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EASTLAND NETWORK LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999

EASTLAND NETWORK LIMITED

(formerly Eastland Energy Limited)

FINANCIAL STATEMENTS
for the electricity lines businesses

For the year ended 31 March 1999
Prepared for the purposes of the Electricity (Information Disclosure) Regulations 1999

IMPORTANT NOTE

The information disclosed in this 1999 Information Disclosure package issued by Eastland Network Limited has been prepared solely for the purposes of the Electricity (Information Disclosure) Regulations 1999.

The Regulations require the information to be disclosed in the manner it is presented.

The information should not be used for any other purposes than that intended under the Regulations.

The information contained in this package may change at any time. Pricing and terms are as at the date of disclosure and are not a quote or estimate of rates or terms that will apply in the future.

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES AND STATISTICS DISCLOSED BY EASTLAND NETWORK LIMITED (REGULATION 32)

We, Robert S Briant and Julian W Kohn, Directors of Eastland Network Limited certify that, having made all reasonable enquiry, to the best of our knowledge -

(a) The attached audited financial statements of Eastland Network Limited, prepared for the purposes of regulation 6 of the Electricity (Information Disclosure) Regulations 1999 comply with the requirements of those regulations; and

(b) The attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics, and reliability performance measures in relation to Eastland Network Limited, and having been prepared for the purposes of regulations 15, 16, 21, and 22 of the Electricity (Information Disclosure) Regulations 1999, comply with the requirements of those regulations.

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

R S Briant (Chairman) J W Kohn (Director)

28 September 1999

Audit New Zealand

AUDITOR'S REPORT

To the readers of the financial statements of Eastland Network Limited.

We have audited the accompanying financial statements of Eastland Network Limited. The financial statements provide information about the past financial performance of Eastland Network Limited and its financial position as at 31 March 1999. This information is stated in accordance with the accounting policies set out on pages 6 to 9.

Directors' Responsibilities

The Electricity (Information Disclosure) Regulations 1999 require the Directors to prepare financial statements which give a true and fair view of the financial position of Eastland Network Limited as at 31 March 1999, and results of operations and cash flows for the year then ended.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

The Controller and Auditor-General has appointed L H Desborough, of Audit New Zealand, to undertake the audit.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing —

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Eastland Network Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with, or interests in Eastland Network Limited.

Qualified Opinion – Comparative Figures Omitted

Paragraph 2.18 of the Electricity Information Disclosure Handbook issued by the Ministry of Commerce permits energy companies to exclude comparative figures where disclosures are made for the first time for the current disclosure year. Eastland Network Limited has taken advantage of this exemption and has not disclosed comparative figures in these circumstances. To this extent, the financial statements of Eastland Network Limited do not comply with Financial Reporting Standard No 2, *Presentation of Financial Reports*, or the Electricity (Information Disclosure) Regulations 1999.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by Eastland Network Limited as far as appears from our examination of those records.

In our opinion, except for the omission of comparative figures referred to above, the financial statements of Eastland Network Limited referred to above -

- comply with generally accepted accounting practice; and
- give a fair and true view of:
  - the financial position as at 30 June 1999; and
  - the results of its operations and cash flows for the year ended on that date; and
- comply with the Energy (Information Disclosure) Regulations 1999.

Our audit was completed on 30 September 1999 and our qualified opinion is expressed as at that date.

L H Desborough
Audit New Zealand
On behalf of the Controller and Auditor-General
Napier, New Zealand

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 1999

	Note	1999 $000	1998 $000
Revenue	3	15,583	15,751
Less: Expenses	4	(11,561)	(12,206)
Operating surplus before interest and taxation	2	4,022	3,545
Less : Interest expense	4	(8)	(10)
Operating surplus before taxation		4,014	3,535
Less : Taxation expense	5	(1,321)	(1,092)
Operating surplus after taxation		2,693	2.443

The accompanying notes are an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 31 March 1999

	Note	1999 $000	1998 $000
Equity at beginning of year		17,891	16,023
Re-allocation of Equity (Note *)		(3,580)	0
Adjusted equity at beginning of year		14,311	16,023
Add:			
Net surplus for the year		2,693	2,443
Revaluation of Fixed Assets	12	86	(138)
Total recognised revenues and expenses for the year		2,779	2,305
Distribution to shareholders		(765)	(437)
Equity at end of year		16,325	17,891

Note*: The Electricity (Information Disclosure) Regulations 1999 require the1999 financial statements for the Lines business to be derived using the avoidable cost allocation methodology (ACAM). As this is different to the methodology used in previous years for statements prepared under the 1994 regulations, a consequent adjustment is required to opening equity.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 March 1999

	Note	1999 $000	1998 $000
CURRENT ASSETS			
Cash		9,456	7,403
Receivables	6	1,759	1,822
Tax receivable	5	0	167
Inventories	7	57	598
TOTAL CURRENT ASSETS		11,272	9,990
NON-CURRENT ASSETS			
Future tax benefit	5	340	496
Fixed Assets	8	16,194	19,259
TOTAL NON-CURRENT ASSETS		16,534	19,755
TOTAL ASSETS		27,806	29,745
CURRENT LIABILITIES			
Borrowings	10	17	17
Accounts payable	9	780	1,330
Tax payable	5	506	0
Provisions	11	149	480
TOTAL CURRENT LIABILITIES		1,452	1,827
NON-CURRENT LIABILITIES			
Borrowings	10	29	27
Term liabilities - subordinated debt		10,000	10,000
TOTAL NON-CURRENT LIABILITIES		10,029	10,027
TOTAL LIABILITIES		11,481	11,854
NET ASSETS		16,325	17,891
SHAREHOLDERS EQUITY			
Share capital		8,503	8,503
Reserves	12	1,827	1,746
Retained Earnings	13	5,995	7,642
TOTAL SHAREHOLDERS EQUITY		16,325	17,891

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 March 1999

	Note	1999 $000	1998* $000
Cash Flows from Operating Activities			
Cash was Provided from:			
Receipts from Customers		16,052	
Interest Received		494	
Net GST		16	
		16,562	
Cash was Disbursed to:			
Payments to Suppliers and Employees		(11,707)	
Taxes Paid		(661)	
Interest Paid		(1)	
		(12,369)	
Net Cash Flow from Operating Activities	15	4,193	
Cash Flow from Investing Activities			
Cash was Applied to:			
Cash Outflow for Fixed Assets		(1,350)	
Net Cash Flow Applied to Investing Activities		(1,350)	
Cash Flows from Financing Activities			
Cash was Applied to:			
Payment of Dividend		(765)	
Settlement of Long Term Debt		(9)	
Finance Lease Principal		(16)	
Net Cash Flow Applied to Financing Activities		(790)	
Net Increase in Cash		2,053	
Opening Cash Balance		7,403	
Closing Cash Balance		9,456	

*1998 comparative figures not available.

The accompanying notes are an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

1.1 *Reporting Entity*

Eastland Network Limited (formerly Eastland Energy Limited) is a company registered under the Companies Act 1993.

The financial statements are those of the electricity lines business of Eastland Network Limited as required by Regulation 6 of the Electricity (Information Disclosure) Regulations 1999.

These financial statements are prepared in accordance with Regulation 6 of the Electricity (Information Disclosure) Regulations 1999. The financial statements have not been prepared for the purpose of the Financial Reporting Act 1993, or the Energy Companies Act 1992.

1.2 *Measurement Base*

The electricity lines business operates an electricity line business activity (as defined by section 4 of the Electricity Industry Reform Act 1998) in the Gisborne district.

The financial statements are based on the generally accepted accounting principles of historical cost accounting, including the going concern concept and the accrual basis of accounting, with the exception that certain fixed assets have been revalued. These policies have been followed on a consistent basis, with the exception that the allocation methodology has changed in line with the requirements of the Electricity (Information Disclosure) Regulations 1999.

1.3 *Methodology of Separation of Businesses*

Eastland Network Limited has followed the Methodology for Preparing Separate Financial Statements as set out in the Electricity Information Disclosure Handbook as issued by the Ministry of Commerce dated March 1999.

1.4 *Specific Accounting Policies*

The following particular accounting policies which materially affect the measurement of profit and financial position are consistently applied:

(a) *Accounting Period*

The financial statements cover the financial performance of the business for the year ended 31 March 1999 and the financial position of the company at the end thereof.

(b) *Associate Companies*

These are companies in which the business would hold substantial shareholdings and in whose commercial and financial policy decisions it participates.
Associate companies are reflected in the financial statements on an equity accounting basis which shows the business' share of profits in the statement of financial performance and its

share of post-acquisition increases or decreases in net assets, in the statement of financial position.

In the year under review, there were no activities of Associated Companies which were related to the electricity lines business for which these financial statements have been prepared.

(c) *Subsidiary Companies*

Eastland Network Limited wholly owns the following companies; Eastland Energy Limited and Eastland Power Limited. As these companies had not traded at 31 March 1999, there has been no consolidation.

(d) *Revenue Recognition*

Revenues for all services are recognised when earned. Billings for services are made on a monthly, bi-monthly or quarterly basis. Unbilled revenue from the billing cycle date to the end of the financial reporting period is recognised as revenue during the period in which the service is provided.

(e) *Fixed Assets*

Fixed assets are valued at cost or valuation less accumulated depreciation.

Freehold land and buildings are subsequently revalued on a cyclical basis with no individual fixed asset being included at a valuation undertaken more than three years previously. Valuations are at net current value as determined by an independent valuer.

(f) *Distinction between Capital and Revenue Expenditure*

Capital expenditure is defined as all expenditure on the creation of a new asset and any expenditure which results in a significant improvement of the original function of a total asset. Revenue expenditure is defined as expenditure which restores an asset to its original condition, or renews distribution network lines without increasing capacity, and all expenditure incurred in maintaining and operating the assets.

(g) *Depreciation*

Depreciation of tangible assets is provided on a straight line basis so as to allocate the cost or valuation of the fixed assets over their estimated economic lives after due allowance has been made for their expected residual value. Leased assets are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the asset. Additions are depreciated from the date of acquisition or commencement of use. Estimated economic lives of assets are as follows -

Buildings	:	40 - 100 years
Distribution System	:	10 - 50 years
Distribution Assets (pre 1987)	:	20 - 30 years
Furniture and Equipment	:	5 - 10 years
Motor Vehicles	:	5 - 10 years
Plant and Equipment		5 - 10 years.

(h) *Investments*

Investments are valued at cost.

(i) *Current Assets*

Accounts Receivable are valued at expected net realisable value. Inventory is valued at the lower of cost, determined on a weighted average basis, or net realisable value.

(j) *Taxation*

The income tax expense charged to the Statement of Financial Performance is the estimated liability in respect of the operating surplus for the year and is calculated after allowance for permanent differences.

The business uses the liability method of accounting for deferred taxation and applies this on a comprehensive basis. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

(k) *Leases*

The business leases certain plant and equipment and land and buildings. Expenses relating to operating leases are charged against earnings as incurred. The lease liabilities are disclosed.

Finance leases, which effectively transfer to the entity substantially all of the risks and benefits incident to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are depreciated over the period the entity is expected to benefit from their use.

(l) *Research and Development Costs*

Research and development costs are expensed in the period incurred. Development costs are deferred where future benefits are expected to exceed those costs. Deferred development costs are amortised over future periods on a basis related to expected future revenue.

(m) *Foreign Currencies*

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

At balance date, foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the Statement of Financial Performance.

(n) *Statement of Cash Flows*

Operating activities include the distribution and marketing of electricity and the sales of electrical appliances, together with the related support, maintenance and administration.

Investing activities comprise the purchase and sale of fixed assets and investments.

Financing activities include changes in equity and borrowings and their related servicing costs (dividends and interest).

Cash includes cash on hand, net cash at bank, call deposits and securities which may be converted to cash at the company's option within no more than two working days.

(o) *Changes in Accounting Policies*

Other than the changes to the allocation methodologies which have been required as a consequence of the Electricity (Information Disclosure) Regulations 1999, there were no changes in Accounting Policies. All policies have been applied on a basis consistent with that used in previous years.

	1999 $000	1998 $000
2. CONTINUING AND DISCONTINUED ACTIVITIES		
Continuing Activities -		
Operating revenue	15,583	15,751
Operating surplus/(deficit)	4,022	3,535
3. REVENUE		
Line Charges income	14,901	14,914
Other miscellaneous income	682	837
Total Revenue	15,583	15,751
4. NET SURPLUS BEFORE TAXATION		
Is stated after taking into account the following:		
Income from:		
Line Charges invoiced to retailers	6,164	-
Line Charges invoiced to consumers	8,737	14,914
Interest received	494	456
Electricity hedges	-	-
Other Revenue	188	381
Charges in respect of:		
Transfer payments :		
Asset maintenance services	2,072	-
Avoided transmission charges	0	-
Disconnection/reconnection	0	-
Load control	15	-
Meter data	6	-
Other goods & services	35	-
Other payments :		
Transmission charges	3,442	-
AC loss-rental rebates	(258)	
Employee salaries & redundancies	1,015	-
Customer billing & information systems	158	-
Depreciation on :		
- System fixed assets	958	-
- Capital works under construction	0	-
- Other	243	-
Total depreciation	1,201	1,487
Total corporate & administration expenses	1,864	-
Total human resources expense	74	-
Marketing/advertising	50	-

	1999 $000	1998 $000
Merger/acquisition expenses	42	-
Research & development	0	-
Consultancy & legal expenses	449	-
Audit fees	23	17
Audit fees - Information Disclosure	2	2
Bad Debts	74	47
Directors' fees	109	83
Finance Charges on Finance Leases	7	5
Interest on borrowings	1	1
Rental and operating lease costs	-	42
Other expenditure	1,180	10,066

5. TAXATION RECONCILIATION STATEMENT

i) The difference between the effective tax rate and the income tax rate of 33% is attributed to the following items:

Net earnings before taxation	4,014	3,535
Prima facie tax payable at 33%	1,325	1,167
Tax effect of permanent differences		
- expenses not deductible	21	3
- prior year adjustments	5	(10)
- capital contributions	(30)	(67)
INCOME TAX EXPENSE	1,321	1,093

ii) The taxation charge comprises -

- current taxation	1,164	1,051
- future tax benefit	157	42
INCOME TAX EXPENSE	1,321	1,093

iii) Tax Reconciliation statement:

Income Tax expense as per accounts	1,321	1,093
Liability brought forward	(167)	(74)
Tax effect of timing differences	(31)	(48)
Prior period adjustments	44	2
Terminal and Provisional tax paid	(661)	(1,140)
CURRENT INCOME TAX PAYABLE	506	(167)

iv) Future tax benefit -

Opening balance	496	544
Future tax benefit of current tax	(161)	(50)
Prior period adjustments	5	2
FUTURE TAX BENEFIT	340	496

v) Imputation credits

The following imputation credits are available for distribution to shareholders:

Opening balance	3,333	2,409
Prior period adjustments	(86)	0
Tax paid during the year	661	1,139
Less : credits attached to dividends paid	(377)	(215)
Closing balance	3,531	3,333

6. RECEIVABLES

Trade Debtors	1,751	1,822
Other Debtors	8	0
Total Receivables	1,759	1,822

7. INVENTORIES

Construction stock	57	515
Work in progress	0	83
Total Inventories	57	598

	1999 $000	1998 $000
8 FIXED ASSETS		
System fixed assets	26,542	28,106
less accumulated depreciation	(13,125)	(13,926)
	13,417	14,180
Centralised load control equipment	573	
less accumulated depreciation	(441)	
	132	
Customer billing and information system assets	558	
less accumulated depreciation	(405)	
	153	
Motor vehicles	490	1,544
less accumulated depreciation	(243)	(885)
	247	659
Office Equipment	1,228	
less accumulated depreciation	(839)	
	389	
Land & Buildings - at valuation	1,315	3,421
Less accumulated depreciation	(3)	(13)
	1,312	3,408
Plant, furniture & equipment - at cost	1,050	2,667
less accumulated depreciation	(553)	(1,655)
	497	1,012
Capital Works under construction :		
Subtransmission assets	0	
Zone substation assets	26	
Distribution lines & cables	0	
Medium voltage switchgear	0	
Distribution transformers	0	
Distribution substations	0	
Low voltage lines & cables	0	
Other system fixed assets	21	
	47	
TOTAL FIXED ASSETS		
- at cost	30,489	32,318
- at valuations	1,315	3,420
Sub-total	31,804	35,738
less accumulated deprecation	(15,610)	(16,479)
Fixed Assets as at 31 March	16,194	19,259

Freehold land and buildings were valued by Mr G H Kelso, ANZIV, Registered Valuer of Lewis and Wright, Gisborne, in March 1999 to their net current value on the basis of their existing use and in accordance with the Asset Valuation Standards of the New Zealand Institute of Valuers.

	1999	1998
9. ACCOUNTS PAYABLE		
Trade creditors	738	1,211
Other accruals	42	
Customer deposits	0	119
Total Accounts Payable	780	1,330

	1999 $000	1998 $000
10. BORROWINGS		
Loans	0	9
Lease Liability	46	35
Total Liability	46	44
less: Current Portion		
- Loans	0	9
- Lease Liability	17	8
	17	17
Non-Current Liability	29	27
11. PROVISIONS		
Employee provisions	149	480
12. RESERVES		
a) Share Premium Reserve		
Balance - 1 April and 31 March	222	222
b) Asset Revaluation Reserve		
i) Freehold land		
Balance - 1 April	1,338	1,349
Revaluation of land	13	(11)
Balance - 31 March	1,351	1,338
ii) Freehold buildings		
Balance - 1 April	186	311
Revaluation of land	73	(125)
Deficit on Disposal	(5)	0
Balance - 31 March	254	186
TOTAL RESERVES	1,827	1,746
13. RETAINED EARNINGS		
Retained earnings - 1 April	7,642	5,637
Reallocation of Equity	(3,580)	-
Net surplus after taxation	2,693	2,443
	6,755	8,080
less distribution to shareholders	(765)	(437)
transfers from/(to) reserves	5	(1)
	5,995	7,642

14. RELATED PARTIES

14.1 Eastland Energy Community Trust

The business is owned by Eastland Network Limited, which is 100% owned by Eastland Energy Community Trust.

As per the terms of the Deed of Loan and Subordination with the Trust, the Resulting Benefit of $1,000,000 was utilised by the business in attaining the specified objectives. Distributions to the trust are as set out in the Statement of Movements in Equity.

14.2 Prescribed business relationships

During the year under review, Eastland Network Limited (formerly Eastland Energy Limited) carried on the activity of electricity retailing in addition to owning works for the conveyance of electricity. Under the provisions of Regulation 3, these two activities are in a prescribed business relationship. Eastland Network Limited ceased electricity retailing in November 1998. The transactions between the related parties were as follows :

Line Services : the electricity retail business used the lines of the lines business to convey electricity to its customers. This service was provided at nil cost to the retail business.

Computer Services : the electricity lines business provided computer services to the retail business. This service was provided at nil cost to the retail business.

14.3 Contracting

The Contracting Business Unit of Eastland Network Limited (formerly Eastland Energy Limited) is a related party under the provisions of the Electricity Information Disclosure Regulations 1999 and has provided services on an 'arms length' basis to the Lines Business during the period. The following services were provided at either the relevant charge rate, or quoted price, or competitive tender price :

	1999 $000	1998 $000
Construction of subtransmission assets	0	-
Construction of zone substations	217	-
Construction of distribution lines & cables	239	-
Construction of medium voltage switchgear	53	-
Construction of distribution transformers	106	-
Construction of distribution substations	0	-
Construction of low voltage reticulation	0	-
Construction of other system fixed assets	6	-
Maintenance of assets	1,534	-
Consumer connections & disconnections	16	-
Other services	0	-

As at 31 March 1999 there were no outstanding balances for related parties (1998 – Nil).
No related party debt has been written off or forgiven during 1998 or 1999.

15. **RECONCILIATION OF OPERATING SURPLUS AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES**

Reported operating surplus after taxation	2,693	2,443
Add/(Less) Non-cash items:		
Depreciation	1,196	
Movement in Future Tax Benefit	(156)	
Loss on disposal of assets	5	
Reallocation of Equity	59	
	1,104	
Movements in Working Capital:		
Decrease/(Increase) in Receivables	63	
Decrease/(Increase) in Income tax receivable	167	
Decrease/(Increase) in Inventory	541	
Increase/(Decrease) in Accounts Payable	(550)	
Increase/(Decrease) in Income Tax payable	506	
Increase/(Decrease) in Provisions	(331)	
	396	
Net Cash Flow from Operations	4,193	

16. **COMMITMENTS**

(i)	Capital Commitments: Estimated capital expenditure contracted for at balance date but not provided for	55	174

	1999 $000	1998 $000
(ii) Operating Lease Commitments:		
Lease commitments under non-cancellable operating leases:		
Not later than one year	6	52
Later than one year and not later than two years	0	4
Later than two years and not later than five years	0	0
Later than five years	0	0
	6	56

17. **CONTINGENT LIABILITIES**

(i) As at 31 March 1999 there is a Contingent Liability estimated to be $17,036 in respect of Accrued Termination Gratuities for staff with over 10 years service, but who are not approaching their eligibility for Government Superannuation.

(ii) As at 31 March 1999, the business has a contingent liability of $141,049 (1998 - $154,440) in respect of Subdivision Developers' Rebates on sections which are reticulated but undeveloped. The individual liabilities will be brought to charge as each section is developed and Line Charges become payable.

18. **FINANCIAL INSTRUMENTS**

Credit Risk

Financial instruments which potentially subject the business to credit risk consist of bank balances and accounts receivable.

The business performs credit evaluations on all customers requiring credit and seeks commitments, deposits or guarantees prior to commencement of work.

Maximum Exposures to credit risk as at balance date are the amounts stated in the Statement of Financial Position. These maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

Concentrations of Credit Risk

The company contracts Line Services to a small number of Energy Retailers. Apart from this, the business is not exposed to any concentration of credit risk as at 31 March 1999.

Revenue Risk

Eastland Network Limited (formerly Eastland Energy Limited) sold its Energy Business to Contact Energy Limited. Under the terms of the Use of System Agreements now in place between the company and the electricity retailers, the company invoices the retailers for the Network Line Charges for their customers connected to the network. At present this has created a concentration of risk in the transactions with the incumbent retailer. As the number of retailers using the network increases, and the number of connections supplied by "alternative" retailers also increases, the revenue risk to the business will decrease.

Currency Risk

The business is not exposed to any significant currency risk as at 31 March 1999.

Regulatory Risk

The Government has signalled its intention to bring forward legislation this year that will introduce price regulation into the electric lines business sector. If such legislation is enacted, it is likely that the value of the business and its profit-earning potential will be detrimentally affected. The effect cannot be quantified at the time of this report.

Fair Values

The estimated fair values of the financial instruments are as follows :

	1999		1998	
	Carrying Amount $000	Fair Value $000	Carrying Amount $000	Fair Value $000
Cash at Bank	9,456	9,456	7,403	7,403
Receivables	1,759	1,759	1,822	1,822
Tax Receivables	0	0	167	167
Payables	780	780	1,330	1,330
Tax Payables	506	506	-	-
Provisions	149	149	480	480
Subordinated Debt	10,000	-	10,000	-
Borrowings	46	46	44	44

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Subordinated Debt

It is not practicable to estimate the fair value of the Subordinated Debt, which is held by the Shareholders at nil interest and is subject to conditions contained within the Deed of Loan and Subordination.

19. SEGMENTAL REPORTING

The business only operates in one economic and geographic segment. The principal activity of the business is electricity distribution within the Gisborne District.

All income was earned within the geographical boundaries of the Gisborne District.

20. PERFORMANCE MEASURES

The performance of the business for the year ended 31 March 1999 is as follows :

Performance Measure	Target	Actual	Variance
(a) to aim for a target equivalent kilometre reconstruction of 11kV distribution line of	110 kms.	N/A*	N/A

* Due to changing work methods, it was Decided during the year that this measure is no longer relevant and therefore data to report is not available.

(b) to better the target availability indicators of:

	Target	Actual	Variance
SAIDI (Minutes per Customer)			
Planned	175	164	-11
Unplanned	250	239	-11
Total	425	403	-22
SAIFI (Interruptions per Customer)			
Planned	1.38	1.33	-0.05
Unplanned	3.86	2.83	-1.03
Total	5.24	4.16	-1.08
CAIDI (Minutes per Interruption)			
Planned	110	124	+14
Unplanned	70	85	+15
Total	82	97	+15

SAIDI - System Average Interruption Duration Index
SAIFI - System Average Interruption Frequency Index
CAIDI - Customer Average Interruption Duration Index

21 EVENTS OCCURRING AFTER BALANCE DATE

21.1 Wairoa Network and Generation businesses :

In the last quarter of the financial year, Wairoa Power Limited offered its Network and Generation businesses for sale by tender. The Network Distribution system of Wairoa Power neighbours the company's to the south, although the two networks are separated by some kilometres of hill country through the Wharerata Range.

Eastland Network Limited was successful in its bid to purchase these businesses, and the sale and purchase agreement was signed on 22 April 1999. The agreed price was $16.9 million and the business will incorporate the Wairoa Network operations as from 30 July 1999.

It is anticipated that this transaction will add significant value to the business.

Eastland Network Limited

Disclosure of financial and efficiency performance measures as required by regulations 15, 21, and 22 of the Electricity (Information Disclosure) Regulations 1999.

		Year ended 31 March			
		1999	1998	1997	1996
Regulation 15:					
1. Financial performance measures					
(a) Return on Funds		1.30%	-	-	-
(b) Return on Equity		1.01%	-	-	-
(c) Return on investment		0.95%	-	-	-
Regulation 13 of 1994 Regulations :					
(d) Accounting return on total assets		-	5.76%	7.63%	7.23%
(e) Accounting return on equity		-	4.53%	8.15%	6.60%
(f) Accounting rate of profit		-	90.99%	7.03%	4.79%

Note: The ARP for 1998 is significantly affected by the ODV revaluation, which has the effect of increasing ARP from 3.33% to the value disclosed.

		1999	1998	1997	1996
2. Efficiency performance measures					
(a) Direct line costs per kilometre		$1,471.51	$1,326.94	$1,293.38	$1,429.21
(b) Indirect line costs per electricity customer		$93.94	$112.29	$117.51	$127.82

Regulation 20 :

4. The Optimised Deprival Valuation (established as at 31 March 1998 and adjusted for meters and customer assets) is $51.5 million.

Regulation 21:

		1999	1998	1997	1996
1. Energy delivery efficiency performance measures					
1. (a) Load Factor		59.25%	59.24%	57.74%	57.83%
(b) Loss Ratio		7.26%	7.29%	7.13%	7.98%
(c) Capacity Utilisation		26.45%	26.91%	27.82%	26.44%
2. Statistics					
(a) System lengths (kms)	- 50kV	258	258	257	257
	- 11kV	2,080	2,080	2,080	2,080
	- 400V	489	488	486	485
	- Total	2,827	2,826	2,823	2,822
(b) Circuit length (overhead) (kms)	- 50kV	258	258	257	257
	- 11kV	1,983	1,984	1,983	1,984
	- 400V	397	397	398	398
	- Total	2,638	2,639	2,638	2,639
(c) Circuit length (underground) (kms)	- 50kV	0	0	0	0
	- 11kV	97	97	97	96
	- 400V	92	91	88	87
	- Total	189	188	185	183
(d) Transformer capacity (kVA)		162,619	161,094	161,942	171,162
(e) Maximum demand (kW)		43,010	43,354	45,055	45,252
(f) Total electricity supplied (kWh)		207,015,155	208,565,144	211,655,068	211,249,534
(g) Total electricity conveyed on behalf of other persons (kWh)		223,221,000	224,965,100	227,904,671	229,569,152
Contact Energy Limited		86,410,000			
Eastland Energy Limited		112,924,700			
Mercury Energy Limited		4,944,000			
Transalta New Zealand Limited		1,646,300			
Wairarapa Electricity Limited		17,296,000			
(h) Total consumers (installations)		19,843	19,797	19,804	19,875

Regulation 22: Reliability Performance Measures

(1) Total Number of Interruptions

	1999	1998	1997	1996
Class A	0	0	0	0
Class B	376	485	481	361
Class C	140	131	190	164
Class D	0	0	0	0
Class E	0	0	0	0
Class F	0	0	0	0
Class G	0	0	0	0
Total	516	619	672	525

(2) Interruption targets for the following financial year

(a)	Class B	338
(b)	Class C	133

(3) Average interruption targets for the following financial year and subsequent 4 financial years

(a)	Class B	277
(b)	Class C	120

(4) The proportion of the total number of Class C interruptions not restored within:

(a)	3 hrs	19.23%
(b)	24 hrs	0.00%

(5)

(a) The number of faults per 100 circuit kilometres of prescribed voltage electric line

1999	1998	1997	1996
5.99	5.60	7.70	7.02

(b) The total number of faults per 100 circuit kilometres of prescribed voltage electric line targeted for the following financial year

5.69

(c) The average total number of faults per 100 circuit kilometres of prescribed voltage electric line targeted for that financial year and the subsequent 4 financial years

5.13

(d) A breakdown of the total number of faults per 100 circuit kilometres of prescribed voltage electric line

	1999	1998	1997	1996
- 50kV	5.04	5.81	7.39	6.23
- 11kV	6.11	5.58	8.22	7.12

A breakdown of the total number of faults per 100 circuit kilometres of prescribed voltage electric line targeted for the following financial year

- 50kV	4.79
- 11kV	5.80

A breakdown of the average total number of faults per 100 circuit kilometres of prescribed voltage
electric line targeted for that financial year and the subsequent 4 financial years

- 50kV	4.32
- 11kV	5.32

(6) The total number of faults per 100 cct km of underground prescribed voltage electric lines

	1999	1998	1997	1996
- 50kV	Nil	Nil	Nil	Nil
- 11kV	9.28	5.15	10.31	9.38
- Total	9.28	5.15	10.31	9.38

(7) The total number of faults per 100 cct km of overhead prescribed voltage electric lines

	1999	1998	1997	1996
- 50kV	5.04	5.81	7.39	6.23
- 11kV	5.95	5.59	8.12	7.01
- Total	5.66	5.62	8.04	6.92

(8) The SAIDI for total of interruptions

1999	1998	1997	1996
404.01	518.77	714.82	569.49

(9) The SAIDI targets for the following financial year

(a)	Class B	148
(b)	Class C	228

(10) The average SAIDI targets for the following financial year and subsequent 4 financial years

(a)	Class B	121
(b)	Class C	206

(11) The SAIDI for total of interruptions within each interruption class

	1999	1998	1997	1996
Class A	0	0	0	0
Class B	164.46	235.95	180.25	167.83
Class C	239.55	253.16	532.49	401.66
Class D	Nil	29.66	2.08	Nil
Class E	0	0	0	0
Class F	0	0	0	0
Class G	0	0	0	0

(12) The SAIFI for total of interruptions

1999	1998	1997	1996
4.16	8.71	5.61	4.98

(13) The SAIFI targets for the following financial year

(a)	Class B	1.20
(b)	Class C	2.68

(14) The average SAIFI targets for the following financial year and subsequent 4 financial years

(a)	Class B	0.98
(b)	Class C	2.43

(15) The SAIFI for total of interruptions within each interruption class

	1999	1998	1997	1996
Class A	0	0	0	0
Class B	1.33	2.44	1.25	1.15
Class C	2.83	4.12	4.32	3.83
Class D	Nil	2.16	0.04	Nil
Class E	0	0	0	0
Class F	0	0	0	0
Class G	0	0	0	0

(16) The CAIDI for total of interruptions

1999	1998	1997	1996
97.17	59.54	127.49	114.35

(17) The CAIDI targets for the following financial year

(a)	Class B	124
(b)	Class C	85

(18) The average CAIDI targets for the following financial year and subsequent 4 financial years

(a)	Class B	124
(b)	Class C	85

(19) The CAIDI for total of interruptions within each interruption class

	1999	1998	1997	1996
Class A	0	0	0	0
Class B	123.59	96.89	144.50	145.55
Class C	84.74	61.44	123.39	104.95
Class D	Nil	13.75	47.00	Nil
Class E	0	0	0	0
Class F	0	0	0	0
Class G	0	0	0	0

Audit New Zealand

CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS

I have examined the attached information, being —

(a) The derivation table specified in regulation 16; and

(b) Financial performance measures specified in clause 1 of Part 3 of Schedule 1 of the Electricity (Information Disclosure) Regulations 1999; and

(c) Financial components of the efficiency performance measures specified in clause 2 of Part 3 of that Schedule —

and having been prepared by Eastland Network Limited and dated 31 March 1999 for the purposes of regulation 15 of those regulations.

I certify that, having made all reasonable enquiry, to the best of my knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1999.

L H Desborough
Audit New Zealand
On behalf of the Controller and Auditor-General
Napier, New Zealand

30 September 1999

01 OCT 1999

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CERTIFICATION BY AUDITOR IN RELATION TO VALUATION

Eastland Network Limited

I have examined the valuation report of Eastland Network Limited and dated July 1998, which report contains valuations of system fixed assets as at 31 March 1998.

I certify that, having made all reasonable enquiry, to the best of my knowledge, the valuations contained in the report, including the total valuation of system fixed assets of $55.56 million, have been made in accordance with the ODV Handbook.

Ross Buckley

Ross Buckley
Partner

30 September 1999

EASTLAND NETWORK LTD

Reg. 32 (6)

FORM 7

CERTIFICATE OF VALUATION REPORT OF LINE OWNERS

We Robert S Briant and Julian W Kohn, directors of Eastland Network Limited certify that, having made all reasonable enquiry, to the best of our knowledge –

(a) The attached valuation report of Eastland Network Limited, prepared for the purposes of the Electricity (Information Disclosure) Regulations 1999, complies with the requirements of those regulations; and

(b) The Optimised Depreciated Replacement Cost of the line business system fixed assets of Eastland Network Limited is $56.6million; and

(c) The Optimised Deprival Valuation of the line business system fixed assets of Eastland Network Limited is $51.5million; and

(d) The valuation of the line business assets of Eastland Network Limited, including system and non-system fixed assets and net working capital, is $26.4million; and

(e) The values in (b) and (c) have been prepared in accordance with the ODV Handbook.

These valuations are as at 31 March 1999.

R S Briant
CHAIRMAN

J W Kohn
DIRECTOR

____/____/____
Date

Derivation Table	Symbol in formula	Input Column	Calculations	ROF		ROE		ROI	
Earnings before interest and tax (EBIT)	a	4,022			4,022		N/A		4,022
Net profit after tax (NPAT)	n	2,693			N/A		2,693		N/A
Amortised Goodwill	g	0		add	0	add	0	add	0
Subvention Payment	s	0		*add*	*0*	*add*	*0*	*add*	0
Depreciation of SFA at BV	d	958		add	958	add	958	add	958
Depreciation of SFA at ODV		4,092		deduct	4,092	deduct	4,092	deduct	4,092
ODV Depreciation tax adjustment	b	-1,034			N/A	deduct	-1,034	deduct	-1,034
Subvention Payment tax adjustment		0	s*t		N/A	deduct	0	*deduct*	0
Interest Tax Shield	q	3			N/A		N/A	deduct	3
Revaluations	r	55			N/A		N/A	add	55
Income tax	p	1,321			N/A		N/A	deduct	1,321
Numerator (as adjusted)		No entry		= a + g + s + d	888	= n + g + s - s*t + d - b	593	= a + g - q + r + s + d - p - s*t - b	654
Fixed Assets at year beginning (FA_0)		19,259			19,259		N/A		19,259
Fixed Assets at year end (FA_1)		16,308		add	16,308		N/A	add	16,308
Net Working Capital at year beginnning (NWC_0)		8,163		add	8,163		N/A	add	8,163
Net Working Capital at year end (NWC_1)		9,970		add	9,970		N/A	add	9,970
Average total funds employed (ATFE)	c	No entry	$= (FA_0 + FA_1 + NWC_0 + NWC_1)/2$	divide by 2	26,850		N/A	divide by 2	26,850
Total Equity at year beginning (TE_0)		17,891			N/A		17,891		N/A
Total Equity at year end (TE_1)		16,591			N/A	add	16,591		N/A
Average total equity	k	No entry	$= (TE_0 + TE_1)/2$		N/A	divide by 2	17,241		N/A
WUC at year beginning (WUC_0)		83			83		83		83
WUC at year end (WUC_1)		47		add	47	add	47	add	47
Average total Works under Construction	e	No entry	$= (WUC_0 + WUC_1)/2$	divide by 2	65	divide by 2	65	divide by 2	65
Revaluations	r	55			N/A		N/A		55
Goodwill asset at year beginning (GW_0)		0			N/A		0		N/A
Goodwill asset at year end (GW_1)		0			N/A	add	0		N/A
Average Goodwill asset	m	No entry	$= (GW_0 + GW_1)/2$		N/A	divide by 2	0		N/A
Subvention payment at year beginnning (S_0)		0			N/A		0		N/A
Subvention payment at year end (S_1)		0			N/A	add	0		N/A
Subvention payment tax adjustment at year beginning		0	$= s_0 t$		N/A	deduct	0		N/A
Subvention payment tax adjustment at year end		0	$= s_1 t$		N/A	deduct	0		N/A
Average subvention payment & related tax adjustment	v	No entry	$= (s_0 + s_1 + s_0 t + s_1 t)/2$		N/A	divide by 2	0		N/A
System Fixed assets at year beginning at book value (SFA_{bv0})		14,180			14,180		14,180		14,180
System Fixed assets at year end at book value (SFA_{bv1})		13,549		add	13,549	add	13,549	add	13,549
Average value of system fixed assets at book value	f	No entry	$= (SFA_{bv0} + SFA_{bv1})/2$	divide by 2	13,865	divide by 2	13,865	divide by 2	13,865
System Fixed assets at year beginning at ODV value (SFA_{odv0})		55,560		add	55,560	add	55,560		55,560
System Fixed assets at year end at ODV value (SFA_{odv1})		55,560		add	55,560	add	55,560	add	55,560
Average value of system fixed assets at ODV value	h	No entry	$= (SFA_{odv0} + SFA_{odv1})/2$	divide by 2	55,560	divide by 2	55,560	divide by 2	55,560
Denominator (as adjusted)				= c - e - f + h	68,481	= k - e - m + v - f + h	58,872	= c - e - ½r - f + h	68,453
Financial Performance Measure:				$EBIT^{ADJ}/ATFE^{ADJ} \times 100/1 =$	1.30%	$PAT^{ADJ}/ATE^{ADJ} \times 100/1 =$	1.01%	$EBIT^{ADJ}/ATFE^{ADJ} \times 100/1 =$	0.95%

Key:
t = standard entity tax rate
bv = book value
ave = average
^{ADJ} = as adjusted
odv = optimised deprival valuation
subscript '0' = beginning of the financial year
subscript '1' = end of the financial year

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

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