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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1994

TRANSPower NEW ZEALAND LIMITED GROUP
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 1997

	Notes	1997 \$000	1996 \$000
Operating revenue	3	550,342	541,296
Operating expenses	4	<u>323,926</u>	<u>291,334</u>
Surplus from operations		226,416	249,962
Net finance costs	6	<u>107,055</u>	<u>106,820</u>
Operating surplus before tax		119,361	143,142
Tax expense	7	<u>26,465</u>	<u>46,747</u>
Operating surplus after tax		92,896	96,395
Share of post tax acquisition deficit of the Transpower Group associate	9	<u>(115)</u>	<u>(498)</u>
Net surplus attributable to shareholders		<u><u>92,781</u></u>	<u><u>95,897</u></u>

TRANSPower NEW ZEALAND LIMITED GROUP
CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 1997

	Notes	1997 \$000	1996 \$000
Equity at the beginning of the year		1,329,797	1,275,276
Net surplus attributable to shareholders		92,781	95,897
Annual revaluation of fixed assets	14	(12,372)	21,282
Distribution to owners during the year	15	(64,946)	(62,658)
Equity at the end of the year		<u>1,345,260</u>	<u>1,329,797</u>

TRANSPower NEW ZEALAND LIMITED GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1997

	Notes	1997 \$000	1996 \$000
Assets Employed			
Current assets	8	102,830	227,442
Investments	9	4,681	3,869
Fixed assets	10	2,853,366	2,878,561
Total Assets Employed		2,960,877	3,109,872
Funds Employed			
Liabilities			
Current liabilities	11	284,437	546,659
Long term debt	12	1,331,180	1,233,416
Total Liabilities		1,615,617	1,780,075
Equity			
Capital	13	1,200,000	1,200,000
Reserves	14	43,835	55,319
Retained earnings	15	101,425	74,478
Total Equity		1,345,260	1,329,797
Total Funds Employed		2,960,877	3,109,872

For, and on behalf of, the Board.



David G. Sadler

Director

13 November 1997



Alison M. Paterson

Director

13 November 1997

TRANSPOWER NEW ZEALAND LIMITED GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 1997

	1997	1996
	\$000	\$000
Cash Flow from Operations		
Cash was provided from:		
Receipts from customers	541,104	544,751
Cross border lease	11,386	10,885
Interest received	8,376	20,512
Cash was applied to:		
Payments to suppliers and employees	(174,129)	(167,985)
Dividends paid	(57,013)	(63,656)
Tax payments	(42,967)	(29,125)
Interest paid	(124,162)	(126,772)
Net cash flow from operations	162,595	188,610
Cash Flow from Investments		
Cash was provided from:		
Sale of assets	1,961	3,265
Investment in Transpower Group associate	333	-
Short term investments	1,331,642	1,888,716
Cash was applied to:		
Capitalised interest	(3,965)	(3,709)
Purchase of fixed assets	(115,969)	(102,102)
Investment in associate	(1,260)	(1,567)
Short term investments	(1,192,323)	(2,029,721)
Net cash flow (to)/from investments	20,419	(245,118)
Cash Flow from Financing		
Cash was provided from:		
Increase in loans	1,235,984	3,370,489
Cash was applied to:		
Repayment of loans	(1,419,535)	(3,312,911)
Net cash flow (to)/from financing	(183,551)	57,578
Net increase/(decrease) in cash held	(537)	1,070
Opening balance brought forward	394	(676)
Closing net cash carried forward	(143)	394
Closing net cash carried forward comprises:		
Cash in bank /(Bank overdraft)	(143)	394
	(143)	394

TRANSPOWER NEW ZEALAND LIMITED GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED 30 JUNE 1997

Reconciliation of "Operating surplus after tax" with "Net Cash Flow from Operations"

	1997	1996
	\$000	\$000
Operating surplus after tax	92,896	96,395
Add/(deduct) non-cash items:		
Depreciation	106,203	90,902
Infrastructure asset service potential adjustment	24,205	19,795
Income tax expense	26,465	46,747
Increase/(decrease) in provisions	(479)	2,137
Change in deferred tax		
Other movements in working capital items*:		
Decrease/(increase) in trade and other receivables	(22,393)	3,725
Decrease/(increase) in prepayments	(508)	734
Decrease/(increase) in stocks of materials	7,123	6,895
(Decrease)/increase in trade and other liabilities, interest payable and deferred income	21,055	4,591
Dividend paid	(57,013)	(63,656)
Tax payments	(42,967)	(29,125)
Add/(deduct) items classified as investing activities:		
Loss on sale of fixed assets	8,008	9,470
Net Cash Flow from Operations	<u>162,595</u>	<u>188,610</u>

* Other movements in working capital items relate to operating activities

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These consolidated financial statements are for the Transpower Group (the "Group"), which includes all the subsidiary and associate companies as disclosed in Note 21.

The financial statements are presented in accordance with the Electricity (Information Disclosure) Regulations and have been prepared in accordance with the Financial Reporting Act 1993.

Special Purpose Financial Statements.

These consolidated financial statements have been prepared for the purpose of complying with the requirements of the Electricity (Information Disclosure) Regulations 1994 (the "Regulations").

For the purpose of the Regulations, only Group financial statements are relevant, and therefore no Parent Company information has been disclosed.

Measurement Base

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

Accounting Policies

The following accounting policies have been applied:

(a) *Principles of Consolidation*

The Group financial statements are prepared from the audited financial statements of the Parent Company and its subsidiaries as at 30 June 1997. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

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

(b) *Revenue*

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

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

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

(d) *Current Assets*

Receivables are stated at their estimated net realisable value.

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

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

(e) *Investments*

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

(f) *Fixed Assets*

Modified Historical Cost Measurement

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

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

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

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

TRANSPOWER NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

Capital Work in Progress

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

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

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

(g) *Infrastructure Asset*

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

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

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

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

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

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

(h) Depreciation

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

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

(i) Leased Assets

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

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

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

TRANSPOWER NEW ZEALAND LIMITED GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 JUNE 1997****(j) *Statements of Cash Flows***

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

- (i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- (ii) Operating activities comprise the transmission of bulk electricity, wholesale market services and related support, maintenance, administration, interest costs and dividends paid on equity.
- (iii) Investing activities comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- (iv) Financing activities include changes in equity and borrowings. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

(k) *Taxation*

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

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

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

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

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

(l) Foreign Currencies

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

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

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

(m) Financial Instruments

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

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

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

Pursuant to the introduction of the wholesale electricity market the Group has offered certain transmission hedge contracts for the period 1 November 1996 to 30 September 1997. Under these contracts, customers can fix the nodal energy price at certain locations relative to the price at specific North Island and South Island reference points.

Additional information about financial instruments to which the Group is a party is provided in Note 20.

TRANSPOWER NEW ZEALAND LIMITED GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 JUNE 1997****Changes in Accounting Policies**

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

2. RELATED PARTY

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

On 8 November 1996 Works Consultancy Services Ltd was sold, and therefore ceased to be a related party. Related party transactions have been disclosed up to the date of sale.

The associated and subsidiary companies identified in Note 21 are related parties of Transpower.

Transactions entered into with related parties are disclosed as follows:

- * Revenue income from the ECNZ Group, Contact Energy, BCL and the Group associate are disclosed in Note 3.
- * Operating expenses and financing costs/income in relation to the ECNZ Group, Contact Energy, BCL, Works Consultancy Services, the Crown and the Group associate and subsidiary companies are disclosed in Note 4 and Note 6.
- * Annual capital work in progress expenditure paid to the ECNZ Group, BCL and Works Consultancy Services are disclosed in Note 10.
- * Outstanding balances due from and to, the ECNZ Group, Contact Energy, BCL, Works Consultancy Services, the Crown and the Group associate and subsidiary companies are disclosed in Notes 8, 9, 11 and 12.

The Deputy Chairman is a partner in the law firm Simpson Grierson. Other partners and staff of that firm have rendered various legal services to the Group in the ordinary course of business.

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

3. REVENUE

	1997	1996
	\$000	\$000
Transmission services revenue	511,863	534,873
Wholesale market services revenue	32,069	-
Other revenue	6,410	6,423
Total Revenue	<u>550,342</u>	<u>541,296</u>

Related Party Transactions**Transmission services revenue from:**

ECNZ Group	103,505	141,554
Contact Energy	17,126	7,667
Transpower Group associate	40,894	-

Wholesale market services revenue from:

ECNZ Group	7,213	-
Contact Energy	1,437	-
Transpower Group associate	8,878	-

Other revenue from:

ECNZ Group	273	132
Contact Energy	-	8
Transpower Group associate	349	-
BCL	95	-
	<u>179,770</u>	<u>149,361</u>

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

The wholesale electricity market commenced on 1 October 1996. Following the commencement of the market, certain services previously provided as transmission services are now provided as services to the wholesale market. Wholesale market services revenue includes revenue from a range of security service products and grid operator services. The associated costs for security products, which are passed onto the end users, are disclosed in note 4.

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

4. OPERATING EXPENSES

	1997	1996
	\$000	\$000
Administration and general costs	56,741	49,792
Asset operation and maintenance costs	97,190	97,009
Security product costs	24,726	18,877
<i>Charges in respect of assets:</i>		
Depreciation - leased assets	9,439	6,959
Depreciation - owned assets	96,764	83,943
Infrastructure asset service potential adjustment	24,205	19,795
Stock and asset write offs	11,257	11,262
<i>Charges in respect of receivables:</i>		
Bad debts written off	-	4
Movement in the provision for doubtful debts	806	623
Directors' fees	239	239
Donations	285	243
Lease and rental costs	2,274	2,588
Total Operating Expenses	323,926	291,334

Related Party Transactions**Expenses charged by :**

ECNZ Group	22,981	20,641
BCL	227	365
Works Consultancy Services	1,744	2,581
Contact Energy	4,899	1,898
Transpower Group subsidiaries	-	-
	29,851	25,485

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

Net loss on the disposal of fixed assets**included in stock and asset write offs:**

Net loss on the disposal of fixed assets	8,008	9,470
	8,008	9,470

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

5. REMUNERATION OF AUDITORS

	1997	1996
	\$000	\$000
Fees paid or payable to Coopers & Lybrand:		
As auditor of Transpower and Transpower Group subsidiaries	130	130
For other services	1,296	725
	<u>1,426</u>	<u>855</u>

6. NET FINANCE COSTS

Finance costs	130,108	141,928
Capitalised interest	(3,965)	(3,709)
Interest received	(7,698)	(20,512)
Gain on cross border leases	(11,386)	(10,885)
Dividends received	(4)	(2)
Net Finance Costs	<u>107,055</u>	<u>106,820</u>

Related Party Transactions**Finance costs charged by:**

Crown	6,609	66,391
	<u>6,609</u>	<u>66,391</u>

Interest received from:

ECNZ Group	(301)	-
Contact Energy	(100)	-
Transpower Group associate	(119)	-
	<u>(520)</u>	<u>-</u>

Gain on cross border leases received from:

ECNZ Group	(1,143)	-
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Interest is capitalised on capital work in progress in accordance with the accounting policy outlined in Note 1(f). The gains on the cross border leases for the year ended 30 June 1997 and the year ended 30 June 1996 arise from the net settlement of the lease liabilities which arose in respect of the leases on certain HVDC converter stations and the submarine cables. These gains are net of any associated costs.

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

7. TAXATION

	1997	1996
	\$000	\$000
Earnings before tax	119,361	143,142
Prima facie tax at 33%	39,389	47,237
Tax effect of:		
timing differences not recognised	(9,344)	(11,611)
permanent differences	226	(526)
Income tax charge in respect of		
the current year	30,271	35,100
Under/(over) provision in prior years	(3,806)	11,647
Tax Expense	<u>26,465</u>	<u>46,747</u>

The income tax charge is represented by:

Tax payable in the current year	30,271	32,131
Deferred tax	-	2,969
	<u>30,271</u>	<u>35,100</u>

Deferred tax liability memorandum account

Balance at the beginning of the year	219,607	207,996
Deferred tax liability not recognised in this year	9,344	11,611
Deferred tax reversed from prior period	2,969	-
Balance at the end of the year	<u>231,920</u>	<u>219,607</u>

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

Imputation credit memorandum account

Balance at the beginning of the year	20,584	22,812
Tax payments made	42,967	29,125
Imputation credits attached to dividends		
paid to shareholders	(28,081)	(31,353)
Balance at the end of the year	<u>35,470</u>	<u>20,584</u>

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

8. CURRENT ASSETS

	1997	1996
	\$000	\$000
Cash and bank	-	394
Short term investments	1,685	141,684
Trade receivables	80,487	58,259
Other receivables	554	386
Stocks of materials	18,111	25,234
Prepayments	1,993	1,485
Total Current Assets	<u>102,830</u>	<u>227,442</u>

Related Party Transactions

Included in trade receivables:

ECNZ Group	19,380	11,402
Contact Energy	12,527	1,693
BCL	93	-
Transpower Group associate	6,504	-
	<u>38,504</u>	<u>13,095</u>

9. INVESTMENTS

Investment in Transpower Group associate	4,672	3,860
Shares in listed companies	9	9
Total Investments	<u>4,681</u>	<u>3,869</u>

Investment in associate company comprises:

Ordinary shares at cost	778	668
Accumulated share of post acquisition retained earnings	(613)	(498)
	<u>165</u>	<u>170</u>
Advances to associate company	4,507	3,690
	<u>4,672</u>	<u>3,860</u>

For the year ended 30 June 1997 the Group has recognised a loss of \$115,000 being the final share of the associate's post tax deficit for the year ended 30 June 1996 (1996: post tax deficit of \$498,000).

TRANSPOWER NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

9. INVESTMENTS (cont.)

	1997	1996
	\$000	\$000
Transpower Group associate pre-acquisition losses memorandum account		
Balance at the beginning of the year	502	502
Less share of the		
associate's post acquisition surpluses	(305)	-
Balance at the end of the year	197	502

Transpower recognises its share of the pre-acquisition losses of the associate via a memorandum account. Transpower's share of the associate's post acquisition surpluses are offset against the memorandum account until such time as pre-acquisition losses are recovered.

There is no tax expense/benefit recognised in the financial statements of the associate. No dividends have been received from the associate for the year ended 30 June 1997 (1996: nil).

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

10. FIXED ASSETS

	Valuation 1997 \$000	Valuation 1996 \$000
Infrastructure asset		
Transmission lines	1,090,458	1,128,308
Non infrastructure assets		
Freehold land	33,358	25,336
Freehold buildings	54,016	52,774
Substations	993,943	931,579
HVDC link	156,534	173,894
HVDC leased assets	336,726	355,020
Communications	104,062	109,171
Minor assets	35,757	13,860
Capital work in progress	48,512	88,619
Total Non Infrastructure Assets	1,762,908	1,750,253
Total Fixed Assets	2,853,366	2,878,561

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

As at 30 June 1997 all fixed assets have been revalued in accordance with the Optimised Deprival Valuation (ODV) methodology. The valuation was carried out by Ernst & Young.

	1997 \$000	1996 \$000
Related Party Transactions		
Annual capital work in progress expenditure with:		
ECNZ Group	3,547	4,104
Works Consultancy Services	21	651
BCL	18	33
	3,586	4,788

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

11. CURRENT LIABILITIES

	1997	1996
	\$000	\$000
Cash and bank	143	-
Trade creditors	55,287	43,475
Interest payable	22,187	20,116
Employee entitlements	5,101	5,795
Other provisions	433	218
Provision for dividend	39,672	31,739
Provision for current tax	4,827	19,093
Provision for deferred tax	-	2,969
Short term debt	127,232	222,219
Current portion of long term debt	14,085	200,000
Current portion of lease liabilities	-	-
Deferred income	15,470	1,035
Total Current Liabilities	<u>284,437</u>	<u>546,659</u>

Related Party Transactions

Included in trade creditors:

ECNZ Group	7,703	3,082
Transpower Group associate	46	-
Contact Energy	3,574	425
BCL	-	29
Works Consultancy Services	-	1,123
	<u>11,323</u>	<u>4,659</u>

Included in interest payable:

Crown	-	721
	<u>-</u>	<u>721</u>

Included in current portion of long term debt:

Crown	-	200,000
	<u>-</u>	<u>200,000</u>

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

11. CURRENT LIABILITIES (cont.)

	1997	1996
	\$000	\$000
Reconciliation of provision for current tax payable:		
Tax payable in the current year (refer Note 7)	30,271	32,131
Provisional tax payments made during the year	(37,700)	(27,400)
Under provision in prior years	12,256	14,362
Total provision for current tax payable	<u>4,827</u>	<u>19,093</u>

12. LONG TERM DEBT

	1997	1996
	\$000	\$000
Between one to two years	225,764	14,078
Between two to five years	434,348	312,719
Greater than five years	671,068	906,619
Total Long Term Debt	<u>1,331,180</u>	<u>1,233,416</u>

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

Bonds	622,583	622,448
Euro medium term notes	722,682	610,968
Crown loan	-	200,000
	<u>1,345,265</u>	<u>1,433,416</u>

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

Bonds

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

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

Euro medium term notes

Under the Euro Medium Term Note Programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$750,000,000 (NZ\$1,106,357,870) as at 30 June 1997, (US\$500,000,000 (NZ\$732,172,000) as at 30 June 1996) or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance Limited have given a negative pledge and guarantee payment of all principal and interest amounts.

Crown loan

A NZ\$1,588,000,000 Loan Facility Agreement dated 9 June 1994 was entered into between Transpower Finance Limited, as borrower, and Her Majesty the Queen in Right on New Zealand (the Crown), as lender. The loan was repaid on 13 December 1996.

13. CAPITAL

Contributed paid in capital of the Parent Company is \$1,200,000,000 (1996: \$1,200,000,000).

14. RESERVES

	1997	1996
	\$000	\$000
<i>Capital redemption reserve</i>		
Balance at the beginning of the year	8	8
Balance at the end of the year	8	8
<i>Asset revaluation reserve</i>		
Balance at the beginning of the year	55,311	44,517
Annual revaluation/(devaluation) of assets	(12,372)	21,282
Transfer to retained earnings*	888	(10,488)
Balance at the end of the year	43,827	55,311
Total Reserves	43,835	55,319

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

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

15. RETAINED EARNINGS

	1997	1996
	\$000	\$000
Balance at the beginning of the year	74,976	30,751
Earnings after tax	92,896	96,395
Retained earnings available for appropriation	167,872	127,146
Transfer from the asset revaluation reserve*	(888)	10,488
Dividends paid or payable	(64,946)	(62,658)
Balance at the end of the year	102,038	74,976
Share of associate entity's retained earnings		
Balance at the beginning of the year	(498)	-
Share of post tax deficit for the year	-	(498)
Balance of post tax deficit for the prior year	(115)	-
Balance at the end of the year	(613)	(498)
Total Retained Earnings at the end of the year	101,425	74,478

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

16. CAPITAL COMMITMENTS

Capital commitments in respect of contracts for capital expenditure:

Within one year	19,965	38,304
One to two years	4,615	701
Two to five years	50	95
Total Capital Commitments	24,630	39,100

17. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancelable operating leases payable:

Within one year	1,842	1,662
One to two years	1,607	1,639
Two to five years	4,093	4,345
Later than five years	2,363	3,652
Total Operating Lease Commitments	9,905	11,298

TRANSPOWER NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

18. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

The Group has entered into two cross border leases in respect of certain HVDC converter stations and the submarine cables. The Group has given guarantees and certain undertakings in accordance with a limited guarantee dated 24 October 1996 in respect of certain HVDC convertor stations and a limited guarantee dated 31 May 1996 in respect of the submarine cables.

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

Debt

The Group has provided guarantees in respect of loan arrangements for the Bonds and Euro Medium Term Notes as described in Note 12.

The maximum exposure under each of these guarantees which includes the face value of debt plus accrued interest payable is as follows:

	1997	1996
	\$000	\$000
Bonds	633,730	633,603
Euro medium term notes	704,721	591,677

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

(ii) Contingencies

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

There are no other material contingent liabilities for the Group as at balance date. (1996: nil)

19. SEGMENTAL INFORMATION

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS

(a) Financial risks

The Group is subject to a number of financial risks which arise as a result of the Group having a debt portfolio of \$1,472,497,000 as at 30 June 1997 (\$1,655,635,000 as at 30 June 1996) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

Transmission hedge pricing risk

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

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

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

(b) Risk management policies

The key risk management policies are as follows:

Interest rate risk management policy

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

Currency risk management policy

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

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

Credit risk management policy

The Group's policy is to establish credit limits to a maximum of 15 per cent of the Group shareholder's funds with counterparties that are either a bank or financial institution and have a minimum long term credit rating of A or above by Standard and Poors, or Moodys equivalent or a New Zealand corporate with a short term credit rating of A-1 or above. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising the Group's customer base. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 1997 (1996: nil).

Liquidity risk policy

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)*Transmission hedge pricing risk policy*

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

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

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

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

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

In the event the Group is unable to utilise these facilities the Group has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks of which NZ\$150,500,000 is underwritten and which was unutilised as at 30 June 1997 and 30 June 1996. The second facility is a Standby Facility for US\$190,000,000 (NZ\$280,277,327) of which the total amount was unused at 30 June 1997 and 30 June 1996.

Term investments

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

*Off Balance Sheet financial assets and liabilities**Interest rate swaps*

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

TRANSPower NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

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

	1997	1996
	\$000	\$000
Interest rate swaps	810,835	668,230

Cross currency interest rate swaps

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

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

Cross currency interest rate swaps		
Principal receivable	983,113	570,669
Principal payable	(1,073,220)	(610,540)

Forward rate agreements

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

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

Forward rate agreements	70,000	845,000
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Interest rate options

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

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

	1997	1996
	\$000	\$000
Interest rate options	115,000	-

Foreign exchange forward contracts

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

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

Forward foreign exchange contracts	254,114	257,011
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Foreign currency options

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

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

Foreign currency options	823	-
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(d) Financial instruments to facilitate the operation of the wholesale electricity market*Transmission hedge contracts*

The Group has offered certain transmission hedge contracts for the period from 1 November 1996 to 30 September 1997. Under these contracts, customers fix their nodal energy price at certain locations relative to the price at specific North Island and South Island reference points. Under these contracts any difference that arises is settled between parties. The differences arise when the actual ratio of the nodal energy price at the location to the nodal energy price at the reference point is different to the strike ratio established under the transmission hedge contract.

The maximum possible loss to which the Group is subject for the remaining period of the transmission hedge contract from 1 August 1997 to 30 September 1997 is NZ\$10,347,008. This calculation is based on the Group settling the transmission hedge contracts at a maximum payout level set in the contract. Based on forecasted energy generation patterns and known transmission constraints, it is extremely unlikely the maximum loss will be realised. No transmission hedge loss occurred during July 1997.

TRANSPOWER NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

(e) Maximum credit risk exposure

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

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

	1997	1996
	\$000	\$000
Cash settlement is represented by:		
<i>Principal amount receivable/(payable)</i>		
Cross currency interest rate swaps		
- receivable	983,113	570,669
- payable	(1,073,220)	(610,540)
Foreign exchange forward contracts	254,114	257,011
 <i>Net interest payable</i>		
Interest rate swaps	(5,826)	(226)
 <i>Current market value</i>		
Interest rate options	(1,146)	-
Foreign currency options	(1)	-
Forward rate agreements	(58)	1,686

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

(f) Carrying value and Fair value

Carrying value

For off balance sheet financial instruments the carrying value in the Carrying/Fair Value table is taken from the other receivables and other liabilities categories in the Statements of Financial Position as appropriate.

The carrying values represent the results of accounting for these instruments, as described in the Statement of Accounting Policies.

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

Fair value

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

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

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

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

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 1997 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$36,428,000 (30 June 1996: an unrealised benefit of NZ\$60,868,000). This comprises the difference between the carrying values and fair values of; debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

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

TRANSPower NEW ZEALAND LIMITED GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

Carrying/Fair Value	Carrying Value 1997 \$000	Fair Value 1997 \$000	Carrying Value 1996	Fair Value 1996
<i>On Balance Sheet</i>				
Short term investments	1,685	1,684	141,684	141,616
Debt	(1,472,497)	(1,432,784)	(1,655,635)	(1,580,331)
<i>Off Balance Sheet</i>				
Cross currency interest rate swaps	5,071	(57,384)	3,731	(17,742)
Foreign exchange forward contracts hedging foreign currency debt	10	(66)	(3,579)	(14,460)
Foreign exchange forward contracts hedging foreign currency purchases	-	(150)	-	(181)
Interest rate swaps	(5,826)	(18,232)	(226)	16,006
Forward rate agreements	-	(58)	-	1,686
Interest rate options	-	(1,146)	-	-
Foreign exchange options	-	(1)	-	-

(g) Interest rate re-pricing analysis

The following table covers the Group's total debt portfolio, including the effect of off balance sheet financial instruments when interest rates will be re-priced and the current weighted average interest rate of each maturity.

The Group will transact further interest rate hedging in advance of the re-pricing date to fix interest rates on the Group debt portfolio within the policy parameters adopted by the Board.

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

Forward rate agreements are also excluded from the repricing analysis as these contracts mature within one year.

For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

TRANSPower NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

20. FINANCIAL INSTRUMENTS (cont.)

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

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

1996	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash and bank	6.40%	394	-	-	-	394
Investments	9.95%	141,684	-	-	-	141,684
		142,078	-	-	-	142,078
Liabilities						
Debt	8.47%	(876,928)	-	(306,566)	(472,141)	(1,655,635)
		(876,928)	-	(306,566)	(472,141)	(1,655,635)
Off Balance Sheet						
Interest rate swaps		368,230	(150,000)	64,750	(282,980)	-
		368,230	(150,000)	64,750	(282,980)	-
Repricing Profile						
		(366,620)	(150,000)	(241,816)	(755,121)	(1,513,557)

The interest rate on debt as amended by interest rate swaps is 8.20%

TRANSPOWER NEW ZEALAND LIMITED GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1997

21. SUBSIDIARY AND ASSOCIATE COMPANIES

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

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

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

The principal activity of all the trading subsidiaries is financing. The principal activity for the associate company is the provision of services to the participants in the wholesale electricity market. The balance date for the associate and subsidiary companies is the same for all companies in the Group.

TRANS POWER NEW ZEALAND LIMITED

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

Financial Performance Measures

a) Accounting return on total assets, being earnings before interest and tax divided by average total funds employed;

	12 months 30 June 1997	12 months 30 June 1996	12 months 30 June 1995	15 months 30 June 1994
Earnings before interest and tax	226,416,000	249,962,000	231,334,000	219,778,000
Average total funds employed	2,794,260,000	2,801,854,500	2,822,542,000	2,841,695,000
Accounting return on total assets	8.1%	8.9%	8.2%	7.7%

In 1994 total funds employed included Works Under Construction, giving an Accounting Return on Total Assets of 7.5%. Works Under Construction is now excluded to align the definition with an economic view of operating capital employed, as interest is capitalised on the Works Under Construction balance.

b) Accounting return on equity, being net profit after tax, divided by average total shareholders funds:

Net profit after tax	92,896,000	96,395,000	84,523,000	102,017,000
Average total shareholders funds	1,337,528,000	1,302,536,500	1,228,540,000	1,251,674,000
Accounting return on equity	6.9%	7.4%	6.9%	8.2%

c) Accounting rate of profit, which shall be calculated in accordance with the following formula:

$$\frac{a - b - c + d}{e}$$

<i>a</i>	Earnings before interest and tax	226,416,000	249,962,000	231,334,000	219,778,000
<i>b</i>	Cash tax	29,435,000	32,878,000	25,506,000	15,890,000
<i>c</i>	Interest tax shield	36,637,000	36,474,570	40,690,000	35,822,000
<i>d</i>	Revaluations	(12,372,000)	21,282,000	59,664,000	0
<i>e</i>	Average total funds employed, minus half the amount of revaluations.	2,800,446,000	2,791,213,500	2,792,710,000	2,841,695,000
Accounting rate of profit		5.3%	7.2%	8.0%	5.9%

As noted under a) above, the definition of total funds employed has been changed. The percentage previously reported for the 12 months ended 30 June 1994 was 5.8%.

Efficiency performance measures

Direct line costs per kilometre, which shall be calculated in accordance with the following formula:

$$\frac{a}{b}$$

<i>a</i>	is direct expenditure (in dollars); and	122,388,000	116,444,000	119,878,000	125,613,000
<i>b</i>	is system length (in kilometres);	17,693	17,739	17,626	17,629

Direct line costs per kilometre

	\$6,917	\$6,564	\$6,801	\$7,125
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In 1994 the infrastructure asset service potential adjustment determined in respect of transmission lines was included within the definition of direct expenditure and direct leases and rental costs were excluded. In addition, in 1994 and 1995 system length was incorrectly defined. System length is now correctly reported as the average total circuit length of electric lines which form part of the system including the HVDC cables. Direct leases and rental costs are now also correctly reported. The direct line costs per kilometre previously reported were \$9,521 and \$11,007 for 30 June 1995 and 1994 respectively.

TRANS POWER NEW ZEALAND LIMITED**REGULATION 13.14 AND PART II OF THE FIRST SCHEDULE OF THE
ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994****Optimised Deprival Value - ODV**

	12 months 30 June 1997	12 months 30 June 1996	12 months 30 June 1995	15 Months 30 June 1994
Valuation of the line business assets per the ODV Valuation Report	2,838,800,000	2,864,400,000	2,863,000,000	2,839,100,000
Fixed Asset value disclosed in the Statement of Financial Position for Information (Industry Disclosure) Regulation purpose	2,853,366,000	2,878,561,000	2,873,570,000	2,870,405,000
Variance represented by;	14,566,000	14,161,000	10,570,000	31,305,000
i) Spares are included in the definition of fixed assets for financial reporting purposes but are excluded from the ODV Report.	13,468,000	13,066,000	6,666,000	13,100,000
ii) Late adjustments of an immaterial nature, to the ODV valuation have not been adjusted for in the financial statements as at the end of the financial period, but are reflected in the result for the following period.	1,098,000	1,095,000	3,904,000	-
iii) On 1 July 1994, Transpower changed its accounting policy to modified historical cost using the ODV valuation methodology. The \$18 million difference arising between net book value and the ODV as at 30 June 1994 reflects the difference which arose between 1 April 1987, when the asset valuation was originally struck for entry into Transpower's financial statements, and 30 June 1994. It was not considered appropriate to include this adjustment solely in the results for the 12 months ended 30 June 1994.				18,205,000
	14,566,000	14,161,000	10,570,000	31,305,000

TRANSPower NEW ZEALAND LIMITED GROUP

The Electricity (Information Disclosure) Regulations 1994
(For 12 Months ending 30 June 1997, 30 June 1996, 30 June 1995, and 30 June 1994)

Part III	1996-97	1995-96	1994-95	1993-94
Energy Delivery Efficiency Performance Measures And Statistics				
(Disclosure Under Regulation 15)				
1. Energy delivery efficiency performance measures				
(a) Load factor%	66.01	67.26	68.05	68.96
<i>Percentage of electrical energy entering the transmission system over maximum demand times hours per year</i>				
(b) Loss ratio%	3.61	5.69	6.16	6.09
<i>Transmission losses over energy entering the system</i>				
(c) Capacity utilisation.....%	67.48	70.99	70.53	66.91
<i>Maximum demand over total transformer capacity</i>				
2. Statistics				
(a) System length, broken down by voltage				
Total km	17,693	17,739	17,626	17,629
350 kV (HVDC) km	611	611	611	611
270 kV (HVDC) km	611	611	611	611
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,363	8,361	8,364	8,367
110 kV (HVAC) km	6,323	6,384	6,333	6,372
66/50/33/11 kV km	1,754	1,741	1,676	1,637
(b) Circuit length of overhead electric lines, broken down by voltage:				
Total km	17,610	17,659	17,546	17,549
350 kV (HVDC) km	571	571	571	571
270 kV (HVDC) km	571	571	571	571
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,363	8,361	8,364	8,367
110 kV (HVAC) km	6,320	6,384	6,333	6,372
66/50/33/11 kV km	1,754	1,741	1,676	1,637
NB: HVDC link submarine power cables measure approximately 80km.				
Broken down by voltage:				
350 kV (HVDC) km	40	40	40	40
270 kV (HVDC) km	40	40	40	40
(c) Total circuit length of underground electric lines km	3	0	0	0
(d) Transformer capacity (kilovolt amperes)*.....kVA	8.56*10 ⁶	7.99*10 ⁶	7.77*10 ⁶	7.92*10 ⁶
(e) Maximum demand (kilowatts) *.....kW	5.77*10 ⁶	5.67*10 ⁶	5.48*10 ⁶	5.30*10 ⁶
(f) Total electricity supplied from the system (kilowatt hours) *.....kWh	32.20*10 ⁹	31.53*10 ⁹	30.66*10 ⁹	30.08*10 ⁹
(g) Total electricity conveyed through the system (kilowatt hours) *..... kWh	33.40*10 ⁹	33.43*10 ⁹	32.67*10 ⁹	32.03*10 ⁹
(h) Total customers**.....	50	49	49	49

* to 2 decimal places only, higher accuracy used in calculations

** for the purposes of this reporting this is the number of "customers" Transpower invoices

TRANSPOWER NEW ZEALAND LIMITED GROUP

The Electricity (Information Disclosure) Regulations 1994
(For 12 Months ending 30 June 1997, 30 June 1996, 30 June 1995, and 30 June 1994)

Part V	1996-97	1995-96	1994-95	1993-94
Reliability Performance Measures To Be Disclosed By Trans Power (Disclosure Under Regulation 17)				
1. Total number of unplanned interruptions* <i>Resulting from 92 loss of supply incidents in 1996-97</i>	164	229	184	234
2. Electricity customer interruptions in system minutes.....	13.6	12.2	19.5	15.1
planned	2.1	5.8	4.4	5.6
unplanned	11.5	6.4	15.1	9.5
3. Underlying electricity customer interruptions in system minutes..... <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	6.9	7.1	14.1	10.3
planned	2.1	3.1	2.9	4.3
unplanned	4.8	4.0	11.2	6.0
4. Average supply reliability% <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	99.9959	99.9963	99.9942	99.9956
5. Uneconomic generation due to planned and unplanned transmission system unavailability% <i>Uneconomic generation relates to the amount of electricity generated from any source other than the most economic source.</i>	0.55	0.81	0.68	0.81
6. Uneconomic generation due to HVDC system unavailability%	0.47	0.73	0.60	0.69
7. Uneconomic generation due to unplanned transmission system unavailability%	0.12	0.22	0.15	0.07
8. Planned interruption restoration performance%	72	80.5	92.5	76.6
9. Unplanned interruption response.....%	100	99.1	100	99.6

The information compiled using estimated information includes Part V sections 2,3,4,5,6 and 7.

The methodology used to calculate the estimated information is documented and available from Trans Power upon request.

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

 T R A N S P O W E R

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

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

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

- a) The attached audited financial statement of Transpower, prepared for the purposes of regulation 5 of the Electricity (Information Disclosure) Regulations 1994, give a true and fair view of the matters to which they relate and comply with the requirements of those regulations, and
- b) The attached information, being financial performance measures, efficiency performance measures, energy delivery efficiency measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of regulations 13, 14, 15 and 17 of the Electricity (Information Disclosure) Regulations 1994, comply with the requirements of the Electricity (Information Disclosure) Regulations 1994.

The valuations on which those financial performance measures are based are as at 30 June 1997.



.....
David G. Sadler
13 November 1997



.....
Alison M. Paterson
13 November 1997

Coopers
& Lybrand

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**ELECTRICITY (INFORMATION DISCLOSURE) REGULATION 1994
REGULATION 25(2)**

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

We have examined the attached financial statements prepared by Transpower New Zealand Limited and dated 13 November 1997 for the purposes of Regulation 5 of the Electricity (Information Disclosure) Regulations 1994.

We hereby certify that, having made all reasonable enquiry, to the best of our knowledge, those financial statements give a true and fair view of the matters to which they relate and have been prepared in accordance with the requirements of the Electricity (Information Disclosure) Regulations 1994.



Coopers & Lybrand
19 November 1997

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

CERTIFICATION OF PERFORMANCE MEASURES BY AUDITORS

We have examined the attached information, being:

- (a) Financial performance measures specified in clause 1 of Part II of the First Schedule to the Electricity (Information Disclosure) Regulations 1994; and
- (b) Financial components of the efficiency performance measures specified in clause 2 of Part II of the Schedule;

and having been prepared by Transpower New Zealand Limited and dated 13 November 1997 for the purposes of Regulation 13 of those Regulations.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1994.



Coopers & Lybrand
19 November 1997

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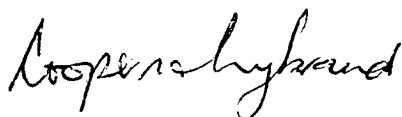
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**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994
REGULATION 25(4)**

CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION

We have examined the valuation report prepared by Ernst & Young and dated 11 August 1997 which report contains valuations as at 30 June 1997.

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



Coopers & Lybrand
19 November 1997

Explanatory Note

The ODV of Transpower New Zealand Limited's fixed assets as at 30 June 1997 was prepared by Ernst & Young ("EY") with the assistance of Burns and Roe Worley Pty Limited ("BRW"), Mott Ewbank Preece ("MEP") and Transpower New Zealand Limited ("Transpower"). EY have certified to Transpower that the valuation set out in their report dated 11 August 1997 has been prepared in accordance with the ODV (Transpower) Handbook. We have relied on this certification and on the technical expertise of EY, BRW and MEP for the purposes of our examination of the valuation report.

