movements during the year | - | - |
| **Balance at the end of the year** | 8 | 8 |
| *Asset revaluation reserve* | | |
| Balance at the beginning of the year | 43,827 | 55,311 |
| Revaluation (devaluation) of assets* | (448,529) | (12,372) |
| Transfer to retained earnings** | (2,445) | 888 |
| Transfer to statement of financial performance | 407,147 | - |
| **Balance at the end of the year** | - | 43,827 |
| **Total Reserves** | 8 | 43,835 |

*The valuation of Transpower's assets has resulted in a downward adjustment in value of $448 million. This has arisen due to a variety of factors which include the effect of government reforms on industry structure, changes in transmission technology and an increase in generation availability.

** The revaluation (increment)/decrement in respect of fixed assets disposed of during the year is transferred from the asset revaluation reserve to retained earnings upon the assets' disposal.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 16. RETAINED EARNINGS

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Balance at the beginning of the year | 102,038 | 74,976 |
| Operating surplus (deficit) after tax | (338,059) | 92,896 |
| Retained earnings available for appropriation | (236,021) | 167,872 |
| Transfer from the asset revaluation reserve* | 2,445 | (888) |
| Dividends paid or payable | (59,283) | (64,946) |
| **Balance at the end of the year** | (292,859) | 102,038 |
| **Share of associate entity's retained earnings** | | |
| Balance at the beginning of the year | (613) | (498) |
| Share of post tax surplus (deficit) for the year | 533 | (115) |
| **Balance at the end of the year** | (80) | (613) |
| **Total Retained Earnings at the end of the year** | (292,939) | 101,425 |

* The revaluation increment/(decrement) in respect of fixed assets disposed of during the year is transferred from the asset revaluation reserve to retained earnings upon the assets' disposal.

## 17. CAPITAL COMMITMENTS

| | | |
|---|---|---|
| **Capital commitments in respect of contracts for capital expenditure:** | | |
| Within one year | 17,749 | 19,965 |
| One to two years | 1,600 | 4,615 |
| Two to five years | - | 50 |
| **Total Capital Commitments** | 19,349 | 24,630 |

## 18. OPERATING LEASE COMMITMENTS

| | | |
|---|---|---|
| **Commitments in respect of non-cancelable operating leases payable:** | | |
| Within one year | 1,639 | 1,842 |
| One to two years | 1,521 | 1,607 |
| Two to five years | 3,919 | 4,093 |
| Later than five years | 1,285 | 2,363 |
| **Total Operating Lease Commitments** | 8,364 | 9,905 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 19. CONTINGENT LIABILITIES

**(i) Guarantees**

***Cross Border Lease***
Transpower has entered into two cross border leases in respect of certain HVDC converter stations and the submarine cables. The nature of these transactions is described in Note 12. Transpower has given guarantees and certain undertakings in accordance with a limited guarantee dated 24 October 1996 in respect of certain HVDC converter stations and a limited guarantee dated 31 May 1996 in respect of the submarine cables.

The likelihood of losses in respect of these matters is considered to be remote.

***Debt***
Transpower has provided guarantees in respect of loan arrangements for the Bonds and Euro medium term notes as described in Note 13.

The maximum exposure under each of these guarantees is as follows:

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Bonds | 633,879 | 633,730 |
| Euro medium term notes | 690,023 | 704,721 |

The likelihood of losses in respect of these matters is considered to be remote.

**(ii) Contingencies**
Transpower has an agreement with a generator which requires payment by Transpower if the generator is constrained by Transpower under given circumstances from injecting electricity into the National Grid. Given the uncertainty of future events no reasonable quantification of any payment under the agreement can be made.

**(iii) Mercury Claim**

Mercury Energy Limited has commenced a claim against Transpower concerning Transpower's pricing methodologies. The damages sought by Mercury cannot be quantified at present.

Transpower believes that it is in a strong position and has made application to have the claim struck out.

There are no other material contingent liabilities for Transpower or the Transpower Group as at balance date (1997: nil).

## 20. SEGMENTAL INFORMATION

The Transpower Group operates predominantly in one industry, the transmission of high voltage electricity. Transpower Group's operations are carried out in New Zealand and are therefore within one geographical segment for reporting purposes.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 21. FINANCIAL INSTRUMENTS

### (a) Financial risks

Transpower is subject to a number of financial risks which arise as a result of Transpower having a debt portfolio of $1,364,588,000 as at 30 June 1998 ($1,472,497,000 as at 30 June 1997) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

***Interest rate risk***
Interest rate risk is the risk of adverse impact on the present and future finance costs of the Company arising from the interaction of interest rate movements with Transpower's debt portfolio.

***Currency risk***
Currency risk is the risk of adverse impact of exchange rate movements, which determine the New Zealand dollar cost of foreign denominated expenditures and the New Zealand dollar value of debt issued in foreign currencies.

***Credit risk***
Credit risk is the risk of adverse impact on Transpower through the failure of a third party bank, financial institution or customer to meet its financial obligations. Financial instruments which subject Transpower to credit risk include bank balances, receivables, investments, interest rate swaps, cross currency interest rate swaps, interest rate options, forward rate agreements, foreign exchange forward contracts and transmission hedges.

***Liquidity risk***
Liquidity risk is the risk of adverse impact on Transpower arising from the Company's inability to meet its monetary obligations in an orderly manner. This might result from the Company not maintaining adequate funding facilities or being unable to renew or replace existing facilities when they mature.

***Transmission hedge pricing risk***
Transmission hedge pricing risk is the risk of adverse impact on the present and future revenue of the Company arising from Transpower offering transmission hedge contracts for future periods. This risk is influenced by transmission constraints and generation patterns.

To manage and limit the effect of these financial risks the Transpower Board of Directors have approved policy guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All off balance sheet financial instruments must be directly related to underlying physical debt or firm capital commitments on Board approved projects.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

**(b) Risk management policies**

The key risk management policies are as follows:

***Interest rate risk management policy***
Transpower's policy is that floating rate debt is not to exceed 36.25 per cent of total debt and no more than 25 per cent of fixed rate debt is to re-price in any twelve month period. This policy ensures that Transpower's cost of funds will be reasonably predictable from year to year. Transpower defines floating rate debt to include debt for which the next interest rate reset is due within 12 months.

***Currency risk management policy***
Transpower's policy is to hedge all material foreign currency denominated purchases, arising from revenue and capital projects approved by the Board, within two days of committing to the purchase.

Foreign currency borrowings are converted into New Zealand dollars at the time of commitment to draw down by Transpower. Currency risk is eliminated using foreign exchange forward contracts and cross currency interest rate swaps.

***Credit risk management policy***
Transpower's credit policy is to establish credit limits to a maximum of 15 per cent of Transpower Group shareholder's funds with counterparties that are either a bank, a financial institution or special purpose derivatives products company. In addition the counterparty must have a minimum long term credit rating of A or above by Standard and Poors, or Moodys equivalent or a New Zealand corporate with a short term credit rating of A-1 or above, which the limit is capped at $20 million. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising Transpower's customer base. It is the Company's policy to perform credit evaluations on customers requiring credit and the Company may in some circumstances require collateral. No collateral is held at 30 June 1998 (1997: nil).

***Liquidity risk policy***
To ensure Transpower has adequate funding facilities in place to support future operations Transpower's liquidity policy requires the Company to have access to committed debt facilities (i.e. guaranteed funds) that exceed the peak of the total monthly cumulative cash outflows over the next six months by 20 per cent. To smooth Transpower's refinancing requirements in future periods, committed debt facilities maturing in any 12 month period are not to exceed 20 per cent of total debt.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

***Transmission hedge pricing risk policy***
To limit Transpower's risk from offering transmission hedge contracts the Board has established maximum loss levels arising from these contracts. To ensure the maximum loss level is not exceeded the transmission hedge contract sets a maximum payout level per period. The cumulative cash flows received and paid under transmission hedge contracts are monitored on a daily basis.

**c) Financial instruments which manage currency, interest rate and liquidity risk**

The Transpower Board of Directors have authorised the use of the following financial instruments to manage currency risk, interest rate risk and liquidity risk:

***On Balance Sheet financial assets and liabilities***

***Term debt***
Transpower has four active debt facilities; a European Commercial Paper Programme, Euro Medium Term Note Programme, a Domestic Medium Term Note Programme and a Domestic Multi-option Facility. The Company uses these facilities to issue debt securities into different global debt markets.

In the event Transpower is unable to utilise these facilities the Company has established two committed credit facilities. One facility is a NZ$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks of which NZ$125,000,000 is underwritten and which was unutilised as at 30 June 1998 and 30 June 1997. The second facility is a Standby Facility for US$190,000,000 (NZ$375,456,971) of which the total amount was unused at 30 June 1998 and 30 June 1997.

***Term investments***
Transpower from time to time invests surplus cash arising from its core operations and from active liquidity management in wholesale bank deposits and securities for periods of up to one year.

***Off Balance Sheet financial assets and liabilities***

***Interest rate swaps***
Interest rate swaps are used to change the interest rate structure on physical debt issued by Transpower. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into an interest rate swap. In the normal course of Transpower's hedging activities interest rate swaps are entered into for periods of up to ten years.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

The notional gross contract amounts of interest rate swaps outstanding at balance date are:

| | 1998 $000 | 1997 $000 |
|---|---|---|
| Interest rate swaps | 992,119 | 810,835 |

***Cross currency interest rate swaps***
Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by Transpower into New Zealand dollar denominated debt. Cross currency interest rate swap contracts eliminate foreign currency risk on the underlying debt by determining the New Zealand dollar equivalent of the final principal exchange at the time of entering into the contract.

The principal amounts of cross currency interest rate swaps outstanding at balance date are:

| | | |
|---|---|---|
| Cross currency interest rate swaps | | |
| Principal receivable | 1,170,492 | 983,113 |
| Principal payable | (1,142,138) | (1,073,220) |

***Forward rate agreements***
Forward rate agreements are used to fix interest rates on Transpower's underlying debt for periods commencing in the future. In the normal course of business Transpower enters into forward rate agreements to fix interest rates on floating rate debt for intervals of three months.

The notional contract amounts of forward rate agreements outstanding at balance date are:

| | | |
|---|---|---|
| Forward rate agreements | (134,000) | 70,000 |

***Interest rate options***
Transpower enters into interest rate options to manage interest rate re-pricing risk. Transpower purchases interest rate options to minimise the impact on finance costs arising from floating rate debt if interest rates were to rise in the future. In the normal course of Transpower's interest rate risk management the sale of interest rate options is restricted by the requirement to simultaneously purchase an interest rate option of the same notional value.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

The notional contract amounts of interest rate options outstanding at balance date are:

| | 1998<br>$000 | 1997<br>$000 |
|---|---|---|
| Interest rate options | 225,000 | 115,000 |

*Foreign exchange forward contracts*
Transpower uses foreign exchange forward contracts to fix the New Zealand dollar cost of foreign denominated capital equipment and stock purchases and to eliminate foreign currency risk on debt issued in foreign currency.

The contract amount of forward foreign exchange contracts outstanding at balance date are:

| | | |
|---|---|---|
| Forward foreign exchange contracts | 8,201 | 254,114 |

*Foreign currency options*
Transpower enters into foreign currency options to manage the effect of exchange rate fluctuations on foreign currency purchases. Transpower purchases foreign currency options to reduce the impact of unfavorable movements in exchange rates during the period between commitment to purchase capital equipment, stock items and the contracted payment date.

The notional contract amounts for foreign currency options outstanding at balance date are:

| | | |
|---|---|---|
| Foreign currency options | - | 823 |

**(d) Financial instruments to facilitate the operation of the wholesale electricity market**

*Transmission hedge contracts*

Transpower has offered certain transmission hedge contracts for the period from 1 November 1996 to 30 June 1999. Under these contracts, customers fix their nodal energy price at certain locations relative to the price at specific North Island and South Island reference points. Under these contracts any difference that arises is settled between parties. The differences arise when the actual ratio of the nodal energy price at the location to the nodal energy price at the reference point is different to the strike ratio established under the transmission hedge contract. Transpower ceased offering hedge contracts on 1 August 1998.

The maximum possible loss to which Transpower is subject for the remaining period of the transmission hedge contract from 1 July 1998 to 30 June 1999 is NZ$470,160. This calculation is based on Transpower setting the transmission hedge contracts at a maximum payout level set in the contract. Based on forecasted energy generation patterns and known transmission constraints, it is extremely unlikely the maximum loss will be realised.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

**(e) Maximum credit risk exposure**

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

Where the net interest accrued on interest rate swaps represents a payable and the current market value of interest rate options, foreign currency options and forward rate agreements represents a loss, Transpower is not subject to credit risk on these instruments at balance date.

| | 1998<br>$000 | 1997<br>$000 |
|---|---|---|
| **Cash settlement is represented by:** | | |
| ***Principal amount receivable/(payable)*** | | |
| Cross currency interest rate swaps | | |
| - receivable | 1,170,492 | 983,113 |
| - payable | (1,142,138) | (1,073,220) |
| Foreign exchange forward contracts | 8,201 | 254,114 |
| ***Net interest payable*** | | |
| Interest rate swaps | (4,662) | (5,826) |
| ***Current market value*** | | |
| Interest rate options | (834) | (1,146) |
| Foreign currency options | - | (1) |
| Forward rate agreements | 299 | (58) |

The credit risk arising from cross currency interest rate swap contracts is reduced by the netting and set-off provisions of the swap documentation and the application of applicable law. The Group further manages this risk by only entering into transactions with counterparties that fall within Transpower's credit risk management policy as outlined in section (b) risk management policies, of this note.

**(f) Carrying value and Fair value**

***Carrying value***
For off balance sheet financial instruments the carrying value in the Carrying/Fair Value table below is taken from the other receivables and other liabilities categories in the Statement of Financial Position as appropriate. The carrying values represent the results of accounting for these instruments, as described in the Statement of Accounting Policies.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

***Fair value***

Fair value represents the amount which would, in the course of the normal operation of the financial markets extinguish all current and future contractual obligations arising in respect of a particular financial instrument.

The fair value for short term investments, debt, cross currency interest rate swaps, foreign exchange forward contracts, interest rate swaps, forward rate agreements, interest rate options and foreign currency options is determined using the current market rates at balance date. For those debt instruments where there is no quoted market rate at balance date the fair value is based on the current market rate of a financial instrument with a similar maturity.

For cash and bank, trade receivables/creditors, other receivables, other liabilities, investments and investments in shares the fair value is equivalent to their carrying value and has been excluded from the Carrying/Fair Value table.

The difference between the carrying value and the fair value represents an unrealised cost or benefit to the Company. This arises as a result of variations between the historical contract rate and the current market rate at balance date.

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 1998 and the derivative products used to manage interest rate risk in respect of that debt was NZ$21,730,000 (30 June 1997: an unrealised cost of NZ$36,428,000). This comprises the difference between the carrying values and fair values of; debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

Transpower anticipates that the financial instruments will be held to maturity and it is unlikely that settlement at the reported fair values will occur and the resulting benefit or loss realised.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 21. FINANCIAL INSTRUMENTS (cont...)

| Carrying Value/Fair Value | Carrying Value 1998 $000 | Fair Value 1998 $000 | Carrying Value 1997 $000 | Fair Value 1997 $000 |
|---|---|---|---|---|
| **GROUP** | | | | |
| ***On Balance Sheet*** | | | | |
| Short term investments | - | - | 1,685 | 1,684 |
| Debt | (1,364,588) | (1,463,226) | (1,472,497) | (1,432,784) |
| ***Off Balance Sheet*** | | | | |
| Cross currency interest rate swaps | 4,416 | 78,086 | 5,071 | (57,384) |
| Foreign exchange forward contracts hedging foreign currency debt | - | - | 10 | (66) |
| Foreign exchange forward contracts hedging foreign currency purchases | - | 161 | - | (150) |
| Interest rate swaps | (4,662) | (4,262) | (5,826) | (18,232) |
| Forward rate agreements | - | 299 | - | (58) |
| Interest rate options | - | (834) | - | (1,146) |
| Foreign exchange options | - | - | - | (1) |

**(g) Interest rate re-pricing analysis**

The following table covers Transpower's total debt portfolio, including the effect of off balance sheet financial instruments when interest rates will be re-priced and the current weighted average interest rate of each maturity. Transpower will transact further interest rate hedging in advance of the re-pricing date to fix interest rates on the Company debt portfolio within the policy parameters adopted by the Board.

Trade receivables/creditors, other receivables, other liabilities, have not been included in the table below as they are not interest rate sensitive.

Forward rate agreements are also excluded from the repricing analysis as these contracts mature within one year. For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

**21. FINANCIAL INSTRUMENTS (cont...)**

| 1998 | Effective interest rate | Within one year $000 | One to two years $000 | Two to five years $000 | Greater than five years $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Short term investment | | - | - | - | - | - |
| Cash at Bank | 4.50% | 5 | - | - | - | 5 |
| | | 5 | - | - | - | 5 |
| **Liabilities** | | | | | | |
| Debt | 7.55% | (690,717) | - | (399,818) | (274,053) | (1,364,588) |
| | | (690,717) | - | (399,818) | (274,053) | (1,364,588) |
| **Off Balance Sheet** | | | | | | |
| Interest rate swaps | | 522,234 | (25,204) | (213,950) | (283,080) | - |
| | | 522,234 | (25,204) | (213,950) | (283,080) | - |
| **Repricing Profile** | | (168,478) | (25,204) | (613,768) | (557,133) | (1,364,583) |

The interest rate on debt as amended by interest rate swaps is 8.01%

| 1997 | Effective interest rate | Within one year $000 | One to two years $000 | Two to five years $000 | Greater than five years $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Short term investment | 6.55% | 1,685 | - | - | - | 1,685 |
| | | 1,685 | - | - | - | 1,685 |
| **Liabilities** | | | | | | |
| Bank overdraft | 10.50% | (143) | - | - | - | (143) |
| Debt | 7.68% | (543,340) | (225,764) | (429,294) | (274,099) | (1,472,497) |
| | | (543,483) | (225,764) | (429,294) | (274,099) | (1,472,640) |
| **Off Balance Sheet** | | | | | | |
| Interest rate swaps | | 469,955 | (79,005) | (35,270) | (355,680) | - |
| | | 469,955 | (79,005) | (35,270) | (355,680) | - |
| **Repricing Profile** | | (71,843) | (304,769) | (464,564) | (629,779) | (1,470,955) |

The interest rate on debt as amended by interest rate swaps is 8.09%

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 1998**

## 22. SUBSIDIARY AND ASSOCIATE COMPANIES

As at balance date the subsidiary and associate companies are as follows:

| **Subsidiaries** | **Holding** |
|---|---|
| Fighting Bay Finance Limited | 100% |
| Haywards Limited | 100% |
| Oteranga Bay Limited | 100% |
| Hororata Enterprises Limited | 100% |
| Whakamaru Holdings Limited | 100% |
| Transpower Finance Limited | 100% |
| Transpower Land Holdings Limited (non-trading) | 100% |
| Omaka Training Limited (non-trading) | 100% |
| d-Cypha Limited | 100% |
| **Associate Company** | |
| Electricity Market Company and subsidiaries | 33% |

All subsidiaries are direct subsidiaries of Transpower except for Oteranga Bay Limited and Haywards Limited which are wholly owned by Fighting Bay Finance Limited.

The principal activity of the trading subsidiaries (excluding d-Cypha) is financing. d-Cypha was established as a separate legal entity to provide reconciliation services for both MARIA and NZEM parties.

The principal activity for the associate company is the provision of services to the participants in the wholesale electricity market. The balance date for the associate and subsidiary companies is the same as Transpower's.

## TRANSPOWER NEW ZEALAND LIMITED GROUP

## REGULATION 13, 14 AND PART II OF THE FIRST SCHEDULE OF THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994

| Financial Performance Measures | 30 June 1998 | 30 June 1997 | 30 June 1996 | 30 June 1995 |
|---|---|---|---|---|
| a) Accounting return on total assets, being earnings before interest and tax divided by average total funds employed; | | | | |
| Earnings before interest and tax | (199,028,000) | 226,416,000 | 249,962,000 | 231,334,000 |
| Average total funds employed | 2,525,493,000 | 2,794,260,000 | 2,801,854,500 | 2,822,542,000 |
| **Accounting return on total assets** | **-7.9%** | **8.1%** | **8.9%** | **8.2%** |
| b) Accounting return on equity, being net profit after tax, divided by average total shareholders funds: | | | | |
| Net profit after tax | (337,526,000) | 92,896,000 | 96,395,000 | 84,523,000 |
| Average total shareholders funds | 1,126,165,000 | 1,337,528,000 | 1,302,536,500 | 1,228,540,000 |
| **Accounting return on equity** | **-30.0%** | **6.9%** | **7.4%** | **6.9%** |
| c) Accounting rate of profit, which shall be calculated in accordance with the following formula: $\frac{a - b - c + d}{e}$ | | | | |
| *a* Earnings before interest and tax | 208,119,000 | 226,416,000 | 249,962,000 | 231,334,000 |
| *b* Cash tax | 32,904,000 | 29,435,000 | 32,878,000 | 25,506,000 |
| *c* Interest tax shield | 38,040,000 | 36,637,000 | 36,474,570 | 40,690,000 |
| *d* Revaluations | (448,529,000) | (12,372,000) | 21,282,000 | 59,664,000 |
| *e* Average total funds employed, minus half the amount of revaluations. | 2,749,758,000 | 2,800,446,000 | 2,791,213,500 | 2,792,710,000 |
| **Accounting rate of profit** | **-11.3%** | **5.3%** | **7.2%** | **8.0%** |
| **Efficiency performance measures** | | | | |
| Direct line costs per kilometre, which shall be calculated in accordance with the following formula: $\frac{a}{b}$ | | | | |
| *a* is direct expenditure (in dollars): and | 120,954,000 | 122,388,000 | 116,444,000 | 119,878,000 |
| *b* is system length (in kilometres); | 17,640 | 17,693 | 17,739 | 17,626 |
| **Direct line costs per kilometre** | **$6,857** | **$6,917** | **$6,564** | **$6,801** |
| In 1995 system length was incorrectly defined. System length is now correctly reported as the average total circuit length of electric lines which form part of the system including the HVDC cables. Direct leases and rental costs are now also correctly reported. The direct line costs per kilometere previously reported was $9,521. | | | | |

## TRANSPOWER NEW ZEALAND LIMITED GROUP

## REGULATION 13, 14 AND PART II OF THE FIRST SCHEDULE OF THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994

| Optimised Deprival Value - ODV | 30 June 1998 | 30 June 1997 | 30 June 1996 | 30 June 1995 |
|---|---|---|---|---|
| Valuation of the line business assets per the ODV Valuation Report | 2,310,024,000 | 2,838,800,000 | 2,864,400,000 | 2,863,000,000 |
| Fixed Asset value disclosed in the Statement of Financial Position for Information (Industry Disclosure) Regulation purpose | 2,310,024,000 | 2,853,366,000 | 2,878,561,000 | 2,873,570,000 |
| **Variance represented by;** | - | 14,566,000 | 14,161,000 | 10,570,000 |
| i) Spares are included in the definition of fixed assets for financial reporting purposes but are excluded from the ODV Report. | - | 13,468,000 | 13,066,000 | 6,666,000 |
| ii) Late adjustments of an immaterial nature, to the ODV valuation have not been adjusted for in the financial statements as at the end of the financial period, but are reflected in the result for the following period. | - | 1,098,000 | 1,095,000 | 3,904,000 |
| | - | 14,566,000 | 14,161,000 | 10,570,000 |

**TRANSPOWER NEW ZEALAND LIMITED GROUP**
The Electricity (Information Disclosure) Regulations 1994
*(For 12 Months ending 30 June 1998, 30 June 1997, 30 June 1996, and 30 June 1995)*

| **Part III** | **1997-98** | **1996-97** | **1995-96** | **1994-95** |
|---|---|---|---|---|
| **Energy Delivery Efficiency Performance Measures And Statistics** | | | | |
| **(Disclosure Under Regulation 15)** | | | | |
| **1. Energy delivery efficiency performance measures** | | | | |
| *(a)* Load factor ............................................% | 67.40 | 66.01 | 67.26 | 68.05 |
| *Percentage of electrical energy entering the transmission system over maximum demand times hours per year* | | | | |
| *(b)* Loss ratio ................................................% | 4.27 | 3.61 | 5.69 | 6.16 |
| *Transmission losses over energy entering the system* | | | | |
| *(c)* Capacity utilisation..................................% | 66.99 | 67.48 | 70.99 | 70.53 |
| *Maximum demand over total transformer capacity* | | | | |
| **2. Statistics** | | | | |
| *(a)* System length, broken down by voltage | | | | |
| Total ..............................................................km | 17,640 | 17,693 | 17,739 | 17,626 |
| 350 kV (HVDC) ............................................km | 611 | 611 | 611 | 611 |
| 270 kV (HVDC) ............................................km | 611 | 611 | 611 | 611 |
| 0 kV (HVDC earth electrode) .......................km | 31 | 31 | 31 | 31 |
| 220 kV (HVAC) ............................................km | 8,365 | 8,363 | 8,361 | 8,364 |
| 110 kV (HVAC) ............................................km | 6,263 | 6,323 | 6,384 | 6,333 |
| 66/50/33/11 kV ..............................................km | 1,759 | 1,754 | 1,741 | 1,676 |
| *(b)* Circuit length of overhead electric lines, broken down by voltage: | | | | |
| Total ..............................................................km | 17,556 | 17,610 | 17,659 | 17,546 |
| 350 kV (HVDC) ............................................km | 571 | 571 | 571 | 571 |
| 270 kV (HVDC) ............................................km | 571 | 571 | 571 | 571 |
| 0 kV (HVDC earth electrode) .......................km | 31 | 31 | 31 | 31 |
| 220 kV (HVAC) ............................................km | 8,365 | 8,363 | 8,361 | 8,364 |
| 110 kV (HVAC) ............................................km | 6,259 | 6,320 | 6,384 | 6,333 |
| 66/50/33/11 kV ..............................................km | 1,759 | 1,754 | 1,741 | 1,676 |
| NB: HVDC link submarine power cables measure approximately 80km. | | | | |
| Broken down by voltage: | | | | |
| 350 kV (HVDC) ............................................km | 40 | 40 | 40 | 40 |
| 270 kV (HVDC) ............................................km | 40 | 40 | 40 | 40 |
| *(c)* Total circuit length of underground electric lines ..........................................................km | 4 | 3 | 0 | 0 |
| *(d)* Transformer capacity (kilovolt amperes)*.......................................kVA | $8.64*10^6$ | $8.56*10^6$ | $7.99*10^6$ | $7.77*10^6$ |
| *(e)* Maximum demand (kilowatts) *...............kW | $5.79*10^6$ | $5.77*10^6$ | $5.67*10^6$ | $5.48*10^6$ |
| *(f)* Total electricity supplied from the system (kilowatt hours) *...........................................kWh | $32.73*10^9$ | $32.20*10^9$ | $31.53*10^9$ | $30.66*10^9$ |
| *(g)* Total electricity conveyed through the system (kilowatt hours) *.......................................... kWh | $34.19*10^9$ | $33.40*10^9$ | $33.43*10^9$ | $32.67*10^9$ |
| (h) Total customers**............ | 51 | 50 | 49 | 49 |

* to 2 decimal places only, higher accuracy used in calculations
** for the purposes of this reporting this is the number of "customers" Transpower invoices

## TRANSPOWER NEW ZEALAND LIMITED GROUP

| **Part V**<br>**Reliability Performance Measures To Be Disclosed By Trans Power**<br>**(Disclosure Under Regulation 17)** | **1997-98** | **1996-97** | **1995-96** | **1994-95** |
|---|---|---|---|---|
| 1. Total number of unplanned interruptions*<br>*Resulting from 58 loss of supply incidents in 1997-98* | 103 | 164 | 229 | 184 |
| 2. Electricity customer interruptions in system minutes....................................................** | 5.1 | 13.6 | 12.2 | 19.5 |
| planned | 2.1 | 2.1 | 5.8 | 4.4 |
| unplanned | 2.9 | 11.5 | 6.4 | 15.1 |
| 3. Underlying electricity customer interruptions in system minutes................**<br>*Underlying interruptions are those interruptions of 1 system minute or less duration* | 5.1 | 6.9 | 7.1 | 14.1 |
| planned | 2.1 | 2.1 | 3.1 | 2.9 |
| unplanned | 2.9 | 4.8 | 4.0 | 11.2 |
| 4. Average supply reliability ........................%<br>*Measured by the energy supplied divided by the sum of the energy supplied and not supplied* | 99.9985 | 99.9959 | 99.9963 | 99.9942 |
| 5. Uneconomic generation due to planned and unplanned transmission system unavailability ........................................................................%<br>*Uneconomic generation relates to the amount of electricity generated from any source other than the most economic source.* | 0.02 | 0.55 | 0.81 | 0.68 |
| 6. Uneconomic generation due to HVDC system unavailability ....................................% | 0.01 | 0.47 | 0.73 | 0.60 |
| 7. Uneconomic generation due to unplanned transmission system unavailability ........................................................................% | 0.01 | 0.12 | 0.22 | 0.15 |
| 8. Planned interruption restoration performance ........................................................................% | 90.5 | 72 | 80.5 | 92.5 |
| 9. Unplanned interruption response.............% | 98.1 | 100 | 99.1 | 100 |

The information compiled using estimated information includes Part V sections 2,3,4,5,6 and 7. The methodology used to calculate the estimated information is documented and available from Trans Power upon request.

The 1997/98 figures for uneconomic generation are considerably different than in previous years. The data for these figures has been collected in line with the specified quidelines. However, uneconomic generation is not relevent in the market environment as scheduling is carried out differently and 'offers to generate' are make after taking constraints into account and it is not possible to predict what the generator would have offered if the constraint was not present.

* Where two supply voltages, or two customers, at the same station are both interrupted this is counted as two interruptions.

** The difference between the total and the sum of planned and unplanned is due to rounding.

TRANSPOWER

ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994
REGULATION 26(3)

**CERTIFICATION BY DIRECTORS OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES AND STATISTICS DISCLOSED BY TRANSPOWER NEW ZEALAND LIMITED.**

We, David G. Sadler and Alison M. Paterson, Directors of Transpower New Zealand Limited ("Transpower") certify that, having made all reasonable inquiry, to the best of our knowledge;

a) The attached audited financial statements of Transpower, prepared for the purposes of regulation 5 of the Electricity (Information of Disclosure) Regulations 1994, give a true and fair view of the matters to which they relate and comply with the requirements of those regulations, and

b) The attached information, being financial performance measures, efficiency performance measures, energy delivery efficiency measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of regulations 13, 14, 15 and 17 of the Electricity (Information Disclosure) Regulations 1994, comply with the requirements of the Electricity (Information Disclosure) Regulations 1994.

The valuations on which those financial performance measures are based are as at 30 June 1998.

David G. Sadler
16 November 1998

Alison M. Paterson
16 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 Transpower New Zealand Limited and dated 16 November 1998 for the purpose of Regulation 5 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
On behalf of the Controller and Auditor-General
19 November 1998

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**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994
REGULATION 25(3)**

**CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS**

We have examined the attached information, being:

(a) financial performance measures specified in clause 1 of Part II of the First Schedule to the Electricity (Information Disclosure) Regulations 1994; and

(b) financial components of the efficiency performance measures specified in clause 2 of Part II of the Schedule;

and having been prepared by Transpower New Zealand Limited and dated 16 November 1998 for the purposes of Regulation 13 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 Electricity (Information Disclosure) Regulations 1994.

PricewaterhouseCoopers

PricewaterhouseCoopers
On behalf of the Controller and Auditor-General
19 November 1998

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## ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994
## REGULATION 25(4)

## CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION

We have examined the valuation report prepared by Transpower New Zealand Limited dated November 1998, which report contains valuations as at 30 June 1998.

We hereby certify that, having made all reasonable enquiry, to the best of our knowledge, the valuations contained in the report have been made in accordance with the ODV (Transpower) Handbook.

PricewaterhouseCoopers

PricewaterhouseCoopers
On behalf of the Controller and Auditor-General
19 November 1998

**Explanatory Note**

The ODV of Transpower New Zealand Limited's fixed assets as at 30 June 1998 was prepared by Transpower New Zealand Limited and independently reviewed by The LEK Partnership. The LEK Partnership have stated that in their opinion the process implemented by the valuation team is in accordance with the ODV handbook and is adequate to support a reasonable valuation. We have relied on this opinion and the technical expertise of The LEK Partnership for the purposes of our examination of the valuation report.

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

PUBLISHED BY AUTHORITY OF DEPARTMENT OF INTERNAL AFFAIRS:
GP LEGISLATION SERVICES, WELLINGTON, NEW ZEALAND—1998

ISSN 0111-5650
*Price $5.35 (inc. G.S.T.)*
31717—98A