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NATURAL GAS CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION
DISCLOSURE) REGULATIONS 1997

NATURAL GAS CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

FOR THE YEAR ENDED 30 JUNE 1998

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

NATURAL GAS CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE FOR THE YEAR ENDED 30 JUNE 1998
Pursuant to the Gas (Information Disclosure) Regulations 1997

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The financial information presented has been prepared to comply with the requirements of the Gas (Information Disclosure) Regulations 1997 and should not be used for any purpose other than that required under those regulations.

Natural Gas Corporation – Gas Distribution Activities
Statement of Financial Performance
For the Year Ended 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$Thousands	
	Note	June 1998	June 1997
Revenue		<u>23,719</u>	<u>24,148</u>
Surplus before Taxation	2.	10,654	10,162
Income Tax Expense	3.	<u>3,495</u>	<u>3,293</u>
Net Surplus for the Year		<u>7,159</u>	<u>6,869</u>

The notes form an integral part of these financial statements.

Natural Gas Corporation – Gas Distribution Activities
Statement of Financial Position
As at 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$ Thousands	
	Note	1998	1997
Fixed and Long Term Assets			
Fixed Assets	4.	100,045	98,202
Deferred Expenditure	5.	<u>1,376</u>	<u>1,351</u>
Total Non Current Assets		<u>101,421</u>	<u>99,553</u>
Current Assets			
Cash and Short Term Deposits		-	-
Trade Debtors		2,495	2,689
Current tax		819	354
Inventories – Consumable Spares		<u>400</u>	<u>599</u>
Total Current Assets		<u>3,714</u>	<u>3,642</u>
Total Assets		<u>105,135</u>	<u>103,195</u>
Equity			
Notional Reserves	6.	<u>86,046</u>	<u>84,072</u>
Total Equity		<u>86,046</u>	<u>84,072</u>
Non Current Liabilities			
Deferred Income	7.	5,564	5,817
Deferred Taxation		<u>11,046</u>	<u>10,590</u>
Total Non Current Liabilities		<u>16,610</u>	<u>16,407</u>
Current Liabilities			
Accounts Payable and Accruals		<u>2,479</u>	<u>2,716</u>
Total Current Liabilities		<u>2,479</u>	<u>2,716</u>
Total Liabilities and Equity		<u>105,135</u>	<u>103,195</u>

The notes form an integral part of these financial statements

Natural Gas Corporation – Gas Distribution Activities
Notes to the Financial Statements
For the Year Ended 30 June 1998

1. Statement of Accounting Policies

a) Accounting Entity

The financial statements are those of Natural Gas Corporation – Gas Distribution Activities (NGC). Gas Distribution Activities involves the ownership and supply of line function services for the transportation of gas.

b) Special Purpose Financial Statements

The financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997 and generally accepted accounting principles.

c) General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of earnings and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements. This includes the going concern concept and the matching of revenue and expenses under the accrual concept.

d) Particular Accounting Policies

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

i) Revenues and Expenses

Revenues and expenses are stated exclusive of Goods and Services Tax (GST).

ii) Valuation of Fixed Assets

Pipelines, compressors and gate stations are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out regularly and reviewed by independent experts, using the optimised deprival valuation methodology.

All fixed assets other than pipelines, compressors and gate stations, are included at cost less accumulated depreciation.

Under the modified historical cost method, the revaluation, reflecting the difference between the net carrying value of the assets and the valuation (net of the deferred tax), is recorded in the asset revaluation reserve. In arriving at the net carrying value any accumulated depreciation is written back against the asset value.

The revaluation increase or decrease is transferred from the revaluation reserve to retained earnings on the disposal of an asset.

Construction in progress is recorded at cost. For projects having a cost in excess of \$500,000 and a construction period of not less than three months, finance costs relating to that project are capitalised. The finance costs capitalised are based on the actual cost directly attributable to the construction of the asset. Where this is not clearly identifiable, NGC's cost of debt is used.

Assets constructed by NGC are commissioned and transferred from construction in progress to fixed assets as each facility or operating unit within a facility becomes operational and available for use.

iii) Current Assets

Accounts receivables are valued at their estimated realisable value.

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

All other current assets are valued at their estimated realisable value.

iv) **Depreciation**

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following ranges (on a straight line basis):

Low Pressure Pipelines	25 to 50 Years		
Meters, Compressors & DRS	20 to 50 Years	Plant and Equipment	5-15 years
Buildings	40-100 years	Capital Spares	5-15 years

Depreciation of pipelines commences when the pipeline is physically complete and flowing gas.

v) **Deferred Income**

Contributions received from gas utilities and other parties towards the capital expenditure on pipelines are accounted for initially in a deferred income account. Amortisation to income of the deferred income account takes place only after the obligations in connection with the contributions are performed. The deferred income account is amortised to the statement of financial performance over the life of the pipelines to which they relate or over the life of the gas supply contract whichever is the shorter.

vi) **Taxation**

NGC recognises deferred taxation using the liability method and on a comprehensive basis. Income tax expense is recognised on the surplus before taxation. It is then adjusted for permanent differences between taxable and accounting income. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a future tax benefit or as deferred tax. The future tax benefit or deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain. Future tax benefits and deferred tax is offset.

vii) **Deferred Expenditure**

Deferred expenditure is expenditure which provides benefits beyond the current accounting period and is written off over periods up to ten years. These expenditures relate to the connection of new customers to the gas system and the conversion of existing customers' appliances to the use of natural gas.

e) **Changes in Accounting Policy and Comparatives**

There have been no changes in accounting policies. The presentation of certain comparatives has been restated to ensure consistency with current year disclosures.

2. Surplus before Taxation**\$ Thousands**

1998

1997

Surplus before Taxation is stated after charging:

Audit fees and expenses	32	6
Fees for other services paid to the Auditors	3	22
Depreciation	4,730	4,897
Leasing Costs	454	676

3. Income Tax**\$ Thousands**

1998

1997

The Income Tax Expense has been calculated as follows:

Surplus before Taxation	10,654	10,162
Income Tax at 33%	3,516	3,353
Adjustments to taxation for:		
Non-deductible expenditure	(21)	(60)
Taxation charge in Statement of Financial Performance	<u>3,495</u>	<u>3,293</u>

4. Fixed Assets

	\$Thousands					
	1998			1997		
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Cost/ Valuation	Accumulated Depreciation	Net Book Value
Pipelines Compressors and Gate Stations	100,963	3,316	97,647	96,857	-	96,857
Machinery and Equipment	4,741	3,215	1,526	2,437	1,585	852
Motor Vehicles	1,278	450	828	734	277	457
Freehold Land and Buildings	<u>49</u>	<u>5</u>	<u>44</u>	<u>40</u>	<u>4</u>	<u>36</u>
	<u>107,031</u>	<u>6,986</u>	<u>100,045</u>	<u>100,068</u>	<u>1,866</u>	<u>98,202</u>

Pipelines, compressors and gate stations were revalued using the optimised deprival valuation methodology as at 30 June 1997. The valuation was reviewed and certified by Ernst and Young. Based on the latest Government valuations the Directors estimate that the fair valuation of land and buildings is approximately equivalent to their net book value as at 30 June 1998.

5. Deferred Expenditure

	\$ Thousands	
	1998	1997
Balance as at 1 July 1997	1,351	1,391
Plus amounts capitalised	211	124
Less amounts amortised to expenses	<u>(186)</u>	<u>(164)</u>
	<u>1,376</u>	<u>1,351</u>

6. Notional Reserves

Gas Distribution is not a company and therefore has no share capital. Notional reserves are determined on the basis that Distribution is fully equity funded by Natural Gas Corporation of New Zealand Limited. Notional Reserves therefore represents all funding provided to Distribution by the Natural Gas Corporation Group.

7. Deferred Income

	\$ Thousands	
	1998	1997
Balance as at 1 July 1997	5,817	6,037
Plus amount received	63	92
Less amount amortised to earnings	<u>(316)</u>	<u>(312)</u>
	<u>5,564</u>	<u>5,817</u>

Deferred income represents contributions from customers as explained in Note 1(d)(v).

8. Capital Commitments

Amounts committed but not recorded in these financial statements total \$ 4.3 million (1997 nil).

Operating Lease Commitments	1998	\$ Thousands 1997
Non cancellable operating lease rentals are payable as follows:		
Not later than one year		320
Between one and two years		268
Between two and five years		472
Later than five years		<u>203</u>
		<u>1,263</u>
		<u>1,431</u>

9. Contingent Liabilities

There are no material contingent liabilities (1997 nil).

Natural Gas Corporation – Gas Distribution Activities**Statement of Performance Measures****For the year ended 30 June 1998****For the purposes of the Gas (Information Disclosure) Regulations 1997**

	1998	1997
1. Financial Performance Measures		
Accounting Return on Total Assets	10.6%	10.3%
Accounting Return on Equity	8.7%	8.6%
Accounting Rate of Profit	7.6%	6.7%
2. Efficiency Performance Measures		
Direct Line Costs per Kilometre	\$1,731	\$1,444
Indirect Line Costs per Gas Customer	\$90	\$132
Total Costs per Kilometer	\$3,434	\$3,887
Total Costs per Customer	\$182	\$210
3. Energy Delivery Efficiency Performance Measures		
Load Factor	78.12%	85.75%
Unaccounted for Gas Ratio	0.38% loss	0.08% gain
4. Statistics		
System Length (km)	2,428	2,338
Maximum Monthly Amount of Gas Entering System	908.776 TJ	879.772 TJ
Total Annual Amount of Gas Conveyed through System	8,518.965 TJ	9,052.762 TJ
Total Annual Amount of Gas Conveyed through System For persons not in a prescribed business relationship	2.788 TJ	0
Total Number of Customers	45,834	43,342
5. Reliability Performance Measures		
Unplanned Transmission System Interruptions (hours)	n.a.	n.a.
Unplanned Distribution System Interruptions not related to Transmission System Interruptions (hours/customer) - Interruptions attributable to third party interference	0.0211 0.0087	0.0268 0.0228
Unplanned Distribution System Interruptions related to Transmission System Interruptions (hours/customer)	0	0



NATURAL GAS CORPORATION

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GAS DISTRIBUTION ACTIVITIES

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY DIRECTORS OF THE CORPORATION

We, Richard John Bentley and Barry Michael Turfrey, directors of Natural Gas Corporation of New Zealand Limited (the 'Corporation'), certify that, having made all reasonable enquiry, to the best of our knowledge, -

- (a) The attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and
- (b) The attached information, being financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to the Corporation, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

Richard John Bentley

Barry Michael Turfrey

16 November 1998



PricewaterhouseCoopers
113-119 The Terrace
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**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL
STATEMENTS**

NATURAL GAS CORPORATION - DISTRIBUTION

We have examined the attached financial statements prepared by Natural Gas Corporation - Distribution and dated 16 November 1998 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 1997.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS
20 November 1998



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NATURAL GAS CORPORATION - DISTRIBUTION
CERTIFICATION OF PERFORMANCE MEASURES BY AUDITOR

We have examined the attached information, being:

- (a) financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and
- (b) financial components of the efficiency performance measures specified in clause 2 of Part 2 of that Schedule;

and having been prepared by Natural Gas Corporation - Distribution and dated 16 November 1998 for the purposes of Regulations 15 and 16 of those Regulations.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS
20 November 1998

Natural Gas Corporation – Gas Retailing Activities
Statement of Financial Performance
For the Year Ended 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$Thousands	
	Note	June 1998	June 1997
Revenue		<u>140,628</u>	<u>143,650</u>
Surplus before Taxation	2.	7,769	4,430
Income Tax Expense	3.	<u>2,553</u>	<u>1,440</u>
Net Surplus for the Year		<u>5,216</u>	<u>2,990</u>

The notes form an integral part of these financial statements.

Natural Gas Corporation – Gas Retailing Activities
Statement of Financial Position
As at 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$ Thousands	
	Note	1998	1997
Fixed and Long Term Assets			
Fixed Assets	4.	1,117	2,768
Deferred Expenditure	5.	<u>1,376</u>	<u>1,351</u>
Total Non Current Assets		<u>2,493</u>	<u>4,119</u>
Current Assets			
Cash and Short Term Deposits		147	170
Trade Debtors		14,490	17,531
Inventories – Consumable Spares		<u>376</u>	<u>351</u>
Total Current Assets		<u>15,013</u>	<u>18,052</u>
Total Assets		<u>17,506</u>	<u>22,171</u>
Equity			
Notional Reserves	6.	<u>5,979</u>	<u>7,491</u>
Total Equity		<u>5,979</u>	<u>7,491</u>
Non Current Liabilities			
Deferred Taxation		<u>473</u>	=
Total Non Current Liabilities		<u>473</u>	=
Current Liabilities			
Current tax		60	569
Accounts Payable and Accruals		<u>10,994</u>	<u>14,111</u>
Total Current Liabilities		<u>11,054</u>	<u>14,680</u>
Total Liabilities and Equity		<u>17,506</u>	<u>22,171</u>

The notes form an integral part of these financial statements

Natural Gas Corporation – Gas Retailing Activities
Notes to the Financial Statements
For the Year Ended 30 June 1998

1. Statement of Accounting Policies

a) Accounting Entity

The financial statements are those of Natural Gas Corporation – Gas Retailing Activities (NGC). Gas Retailing Activities involves the supply of gas to a consumer.

b) Special Purpose Financial Statements

The financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997 and generally accepted accounting principles.

c) General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of earnings and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements. This includes the going concern concept and the matching of revenue and expenses under the accrual concept.

d) Particular Accounting Policies

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

i) Revenues and Expenses

Revenues and expenses are stated exclusive of Goods and Services Tax (GST).

ii) Valuation of Fixed Assets

All fixed assets are included at cost less accumulated depreciation.

iii) Current Assets

Accounts receivables are valued at their estimated realisable value.

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

All other current assets are valued at their estimated realisable value.

iv) Depreciation

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following ranges (on a straight line basis):

Plant and Equipment	5-15 years	Buildings	40-100 years
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v) Taxation

NGC recognises deferred taxation using the liability method and on a comprehensive basis. Income tax expense is recognised on the surplus before taxation. It is then adjusted for permanent differences between taxable and accounting income. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a future tax benefit or as deferred tax. The future tax benefit or deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain. Future tax benefits and deferred tax is offset.

vi) Deferred Expenditure

Deferred expenditure is expenditure which provides benefits beyond the current accounting period and is written off over periods up to ten years. These expenditures relate to the connection of new customers to the gas system and the conversion of existing customers' appliances to the use of natural gas.

e) Changes in Accounting Policy and Comparatives

There have been no changes in accounting policies. The presentation of certain comparatives has been restated to ensure consistency with current year disclosures.

2. Surplus before Taxation

	\$ Thousands	
	1998	1997
Surplus before Taxation is stated after charging:		
Directors' fees	-	9
Audit fees and expenses	18	5
Fees for other services paid to the Auditors	2	18
Depreciation	421	466
Leasing Costs	247	249

3. Income Tax

	\$ Thousands	
	1998	1997
The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	7,769	4,430
Income Tax at 33%	2,564	1,462
Adjustments to taxation for:		
Non-deductible expenditure	<u>(11)</u>	<u>(22)</u>
Taxation charge in Statement of Financial Performance	<u>2,553</u>	<u>1,440</u>

4. Fixed Assets

	\$Thousands					
	1998			1997		
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Cost/ Valuation	Accumulated Depreciation	Net Book Value
Machinery and Equipment	2,209	1,498	711	5,014	3,262	1,752
Motor Vehicles	596	210	386	1,511	569	942
Freehold Land and Buildings	<u>22</u>	<u>2</u>	<u>20</u>	<u>81</u>	<u>7</u>	<u>74</u>
	<u>2,827</u>	<u>1,710</u>	<u>1,117</u>	<u>6,606</u>	<u>3,838</u>	<u>2,768</u>

Based on the latest Government valuations the Directors estimate that the fair valuation of land and buildings is approximately equivalent to their net book value as at 30 June 1998.

5. Deferred Expenditure

	\$ Thousands	
	1998	1997
Balance as at 1 July 1997	1,351	1,391
Plus amounts capitalised	211	124
Less amounts amortised to expenses	<u>(186)</u>	<u>(164)</u>
	<u>1,376</u>	<u>1,351</u>

6. Notional Reserves

Gas Retailing is not a company and therefore has no share capital. Notional reserves are determined on the basis that Gas Retailing is fully equity funded by Natural Gas Corporation of New Zealand Limited. Notional Reserves therefore represents all funding provided to Gas Retailing by the Natural Gas Corporation Group.

7. Capital Commitments and Operating Lease Commitments

Amounts committed but not recorded in these financial statements total nil.

	\$ Thousands	
Operating Lease Commitments		
Non cancellable operating lease rentals are payable as follows:	1998	1997
Not later than one year	174	134
Between one and two years	146	128
Between two and five years	257	213
Later than five years	<u>111</u>	<u>53</u>
	<u>688</u>	<u>528</u>

8. Contingent Liabilities

There are no material contingent liabilities.



NATURAL GAS CORPORATION

GAS RETAILING ACTIVITIES

CERTIFICATION OF FINANCIAL STATEMENTS DISCLOSED BY DIRECTORS OF THE CORPORATION

We, Richard John Bentley and Barry Michael Turfrey, directors of Natural Gas Corporation of New Zealand Limited (the 'Corporation'), certify that, having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation.

Richard John Bentley

Barry Michael Turfrey

16 November 1998

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**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL
STATEMENTS**

NATURAL GAS CORPORATION - RETAIL

We have examined the attached financial statements prepared by Natural Gas Corporation - Retail and dated 16 November 1998 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 1997.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS
20 November 1998

Natural Gas Corporation – Gas Transmission Activities
Statement of Financial Performance
For the Year Ended 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$Thousands	
	Note	1998	1997
Revenue		<u>70,808</u>	<u>71,048</u>
Surplus before Taxation	2.	41,331	39,890
Income Tax Expense	3.	<u>14,779</u>	<u>13,164</u>
Net Surplus for the Year		<u>26,552</u>	<u>26,726</u>

The notes form an integral part of these financial statements

Natural Gas Corporation – Gas Transmission Activities
Statement of Financial Position
As at 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

		\$Thousands	
	Note	1998	1997
Fixed and Long Term Assets			
Fixed Assets	4.	394,197	385,051
Deferred Expenditure	5.	<u>9,866</u>	-
Total Non Current Assets		<u>404,063</u>	<u>385,051</u>
Current Assets			
Cash and Short Term Deposits		-	11
Accounts Receivable	6.	9,607	10,336
Inventories – Consumable Spares		<u>898</u>	<u>1,110</u>
Total Current Assets		<u>10,505</u>	<u>11,457</u>
Total Assets		<u>414,568</u>	<u>396,508</u>
Equity			
Notional Reserves	7.	<u>352,272</u>	<u>324,433</u>
Total Equity		<u>352,272</u>	<u>324,433</u>
Non Current Liabilities			
Deferred Income	8.	5,529	9,828
Deferred Taxation		<u>51,090</u>	<u>49,077</u>
Total Non Current Liabilities		<u>56,619</u>	<u>58,905</u>
Current Liabilities			
Bank Overdraft		25	-
Accounts Payable and Accruals		4,574	9,993
Current Taxation		<u>1,078</u>	<u>3,177</u>
Total Current Liabilities		<u>5,677</u>	<u>13,170</u>
Total Liabilities and Equity		<u>414,568</u>	<u>396,508</u>

The notes form an integral part of these financial statements

**Natural Gas Corporation – Gas Transmission Activities
Notes to the Financial Statements
For the Year Ended 30 June 1998**

1. Statement of Accounting Policies

a) Accounting Entity

The financial statements are those of Natural Gas Corporation – Gas Transmission Activities (NGC). Gas Transmission Activities involves the ownership and the supply of line function services for the transportation of gas.

b) Special Purpose Financial Statements

The financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997 and generally accepted accounting principles.

c) General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of earnings and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements. This includes the going concern concept and the matching of revenue and expenses under the accrual concept.

d) Particular Accounting Policies

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

i) Revenue and Expenses

Revenue and expenses are stated exclusive of Goods and Services Tax (GST).

ii) Valuation of Fixed Assets

Pipelines, compressors and gate stations are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out regularly and reviewed by independent experts, using the optimised deprival valuation methodology. All fixed assets other than pipelines, compressors and gate stations, are included at cost less accumulated depreciation.

Under the modified historical cost method, the revaluation, reflecting the difference between the net carrying value of the assets and the valuation (net of the deferred tax), is recorded in the asset revaluation reserve. In arriving at the net carrying value any accumulated depreciation is written back against the asset value.

The revaluation increase or decrease is transferred from the revaluation reserve to retained earnings on the disposal of an asset.

Construction in progress is recorded at cost. For projects having a cost in excess of \$500,000 and a construction period of not less than three months, finance costs relating to that project are capitalised. The finance costs capitalised are based on the actual cost directly attributable to the construction of the asset. Where this is not clearly identifiable, NGC's cost of debt is used. Assets constructed by NGC are commissioned and transferred from construction in progress to fixed assets as each facility or operating unit within a facility becomes operational and available for use.

iii) Current Assets

Accounts receivables are valued at their estimated realisable value. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. All other current assets are valued at their estimated realisable value.

iv) **Depreciation**

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following ranges (on a straight line basis):

High Pressure Pipelines	50 Years	Plant and Equipment	5-15 years
Compressors and Gate Stations	50 Years	Capital Spares	5-15 years
Buildings	40-100 years		

Depreciation of pipelines commences when the pipeline is physically complete and flowing gas.

v) **Deferred Income**

Contributions received from gas utilities and other parties towards the capital expenditure on pipelines are accounted for initially in a deferred income account. Amortisation to income of the deferred income account takes place only after the obligations in connection with the contributions are performed. The deferred income account is amortised to the statement of financial performance over the life of the pipelines to which they relate or over the life of the gas supply contract whichever is the shorter.

vi) **Taxation**

Deferred taxation is recognised using the liability method and on a comprehensive basis. Income tax expense is recognised on the surplus before taxation. It is then adjusted for permanent differences between taxable and accounting income. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a future tax benefit or as deferred tax. The future tax benefit or deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain. Future tax benefits and deferred tax is offset.

vii) **Deferred Expenditure**

Deferred expenditure is expenditure which provides benefits beyond the current accounting period and is written off over periods up to ten years. These expenditures relate to the connection of customers to the gas system and the conversion of existing customers' appliances to the use of natural gas.

e) **Changes in Accounting Policy and Comparatives**

There have been no changes in accounting policies. The presentation of certain comparatives has been restated to ensure consistency with current year disclosures.

2. Surplus before Taxation

	\$Thousands	
	1998	1997
Surplus before Taxation is stated after charging:		
Audit fees and expenses	30	30
Depreciation	12,559	12,568

3. Income Tax

	\$Thousands	
	1998	1997
a) The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	<u>41,331</u>	<u>39,890</u>
Income Tax at 33%	13,639	13,164
Adjustments to tax for:		
Non-deductible expenditure	1,140	-
Tax Charge	<u>14,779</u>	<u>13,164</u>

4. Fixed Assets

	\$Thousands					
	Cost/ Valuation	1998 Acc. Depr.	Net Book Value	Cost/ Valuation	1997 Acc. Depr.	Net Book Value
Pipelines, Compressors and Gate Stations	395,651	11,004	384,647	374,773	-	374,773
Machinery and Equipment	11,983	9,018	2,965	11,508	8,470	3,038
Motor Vehicles	1,807	1,052	755	1,801	787	1,014
Freehold Land and Buildings	3,794	573	3,221	3,681	548	3,133
Construction in Progress	<u>2,609</u>	-	<u>2,609</u>	<u>3,218</u>	<u>125</u>	<u>3,093</u>
	<u>415,844</u>	<u>21,647</u>	<u>394,197</u>	<u>394,981</u>	<u>9,930</u>	<u>385,051</u>

Pipelines, compressors and gate stations were revalued as at 30 June 1997 using the optimised deprival valuation methodology. The valuation was reviewed and certified by Ernst and Young. Based on the latest Government valuations the Directors estimate that the fair valuation of land and buildings is approximately equivalent to their net book value as at 30 June 1998.

5. Deferred Expenditure

	\$Thousands	
	1998	1997
Balance as at 1 July 1997	-	-
Plus Amounts Capitalised	10,860	-
Less Amounts Amortised to Expenses	<u>(994)</u>	-
	<u>9,866</u>	-

6. Accounts Receivable

	\$Thousands	
	1998	1997
Trade Debtors	3,923	7,384
Prepayments and Sundry Receivables	<u>5,684</u>	<u>2,952</u>
	<u>9,607</u>	<u>10,336</u>

7. Notional Reserves

Gas Transmission is not a company and therefore has no share capital. Notional reserves are determined on the basis that Transmission is fully equity funded by Natural Gas Corporation of New Zealand Limited. Notional Reserves therefore represents all funding provided to Transmission by the Natural Gas Corporation Group.

8. Deferred Income

	\$Thousands	
	1998	1997
Balance as at 1 July 1997	9,828	11,737
Other Movements	(2,390)	-
Less amount amortised to earnings	<u>(1,909)</u>	<u>(1,909)</u>
	<u>5,529</u>	<u>9,828</u>

Deferred income represents contributions from customers as explained in Note 1(d)(v).

9. Capital Commitments

Capital amounts committed but not recorded in these financial statements total \$1.49 million (1997, \$9.45 million).

10. Contingent Liabilities

There are no material contingent liabilities (1997, Nil).

Natural Gas Corporation – Gas Transmission Activities
Statement of Performance Measures
For the year ended 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

	1998	1997
1. Financial Performance Measures		
Accounting Return on Total Assets	10.6%	10.4%
Accounting Return on Equity	7.8%	8.6%
Accounting Rate of Profit	7.3%	6.5%
2. Efficiency Performance Measures		
Direct Line Costs per Kilometre	\$4,374	\$6,348
Indirect Line Costs per Gas Customer	\$673,545	\$562,714

3. Other Performance Measures and Statistics

3.1 Load factor

System	1998			1997		
	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/mth)	Load Factor, $\frac{a \times 100}{12 \times b}$	Gas Into System, a (GJ p.a.)	Max. Monthly Quantity, b (GJ/mth)	Load Factor, $\frac{a \times 100}{12 \times b}$
North	22,687,600	2,262,940	83.6	21,082,652	2,069,360	84.9
Central	8,765,941	825,083	88.5	5,740,248	625,900	76.4
Bay of Plenty	11,283,386	1,224,947	76.8	10,810,824	1,016,123	88.7
Frankley Rd - Kapuni	14,744,666	2,013,880	61.0	12,004,052	1,527,554	65.5
South	10,593,321	1,204,330	73.3	11,634,630	1,300,580	74.6

3.2 Unaccounted-for gas ratio

System	1998			1997		
	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	Load Factor $\frac{a \times 100}{b}$	Unaccounted For Gas a (GJ p.a.)	Gas Into System b (GJ p.a.)	Load Factor $\frac{a \times 100}{b}$
North	217,574	22,687,600	0.96	31,624	21,082,652	0.15
Central	87,037	8,765,941	0.99	33,267	5,740,248	0.57
Bay of Plenty	116,834	11,283,386	1.04	96,656	10,810,824	0.89
Frankley Rd - Kapuni	159,773	14,744,666	1.08	46,104	12,004,052	0.38
South	156,420	10,593,321	1.48	100,808	11,634,630	0.87

3.3 Statistics

System	1998				1997			
	Length (km)	Gas Into System (GJ p.a.)	Max. Monthly Quantity (GJ/mth)	Non-NGC Gas Conveyed (GJ p.a.)	Length (km)	Gas Into System, (GJ p.a.)	Max. Monthly Quantity, (GJ/mth)	Non-NGC, Gas Conveyed (GJ p.a.)
North	425.7	22,687,600	2,262,940	17,187,703	420.1	21,082,652	2,069,360	5,083,494
Central	384.3	8,765,941	825,083	1,036,673	384.3	5,740,248	625,900	304,610
Bay of Plenty	594.8	11,283,386	1,224,947	-	594.8	10,810,824	1,016,123	-
Frankley Rd - Kapuni	72.1	14,744,666	2,013,880	6,519,971	72.1	12,004,052	1,527,554	167,966
South	697.4	10,593,321	1,204,330	2,703,337	697.4	11,634,630	1,300,580	1,088,403

	1998	1997
Number of transmission customers	11	7
Unplanned interruptions in transmission systems (Number of unplanned interruptions)	3	0



NATURAL GAS CORPORATION

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GAS TRANSMISSION ACTIVITIES

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY DIRECTORS OF THE CORPORATION

We, Richard John Bentley and Barry Michael Turfrey, directors of Natural Gas Corporation of New Zealand Limited (the 'Corporation'), certify that, having made all reasonable enquiry, to the best of our knowledge, -

- (a) The attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and
- (b) The attached information, being financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to the Corporation, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

Richard John Bentley

Barry Michael Turfrey

16 November 1998



PricewaterhouseCoopers
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**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL
STATEMENTS**

NATURAL GAS CORPORATION - TRANSMISSION

We have examined the attached financial statements prepared by Natural Gas Corporation - Transmission and dated 16 November 1998 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 1997.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS
20 November 1998



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NATURAL GAS CORPORATION - TRANSMISSION

CERTIFICATION OF PERFORMANCE MEASURES BY AUDITOR

We have examined the attached information, being:

- (a) financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and
- (b) financial components of the efficiency performance measures specified in clause 2 of Part 2 of that Schedule;

and having been prepared by Natural Gas Corporation - Transmission and dated 16 November 1998 for the purposes of Regulations 15 and 16 of those Regulations.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PRICEWATERHOUSECOOPERS
20 November 1998

Natural Gas Corporation – Gas Wholesaling Activities
Statement of Financial Performance
For the Year Ended 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

	Note	\$Thousands	
		1998	1997
Gas Sales	2	<u>192,672</u>	<u>185,508</u>
Surplus before Taxation	2	43,821	33,625
Income Tax Expense	3	<u>14,461</u>	<u>11,096</u>
Net Surplus for the Year		<u>29,360</u>	<u>22,529</u>

The notes form an integral part of these financial statements

Natural Gas Corporation – Gas Wholesaling Activities
Statement of Financial Position
As at 30 June 1998
For the purposes of the Gas (Information Disclosure) Regulations 1997

	Note	\$Thousands	
		1998	1997
Non Current Assets			
Gas Entitlements	4	182,833	209,183
Future Tax Benefit		<u>2,411</u>	<u>2,855</u>
Total Non Current Assets		185,244	212,038
Current Assets			
Cash at bank		95	-
Accounts Receivable	5	14,178	34,206
Inventories – trading stock		<u>738</u>	<u>640</u>
Total Current Assets		15,011	34,846
Total Assets		<u>200,255</u>	<u>246,884</u>
Equity			
Notional Reserves	6	<u>162,359</u>	<u>199,566</u>
Total Equity		162,359	199,566
Current Liabilities			
Accounts Payable and Accruals	7	34,993	46,192
Current taxation		<u>2,903</u>	<u>1,126</u>
Total Current Liabilities		<u>37,896</u>	<u>47,318</u>
Total Liabilities and Equity		<u>200,255</u>	<u>246,884</u>

The notes form an integral part of these financial statements

Natural Gas Corporation – Gas Wholesaling Activities
Notes to the Financial Statements
For the Year Ended 30 June 1998

1. Statement of Accounting Policies

a) Accounting Entity

The financial statements are those of Natural Gas Corporation – Gas Wholesaling Activities (NGC). Gas Wholesaling comprise those activities relating to the sale of gas to persons for the purpose of resupply by the other person (other than those wholesaling activities involving the supply of gas to refuellers).

b) Special Purpose Financial Statements

The financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997 and generally accepted accounting principles.

c) General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of earnings and the financial position under the historical cost method have been followed in the preparation of these financial statements. This includes the going concern concept and the matching of revenue and expenses under the accrual concept.

d) Particular Accounting Policies

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

i) Revenue and Expenses

Revenue and expenses are stated exclusive of Goods and Services Tax (GST).

ii) Current Assets

Accounts receivables are valued at their estimated realisable value.

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

All other current assets are valued at their estimated realisable value.

iii) Gas Entitlements

Under the terms of the gas supply contracts, NGC is required to pay for a minimum quantity of gas in each contract year whether or not delivery has been made. Prepayments for undelivered gas entitle NGC to delivery of gas in subsequent years without further payment. The prepayments are capitalised as a long-term asset and will be amortised to earnings as the prepaid gas is utilised.

iv) Taxation

NGC recognises deferred taxation using the liability method and on a comprehensive basis. Income tax expense is recognised on the surplus before taxation. It is then adjusted for permanent differences between taxable and accounting income. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a future tax benefit or as deferred tax. The future tax benefit or deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain. Future tax benefits and deferred tax is offset.

e) Changes in Accounting Policy and Comparatives

There have been no changes in accounting policies. The presentation of certain comparatives has been restated to ensure consistency with current year disclosures.

2. Revenue and Surplus Before Taxation

During the year certain aspects of the Kapuni Gas contract dispute with the Kapuni Mining Companies were settled. This included a claim for damages by NGC against Kapuni Mining Companies being settled for \$4.5 million which is included in Revenue. Also included in revenue is the transfer of 25 petajoules of Prepaid Gas Entitlements to Methanex.

Surplus before taxation includes a profit of \$8.75 million from the sale of 25 petajoules of Prepaid Gas Entitlements.

3. Income Tax

	\$Thousands	
	1998	1997
The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	43,821	33,625
Income Tax at 33%	<u>14,461</u>	<u>11,096</u>

4. Gas Entitlements

	\$Thousands	
	1998	1997
Advance Paid and Prepaid Gas Entitlements	<u>182,833</u>	<u>209,183</u>

NGC's entitlements to gas are:

NGC has Take or Pay Gas Contracts with the Crown, whereby it has committed to purchase gas in annual contract quantities. The remaining commitments from 1 July 1998 to 30 September 2009 are 272 petajoules (1997, 299.5 petajoules).

NGC purchased, from the Crown, 262.5 petajoules of Maui gas to be delivered in annual scheduled entitlements up to 2009 for a single advance payment. This gas is referred to as Advance Paid Gas and requires no further payment to the Crown when delivery is taken except for payment of the energy resource levy. NGC takes approximately one unit of Advance Paid Gas for every two units purchased under its take or pay contract with the Crown. At the same time NGC obtained access to an additional 79.8 petajoules of gas paid for but not taken by the Crown under its contract with Maui Mining Companies.

The 262.5 petajoules and the 79.8 petajoules were purchased for a single payment of \$235 million. As at 30 June 1998 NGC had 148 petajoules (1997, 167 petajoules) of the Advance Paid Gas remaining.

NGC has entered into an agreement with Fletcher Challenge, whereby Fletcher Challenge undertook to purchase from NGC, if requested, all of NGC's Maui gas paid for but not taken in each contract year up to the year 30 September 1996. NGC, at its option, will be able to repurchase all or any of these gas entitlements at the original selling price plus holding costs. This arrangement has now concluded and NGC has given notice that it will repurchase the 12.3 petajoules of gas under this arrangement. Final payment for this gas must be made by 20 October 2000.

In 1992 NGC sold its entitlements to the 79.8 petajoules (referred to above) to Fletcher Challenge for \$22 million. NGC retains the right at all times to uplift all or any part of the 79.8 petajoules for the original price of \$22 million plus holding costs. In the event of any redetermination of the Maui field resulting in a reduction in NGC's annual contract quantities, Fletcher Challenge will transfer back at no cost to NGC, the gas entitlements equivalent to the amount by which NGC's annual contract quantities are reduced up to a maximum of 79.8 petajoules.

NGC has an option with Fletcher Challenge to purchase up to 65 petajoules of gas. NGC must give notice that it intends to exercise this option by 1 April 2000.

5. Accounts Receivable

	\$Thousands	
	1998	1997
Trade Debtors	10,159	13,308
Prepayments and Sundry Receivables	456	372
Utilities Take or Pay Debtor	-	16,325
Amounts Owing from NGC Group Companies	<u>3,563</u>	<u>4,201</u>
	<u>14,178</u>	<u>34,206</u>

6. Notional Reserves

Gas Wholesaling is not a company and therefore has no share capital. Notional reserves are determined on the basis that the Gas Wholesaling is fully equity funded by Natural Gas Corporation of New Zealand Limited. Notional Reserves therefore represents all funding provided to Gas Wholesaling by the Natural Gas Corporation Group.

7. Accounts Payable and Accruals

	\$Thousands	
	1998	1997
Accounts Payable and Accrued Expenses	19,813	20,833
Amounts Owing to Other Natural Gas Corporation Group Companies	5,288	10,848
Utilities Accrued Take or Pay Liability	<u>9,892</u>	<u>14,511</u>
	<u>34,993</u>	<u>46,192</u>

8. Capital Commitments

Amounts committed but not recorded in these financial statements total \$nil.

9. Contingent Liabilities

NGC has transferred 25 petajoules of prepaid Maui gas to Methanex, which must be uplifted by 2006. In the unlikely event that the Crown is unable to deliver these gas entitlements to Methanex, because of the failure of the Maui field, NGC must make its best endeavours to deliver gas or refund part or all of the monies to Methanex.

There are no other material contingent liabilities or legal proceedings outstanding.



NATURAL GAS CORPORATION

GAS WHOLESALING ACTIVITIES

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CERTIFICATION OF FINANCIAL STATEMENTS DISCLOSED BY DIRECTORS OF THE CORPORATION

We, Richard John Bentley and Barry Michael Turfrey, directors of Natural Gas Corporation of New Zealand Limited (the 'Corporation'), certify that, having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statements of the Corporation, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation.

Richard John Bentley

Barry Michael Turfrey

16 November 1998

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**CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL
STATEMENTS**

NATURAL GAS CORPORATION - WHOLESALE

We have examined the attached financial statements prepared by Natural Gas Corporation - Wholesale and dated 16 November 1998 for the purposes of Regulation 6 of the Gas (Information Disclosure) Regulations 1997.

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



PRICEWATERHOUSECOOPERS
20 November 1998



