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ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1999

Electricity Corporation of New Zealand Limited

Statements of Financial Performance for the nine month period ended 31 March 1999

	Notes	9 months 31 March 1999 \$M	12 months 30 June 1998 \$M
TRADING ACTIVITIES			
Revenue	2	617	924
Operating expenses		253	443
Net finance costs	3	33	88
		<u>331</u>	<u>393</u>
Matahina dam costs		-	31
Gain on sale of power stations	24	137	30
Operating profit from trading activities		<u>468</u>	<u>392</u>
Split costs+		13	-
Profit before taxation	4	<u>455</u>	<u>392</u>
Taxation expense	5	110	93
Net Profit for the period		<u>345</u>	<u>299</u>

Statements of Movements in Equity for the nine month period ended 31 March 1999

Equity at start of period		2,234	2,003
Net profit for the period		345	299
		<u>2,579</u>	<u>2,302</u>
Dividends payable:			
Ordinary dividends paid or provided	6	-	68
		-	68
Equity at end of the period		<u>2,579</u>	<u>2,234</u>

+ Split costs

Split costs represent all unrecoverable costs associated with the process of splitting ECNZ in to three separate companies on 1 April 1999.

Electricity Corporation of New Zealand Limited
Statements of Financial Position as at 31 March 1999

	Notes	31 March 1999 \$M	30 June 1998 \$M
Assets			
Current assets	7	518	312
Non current assets			
Term assets	8	186	63
Fixed assets	9	3,171	3,263
Total assets		<u>3,875</u>	<u>3,638</u>
Liabilities and equity			
Current liabilities	10	392	348
Non current liabilities			
Term liabilities	11	870	948
Deferred taxation	12	34	108
Total liabilities		<u>1,296</u>	<u>1,404</u>
Equity	13	<u>2,579</u>	<u>2,234</u>
Total liabilities and equity		<u>3,875</u>	<u>3,638</u>

Electricity Corporation of New Zealand Limited**Statements of Cash Flows for the nine month period ended 31 March 1999**

	9 months 31 March 1999 \$M	12 months 30 June 1998 \$M
Cash flows from operating activities		
Cash was provided from:		
Receipts from customers	591	948
Interest received	5	7
	<u>596</u>	<u>955</u>
Cash was applied to:		
Payments to suppliers and employees	187	388
Taxation paid	144	121
Interest paid	45	87
	<u>376</u>	<u>596</u>
Net cash from operating activities	<u>220</u>	<u>359</u>
Cash flows from investing activities		
Cash was provided from:		
Sales of fixed assets	232	66
Sale of shares in subsidiary	3	4
	<u>235</u>	<u>70</u>
Cash was applied to:		
Purchase of fixed and term assets	96	167
Capitalised interest (<i>note 3</i>)	14	13
Purchase of investments	114	-
Net advances to subsidiaries	-	12
	<u>224</u>	<u>192</u>
Net cash to investing activities	<u>11</u>	<u>(122)</u>
Cash flows from financing activities		
Cash was provided from:		
Net proceeds from the issue of long term debt	-	37
	<u>-</u>	<u>37</u>
Cash was applied to:		
Net repayment of long term debt	103	60
Payment of dividends	-	135
Net increase in short term deposits	113	87
	<u>216</u>	<u>282</u>
Net cash to financing activities	<u>(216)</u>	<u>(245)</u>
Net decrease in cash held	15	(8)
Add: Cash at start of the year	-	8
Cash balance at end of the year (<i>note 7</i>)	<u>15</u>	<u>-</u>

Electricity Corporation of New Zealand Limited

Supplementary Cash Flow Information for the nine month period ended 31 March 1999

	9 months 31 March 1999 \$M	12 months 30 June 1998 \$M
Reconciliation of net profit to net cash from operating activities		
Net Profit for the period	345	299
Add (less): Non-cash items:		
Depreciation (<i>note 4</i>)	82	110
Decrease in provision for deferred taxation (<i>note 12</i>)	(74)	(50)
Amortisation of discount on debt	4	7
Other non-cash items	(5)	-
Matahina dam costs	-	31
	<u>7</u>	<u>98</u>
Add (less): Movements in working capital items:		
Decrease (increase) in accounts receivable	(26)	13
Decrease (increase) in prepayments	(24)	(4)
Decrease (increase) in taxation receivable	-	5
Decrease (increase) in inventories	(3)	1
Decrease (increase) in other current assets	(25)	(5)
Increase (decrease) in accounts payable	49	(30)
Increase (decrease) in taxation payable	40	15
Increase (decrease) in other current liabilities	(2)	(2)
	<u>9</u>	<u>(7)</u>
Add (less): Items classified as investing activities:		
Profit on sale of fixed assets	(129)	(31)
Dividend received	(12)	-
	<u>(141)</u>	<u>(31)</u>
Net cash from operating activities	<u>220</u>	<u>359</u>

Statement of cash flows - explanatory note

Cash flows in relation to securities and short term debt on page 3 are shown net as turnover is high and providing gross amounts would not provide any additional useful information.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

1. Statement of accounting policies

Reporting entity

These financial statements have been prepared and presented in accordance with Generally Accepted Accounting Practice in New Zealand, the Companies Act 1993 and the Financial Reporting Act 1993.

These financial statements are for Electricity Corporation of New Zealand Limited (ECNZ) as required to comply with Regulation 4 of the Electricity (Information Disclosure) Regulations 1999.

Constitution, ownership and activities

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

ECNZ was incorporated on 26 February 1987, pursuant to the State-Owned Enterprises Act 1986, and commenced business on 1 April 1987. With effect from that date ECNZ acquired under a sale and purchase agreement with the Crown the electricity generation business of the Electricity Division of the Ministry of Energy.

ECNZ's business is primarily the generation and wholesale of electricity.

Pursuant to the restructuring and breakup of ECNZ's monopoly in the electricity generation industry ECNZ undertook a fair value exercise as at 1 February 1996 with some final adjustments at 30 June 1997. As a result, the fair value of assets and liabilities as at 1 February 1996 is deemed to be their historic cost.

General accounting policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cashflows and the financial position have been followed in the preparation of these financial statements.

Measurement system

The historical cost method has been followed.

Specific accounting policies

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

Revenue

Sales shown in the statement of financial performance comprise the amounts received and receivable by ECNZ for electricity and related electricity services supplied to customers. Sales are stated exclusive of Goods and Services Tax collected from customers.

Foreign currencies

Assets and liabilities denominated in a foreign currency are translated at the rates of exchange ruling at balance date. Exchange differences arising on translation are taken to the statement of financial performance. Hedged foreign currency assets and liabilities are translated at the rate of exchange determined by the underlying hedge contract.

Foreign currency transactions are translated at the exchange rate ruling on the date the transaction occurred or the hedged rate.

Outstanding forward foreign exchange contracts which are not designated as hedges are valued at the forward rate of exchange at balance date and the resulting gains and losses are recognised in the statement of financial performance.

Investments

Investments in subsidiaries and associated entities are stated at cost.

Short term investments consist of investments which mature or are otherwise realisable within not more than 12 months from the date of purchase and are stated at cost, less unamortised premium or discount.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

Debt

Debt as at 1 February 1996 is stated at fair value. All subsequent debt is stated at cost, less unamortised discounts or premiums and prepaid interest which are amortised to interest expense or interest income on a straight line basis over the period of the borrowing. Borrowing costs such as origination, commitment and transaction fees are deferred and amortised to interest expense over the borrowing period.

Fixed assets

The value of fixed assets on hand at 1 February 1996 was adjusted to fair value. All subsequent additions to these assets are stated at cost.

The cost of fixed assets purchased subsequent to 1 February 1996 equals the consideration given to acquire the assets plus other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by ECNZ subsequent to 1 February 1996, including capital work in progress, includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use. They do not include any inefficiency costs. Financing costs are capitalised at ECNZ's weighted average interest rate of the debt portfolio.

Leased assets

ECNZ leases certain plant, equipment, land and buildings.

Leases under which ECNZ assumes substantially all the risks and rewards incidental to ownership have been classified as finance leases and are capitalised. The asset and corresponding liability are recorded at the inception of the lease at the fair value of the leased asset, at amounts equivalent to the discounted present value of minimum lease payments, including residual values.

Finance charges are apportioned over the terms of the respective leases using the actuarial method.

The cost of improvements to leasehold property is capitalised and amortised over the estimated useful life of the improvements, or over the unexpired portion of the lease, whichever is shorter.

Capitalised leased assets are depreciated over the shorter of their estimated useful lives or the lease term.

Operating lease payments represent the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial performance in the periods in which they are incurred.

Depreciation

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their expected economic lives. The annual depreciation rates shown below are calculated on a weighted average basis for each classification of asset:

Freehold buildings	1.7%
Generation plant	2.5%
Other plant and equipment	17.9%

Inventories

Inventories, including fuel stock, are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

Accounts receivable

Accounts receivable are stated at estimated realisable value, after providing for debts where collection is doubtful.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

Taxation

The taxation charge against the profit for the year is the estimated liability in respect of that profit, after allowance for permanent differences.

Deferred taxation resulting from timing differences is adjusted against profit for the year using the liability method and is accounted for on a comprehensive basis.

Future taxation benefits attributable to timing differences or losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences or losses will be utilised by ECNZ.

Research and development

Costs incurred on all research and development projects are written off as incurred, except that when a project reaches the stage where such expenditure is considered capable of being recouped through development or sale, all subsequent expenditures are capitalised.

Capitalised costs are amortised on a straight line basis over the period of the expected benefits.

Financial instruments

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

For interest rate swap agreements the differential to be paid or received is accrued and is recognised as a component of interest expense or interest income over the life of the swap agreement.

Premiums paid on interest rate and currency options and the net settlement on maturity of forward rate agreements, futures and options are amortised over the period of the underlying asset or liability protected by the instrument.

Forward exchange contracts entered into as a hedge for foreign currency transactions (other than offshore funding activities) are revalued at balance date. Any unrealised gains or losses are offset against foreign exchange gains or losses on the related asset or liability.

Off balance sheet financial instruments entered into with no corresponding underlying position are accounted for on a mark to market basis and gains or losses are taken to the statement of financial performance as they accrue.

Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- a) Cash is considered to be cash on hand and bank current accounts, net of bank overdrafts;
- b) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash;
- c) Financing activities are those activities which result in changes in the size and composition of the capital structure of ECNZ. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to capital structure are included in financing activities;
- d) Operating activities include all transactions and other events that are not investing or financing activities.

Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure on the creation of a new fixed asset, and any expenditure which results in a significant improvement to the original function of an existing fixed asset.

Revenue expenditure is defined as expenditure which restores a fixed asset to its original operating capabilities and all expenditure incurred in maintaining and operating the business.

Employee entitlements

Provision has been made for annual, long service and retirement leave entitlements estimated to be payable to employees on the basis of statutory and contractual requirements.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

Insurance

ECNZ's fixed assets are predominantly concentrated at power station locations which have the potential to sustain major losses through damage to plant and resultant consequential costs.

To minimise the financial impact of such exposures, the assessed risk is transferred to insurance companies by taking out appropriate policies.

Any uninsured loss is charged to the statement of financial performance in the year in which the loss is incurred.

Resource consents

Costs incurred in obtaining a resource consent are capitalised and recognised as a term asset. These costs are amortised over the life of the consent on a straight line basis.

Comparative figures

The current period results cover the 9 month period from 1 July 1998 to 31 March 1999 in accordance with Regulation 4 of the Electricity (Information Disclosure) Regulations 1999. Comparative figures are for the 12 month period ended 30 June 1998 as reported by the company in its annual report.

Changes in accounting policies

The accounting policies applied during the period have been applied on bases consistent with those applied in ECNZ's annual report for the year ended 30 June 1998.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1999 \$M	1998 \$M
2. Trading activities		
Sale of electricity	600	915
Other income	17	9
Total revenue from trading activities	<u>617</u>	<u>924</u>
Other income consists primarily of ancillary service revenue.		
3. Net finance costs from trading activities		
Loan interest	64	111
Less: Interest capitalised	14	13
	<u>50</u>	<u>98</u>
Less: Investment income		
Interest from investments	5	10
Dividends received	12	-
Total investment income	<u>17</u>	<u>10</u>
Total net finance costs from trading activities	<u>33</u>	<u>88</u>
4. Profit before taxation		
Profit before taxation is stated after charging:		
Depreciation	82	110
Research	1.3	6.4
Write down of assets	8.0	2.9
Operating lease and rental costs	2.1	2.6
Amounts received by the auditors for:		
Auditing the financial statements	0.3	0.3
Other services	2.1	1.2
Directors' fees	0.4	0.3
Donations	0.1	0.2

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1999 \$M	1998 \$M
5. Taxation expense		
Profit before taxation	455	392
Prima facie tax at 33%	<u>150</u>	<u>129</u>
Less: Tax effect of:		
Permanent differences	(37)	(9)
Prior year provisions no longer required	(3)	(27)
Taxation expense	<u>110</u>	<u>93</u>
The taxation expense is represented by:		
Tax payable in respect of the current period	184	143
Deferred taxation (<i>note 12</i>)	<u>(74)</u>	<u>(50)</u>
	<u>110</u>	<u>93</u>
There are no income tax losses carried forward and available to be set-off against future assessable income.		
Imputation credit account		
Imputation credits at start of the period	809	704
Plus: Income tax paid	147	104
Transfers to subsidiaries	-	1
Imputation credits at end of the period	<u>956</u>	<u>809</u>
6. Dividends		
Ordinary shares:		
Interim dividend paid	-	68
Total dividends paid or provided	<u>-</u>	<u>68</u>
7. Current assets		
Cash	15	-
Short term deposits	201	88
Fuel stocks	41	38
Consumable spares	12	12
Prepayments	30	6
Accounts receivable	189	163
Other current assets	30	5
Total current assets	<u>518</u>	<u>312</u>
8. Term assets		
Investment in subsidiaries	178	52
Resource consents	8	8
Goodwill	-	-
Other term assets	-	3
Total term assets	<u>186</u>	<u>63</u>

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1999 \$M	1998 \$M
9. Fixed assets		
Generation plant (including land and buildings)		
Cost	3,198	3,252
Less: Accumulated depreciation	304	262
Book value	<u>2,894</u>	<u>2,990</u>
Other freehold land		
Cost	14	15
Other freehold buildings		
Cost	15	15
Less: Accumulated depreciation	4	3
Book value	<u>11</u>	<u>12</u>
Capital work in progress		
Cost	223	215
Other plant and equipment		
Cost	83	82
Less: Accumulated depreciation	54	51
Book value	<u>29</u>	<u>31</u>
Total fixed assets		
Cost	3,533	3,579
Less: Accumulated depreciation	362	316
Total book value	<u>3,171</u>	<u>3,263</u>

The aggregate of the latest available Government valuations of other freehold land is \$17 million (1998 \$35 million). Separate valuations of buildings are not available, but the aggregate valuation shown above would not differ materially from net current values.

10. Current liabilities

Accounts payable	161	116
Taxation payable	54	15
Accrued personnel costs	9	7
Loans repayable within one year	108	134
Other current liabilities	60	76
Total current liabilities	<u>392</u>	<u>348</u>

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1999	1998
	\$M	\$M
11. Term liabilities		
ECNZ bond programme		
Face value of bonds on issue	761	761
Fair valuation	23	28
	<hr/>	<hr/>
Less: Bonds defeased (<i>note 18</i>)	70	70
	<hr/>	<hr/>
Less: Unamortised discount	22	26
	<hr/>	<hr/>
Loans from other sources	424	527
Less: Loans defeased (<i>note 18</i>)	138	138
	<hr/>	<hr/>
Term liabilities including current portion	978	1,082
Less: Current portion	108	134
Total term liabilities	<hr/>	<hr/>
	870	948
Term liabilities are repayable as follows:		
Between one and two years	66	82
Between two and three years	490	66
Between three and four years	182	484
Between four and five years	44	228
Later than five years	88	88
Total	<hr/>	<hr/>
	870	948

Interest rates payable, after giving effect to interest rate swaps, forward rate agreements and interest rate options on term liabilities, range from 4.9% to 9.6% (1998 7.3% to 9.6%).

Interest rate repricing

ECNZ has entered into a number of long term borrowings which have been swapped through the use of interest rate swaps into repricing periods earlier than the maturity of the borrowing. The majority of ECNZ's remaining financial assets and liabilities have the same repricing and maturity profiles and are not interest rate sensitive. The interest repricing profile for ECNZ is as follows:

Within one year	369	321
Between one and two years	69	63
Between two and three years	378	68
Between three and four years	102	462
Between four and five years	27	55
Later than five years	10	85
Total	<hr/>	<hr/>
	955	1,054

Domestic bond programme

ECNZ offers bonds to institutional and retail investors pursuant to its domestic bond programme. Bonds outstanding have coupon interest rates ranging from 8% to 10% per annum (1998 8% to 10%) and maturity dates between 1999 and 2009. The bonds are issued under a Trust Deed dated 23 August 1988 made between ECNZ and The New Zealand Guardian Trust Company Limited as trustee.

Negative pledge

Under the terms of the Trust Deed ECNZ has given a negative pledge that so long as any bond remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge over any of its assets to secure any securities issued by it or any guarantee given by it of any securities issued by any other person, unless the benefit of such charge is extended equally and rateably to the bonds or to any guarantee of the bond moneys given by it, or there is provided to the bondholders such other security as may be approved by an extraordinary resolution of bondholders.

In addition to the negative pledge given in the Trust Deed for ECNZ bonds, ECNZ has given undertakings that it will not create or permit to exist any security interest on its assets as security for any other indebtedness except on the conditions specified in the undertakings and/or with the prior consent of the lenders concerned (as the case may be).

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1999 \$M	1998 \$M
12. Deferred taxation		
Deferred taxation at start of the period	108	158
On profit for the year (note 5)	(74)	(50)
Deferred taxation at end of the period	<u>34</u>	<u>108</u>

13. Equity

Equity includes issued and paid up capital of:
1,000,000,000 ordinary shares

1,000	<u>1,000</u>
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Ordinary shares

All issued ordinary shares in ECNZ are owned by the Crown. Holders of ordinary shares have the following rights:

- (a) The right to receive notice of and attend and vote at a meeting of the shareholders of the Company on any resolution. Each holder of a share will have one vote.
- (b) The right to an equal share in dividends on a per share basis.
- (c) The right to an equal share in the distribution of surplus assets on a per share basis.

14. Capital commitments

Commitments in respect of contracts for capital expenditure

-	<u>160</u>
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15. Operating lease commitments

Operating lease commitments are payable:

Within one year	1	2
Between one and two years	1	1
Between two and five years	2	4
Later than five years	5	8
Total	<u>9</u>	<u>15</u>

The operating leases are of a rental nature and are on normal commercial terms and conditions. The majority of the lease commitments are for building accommodation. The remainder relate to land or small items of plant and equipment.

16. Contributions to retirement savings plan

Contributions are made into ECNZ's Retirement Savings Plan in respect of ECNZ employees who are members of the Plan. ECNZ contributes a maximum of 10% of the relevant employee's basic salary. These contributions are charged against profit.

17. Financial instruments

Currency, interest rate and revenue risk

Nature of activities and management policies with respect to financial instruments:

(a) Currency

ECNZ has exposure to foreign exchange risk as a result of offshore funding activities and transactions denominated in foreign currencies arising from normal trading activities. Where exposures are certain, such as borrowing commitments, it is ECNZ's policy to hedge these risks as they arise. ECNZ uses cross currency interest rate swaps and forward foreign exchange contracts to manage these exposures.

Contract amounts of foreign exchange instruments outstanding at balance date are as follows:

Cross currency interest rate swaps	887	991
Forward foreign exchange contracts	<u>34</u>	<u>124</u>

The cash settlement requirements of the above instruments approximate the contract amounts shown above.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

(b) Interest rate

ECNZ has a mixture of current to long term borrowings that are used to fund ongoing activities. It is ECNZ policy to manage exposure to interest rate risk via the use of interest rate swaps, forward rate agreements, interest rate options and interest rate futures. The notional principal or contract amounts of interest rate contracts outstanding at balance date are as follows:

	1999	1998
	\$M	\$M
Interest rate swaps	1,188	788
Forward rate agreements (FRAs)	-	193
Interest rate options	-	196
Interest rate futures	-	-

The cash settlement requirement of interest rate swaps is the net interest receivable of \$ 489,616 (1998 \$4,034,539 receivable).

The best approximation for FRAs is the current market value at balance date which is \$NIL (1998 \$337,689).

The cash settlement requirement of interest rate options is the net market value of the options, at strike date, if the option is exercised. Based on current market rates at balance date this would be \$NIL (1998 \$74,631).

Futures are cash settled each day to reflect the market value at the close of the previous business day.

(c) Revenue - Electricity hedge and options contracts

As part of its energy supply contracts, ECNZ entered into electricity price hedges with customers for the period to 30 September 2001. Under these contracts ECNZ sells electricity forward at a fixed price (hedge price) together with a limited volume of call options. Any difference on maturity between the hedge price and the spot price is settled between the parties, irrespective of how much electricity is supplied. If the spot price is greater than the hedge price, ECNZ must settle with the counterparty. Conversely, if the spot price is less than the hedge price the counterparty must settle with ECNZ. It is not practicable to estimate the fair value of electricity hedge contracts as the secondary market for electricity price hedge products, namely seasonal hedge, monthly hedge and call options, is not sufficiently active at balance date.

Concentration of credit risk

In the normal course of its business ECNZ incurs credit risk from trade debtors and from transactions with financial institutions.

ECNZ has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis.

ECNZ does not have any significant concentrations of credit risk. ECNZ does not require collateral or security to support financial instruments, due to the high credit rating of the financial institutions dealt with. ECNZ further minimises its credit exposure by limiting the amount of funds placed with any one financial institution at any one time. ECNZ does not anticipate the non-performance of any obligations that existed at balance date.

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

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

Fair values

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

	1999		1998	
	Carrying value \$M	Fair value \$M	Carrying value \$M	Fair value \$M
Short term loans	-	-	4	4
Term liabilities	978	1,055	1,127	1,157
Currency and interest rate swaps	-	7	-	22

Cash and short term deposits, accounts receivable, accounts payable, other current assets and current liabilities are excluded from the table above because, due to their short term nature, the carrying value of these items is equal to their fair value.

The following methods were used to estimate the fair values of the following classes of financial instrument:

(a) Term liabilities and short term loans

The fair value of ECNZ's term liabilities and short term loans is estimated based on current market interest rates available to ECNZ for debt of a similar maturity. ECNZ anticipates that these liabilities will be held to maturity and that settlement at fair value is unlikely.

(b) Currency and interest rate swaps, foreign exchange contracts forward rate agreements, interest rate options and interest rate futures

The fair value of these instruments is estimated based on their quoted market prices. ECNZ anticipates that these liabilities will be held to maturity and that settlement at fair value is unlikely.

18. Debt defeasance

On 1 February 1996 ECNZ sold eight power stations to Contact. Of the \$1,592 million received from Contact, \$419 million was used to defease debt and the balance was treated as surplus equity and distributed to the Crown as a special dividend.

19. Land claims

Under the Treaty of Waitangi Act 1975, the Waitangi Tribunal has the power to recommend, in appropriate circumstances, that land purchased by ECNZ under the State-Owned Enterprises Act 1986 be resumed by the Crown in order that it be returned to the Maori claimants. In the event that the Tribunal's initial recommendation is confirmed and the land is to be returned, compensation will be paid to ECNZ under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss, certain additional compensation is payable under the sale and purchase agreement between ECNZ and the Crown.

20. Transactions with related parties

The shareholder of ECNZ is the Crown. ECNZ undertakes many transactions with other State-Owned Companies and Government Entities, all of which are carried out on a commercial and arms length basis.

During the period, ECNZ entered into material transactions with Transpower (who operate the national electricity distribution grid). During the period ECNZ received \$20 million (1998 \$18 million) of revenue from Transpower, mainly for the provision of ancillary services such as spinning reserve and voltage control. ECNZ also paid Transpower transmission and connection fees amounting to \$64 million (1998 \$84 million).

During the period ECNZ held a 33% share in the Electricity Market Company Limited (EMCO) which functions as a clearing house for the wholesale electricity market. ECNZ paid service fees of \$4 million (1998 \$4 million) to EMCO during the period.

ECNZ sold and purchased electricity respectively through EMCO during the period. These sales and purchases are not deemed to be related party transactions. There are also many unrelated parties selling and purchasing electricity through EMCO and due to the way in which the wholesale electricity market operates it is not possible to determine exactly which party purchased or sold electricity from/to whom.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

21. Investments

Company name	Percentage	Principal activity	Balance date
Subsidiary companies			
* Cobb River Power Station Limited (formerly Mangahao Power Station Limited)	100	Property management	30 June
* Coleridge Power Station Limited	100	Property management	30 June
* ECNZ Energy Limited	100	Energy	30 June
* ECNZ Insurance Limited	100	Insurance	30 June
* ECNZ International Limited	100	Finance	30 June
* Energy Auckland Limited	100	Retail electricity	30 June
* Energy CHB Limited	100	Retail electricity	30 June
* Energy Scanpower Limited	100	Retail electricity	30 June
* Energy Waitaki Limited	100	Retail electricity	30 June
* First Electric Limited (formerly Manapouri Generation Company Limited)	100	Retail electricity	30 June
* Genesis Energy Limited	100	Retail electricity	30 June
* Genesis Energy No. 2 Limited	100	Retail electricity	30 June
* Kinleith Cogeneration Limited	100	Construction	30 June
+ Kupe Development Limited	65	Holding company	30 June
^ Kupe Mining (No 1) Limited	100	Oil and gas exploration	30 June
^ Kupe Mining (No 2) Limited	100	Oil and gas exploration	30 June
* Matahina Power Station Limited	100	Property management	30 June
* Methven Management 1997 Limited	100	Dormant	30 June
# PT ECNZ Services Indonesia	100	Geothermal power station operations and maintenance	31 December
* Rakaia Power Station Limited	100	Dormant	30 June
* Rutherford House Limited	100	Property management	30 June
* South Island Energy Limited	100	Retail electricity	30 June
* Waikaremoana Power Scheme Limited	100	Property management	30 June
* Woodville Wind Farm Limited	100	Wind energy	30 June

* wholly owned by ECNZ

+ 65% owned by ECNZ Energy Limited

^ 100% owned by Kupe Development Limited

99% owned by ECNZ International Limited, 1% owned by ECNZ

22. Segmental information

ECNZ's operations include the generation and wholesale marketing of electricity. Its operations are carried out predominantly in New Zealand and are therefore within one geographical segment for reporting purposes.

23. Long term relationships

- ECNZ has entered into a contract with Contact under which ECNZ is entitled to purchase specified annual gas quantities from 1 October 1996 to 30 September 2006. The maximum amount payable under the contract up to 30 September 2006 is \$90 million.
- ECNZ has entered into a contract with Solid Energy Limited to purchase specified quantities of coal up to 30 September 2001. The maximum amount payable under the contract up to 30 September 2001 is \$20 million.
- ECNZ has entered into a contract with Tuaropaki Power Company Limited with respect to the Mokai geothermal field. These interrelated contracts cover electricity price hedges, investment, and operations and maintenance.
- ECNZ has entered into a heads of agreement with Fletcher Challenge Energy Limited which makes provision for the purchase of specified annual gas quantities from 1 October 2000 to 30 September 2017. The terms and conditions of supply have yet to be finalised.

As at 1 April 1999 all of the above contracts were assigned to the three new SOEs (refer note 26).

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

24. Sale of power stations

Pursuant to the MoU signed by ECNZ and the Crown on 8 June 1995, ECNZ agreed to sell eight small hydro stations. During the year ECNZ sold the following small hydro stations resulting in the following gains on sale:

	\$m
Coleridge Power Station	70
Matahina Power Station	41
Highbank Power Station	26
	<u>137</u>

25. Purchase of energy retailing businesses

During the year ECNZ purchased the following energy retailing businesses:

Scanpower	CHB Power
Northpower	Mercury Energy
CentralPower	Powerco
Waitaki Power	Wairarapa Electricity

26. Split of ECNZ

On 1 April 1999 ECNZ transferred all generation assets as well as shares in certain retail and other subsidiaries and liabilities to three new State Owned Enterprises (SOEs). The transfer took place at ECNZ's book value as at 31 March 1999. Mighty River Power Limited comprises the Waikato catchment hydro power stations. Genesis Energy Limited comprises Huntly and Te Awamutu thermal power stations and the Tongariro catchment hydro power stations. Meridian Energy Limited comprises the Waitaki catchment and Manapouri hydro power stations.

From 1 April 1999, ECNZ's main activities are to manage existing hedge and debt instruments and obligations while winding up ECNZ's other activities in an economic and timely manner. For this purpose, ECNZ has entered into a number of back-to-back arrangements with the new SOEs. These arrangements are designed to produce a revenue neutral result for ECNZ and pass the burden and the benefit of ECNZ's existing positions to the new SOEs.

Any assets, liabilities or contingent liabilities not transferred to the SOE's will remain with the ECNZ Residual Company. The Company will retain sufficient assets and/or shareholder guarantees to enable it to meet all future obligations

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

27. Contingencies

The Second Manapouri Tailrace Tunnel Project has been experiencing significant delays in boring the tunnel portion of the project. The cause of the delay is under investigation by both ECNZ and the Fletcher Dillingham Illbau (FDI) joint venture consortium contracted to carry out the tunnel mining. Both parties are not in a position, at this stage, to reach agreement on the cause of the delay. As a consequence it is not possible to state with certainty what will be the financial effect of the delay on the project. The delay may give rise to either a contingent asset and / or a contingent liability to ECNZ .

ECNZ is entitled to deduct liquidated damages for late completion beyond the contract date. FDI is also entitled under the conditions of contract to claim additional costs and time extensions if the tunneling conditions as encountered differ substantially from the baseline conditions defined in the contract.

The asset and liability claims arising from the tunnel delay are viewed as contingent at 31 March 1999 because there is uncertainty as to the net final financial outcome of these claims. The management of the project has been transferred and all contracts have been assigned to Meridian Energy Limited on 1 April 1999 (refer note 26).

CERTIFICATE OF FINANCIAL STATEMENT BY DIRECTORS OF THE CORPORATION

We, Victor Wu and Sir Ron Carter, being directors of the Electricity Corporation of New Zealand Limited, certify that, having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statements, having been prepared for the purposes of regulation 4 of the Electricity (Information Disclosure) Regulations 1999, give a true and fair view of the matters to which it relates and complies with the requirements of those regulations.

A handwritten signature in black ink, appearing to read 'Victor Wu', with a long horizontal stroke extending to the right.

Victor Wu

A handwritten signature in black ink, appearing to read 'Ron Carter', with a large circular flourish at the beginning.

Sir Ron Carter

Date: 15 October 1999

PricewaterhouseCoopers
113-119 The Terrace
PO Box 243
Wellington, New Zealand

AUDITORS REPORT

To the readers of the financial statements of the Electricity Corporation of New Zealand Limited.

We have audited the accompanying financial statements on pages 4038 to 4055 of the Electricity Corporation of New Zealand Limited. The financial statements provide information about the past financial performance of the Electricity Corporation of New Zealand Limited and its financial position as at 31 March 1999. This information is stated in accordance with the accounting policies set out on pages 4042 to 4045.

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 the Electricity Corporation of New Zealand as at 31 March 1999, and the 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.

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 the Electricity Corporation of New Zealand 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

We have carried out other assignments for the Electricity Corporation of New Zealand in the areas of assurance services, taxation and consulting advice.

Other than these assignments we have no other relationship with or interests in the Electricity Corporation of New Zealand Limited.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been maintained by the Electricity Corporation of New Zealand as far as appears from our examination of those records; and
- the financial statements referred to above:
 - (a) comply with generally accepted accounting practice;
 - (b) give a true and fair view of the financial position of the Electricity Corporation of New Zealand Limited as at 31 March 1999 and the results of its operations and cash flows for the year then ended; and
 - (c) comply with the Electricity (Information Disclosure) Regulations 1999.

Our audit was completed on 15 October 1999 and our opinion is expressed as at that date.



PricewaterhouseCoopers

Wellington

