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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1999



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**Report of the Audit Office
 To the Readers of the Financial Statements of Transpower New Zealand Limited's Lines Business
 For the Year Ended 30 June 1999**

We have audited the accompanying financial statements of Transpower New Zealand Limited's Lines Business. The financial statements provide information about the past financial performance of Transpower New Zealand Limited's Lines Business and its financial position as at 30 June 1999. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

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 Transpower New Zealand Limited's Lines Business as at 30 June 1999, and the results of its operations and cash flows for the year then ended.

Auditors' Responsibilities

It is the responsibility of the Audit Office to express an independent opinion on the financial statements presented by the Directors and report it to you.

The Controller and Auditor-General has appointed F A Hutchings, of PricewaterhouseCoopers, to undertake the audit.

Basis of Opinion

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

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

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

Our firm carried out other assignments for Transpower New Zealand Limited and Group in the areas of taxation compliance, and other assurance services. Other than these assignments and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in Transpower New Zealand Limited and Group.

Qualified Opinion – Comparative Figures Omitted

Paragraph 2.18 of the Electricity Information Disclosure Handbook issued by the Ministry of Commerce permits the exclusion of comparative figures where disclosures are made for the first time for the current disclosure year and does not require prior year figures to be recalculated on a basis consistent with the current year. Transpower New Zealand Limited's Lines Business has applied these exemptions and has not disclosed certain comparative figures or recalculated certain prior year's figures. To this extent, the financial statements of Transpower New Zealand Limited's Lines Business do not comply with Financial Reporting Standard No. 2, Presentation of Financial Reports, or the Electricity (Information Disclosure) Regulations 1999.

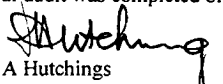
We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by Transpower New Zealand Limited's Lines Business as far as appears from our examination of those records.

In our opinion, except for the omission of comparative figures referred to above, the financial statements of Transpower New Zealand Limited's Lines Business:

- comply with generally accepted accounting practice;
- give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 1999 and the results of its operations and cash flows for the year then ended; and
- comply with the Electricity (Information Disclosure) Regulations 1999.

Our audit was completed on 24 November 1999 and our qualified opinion is expressed as at that date.


 F A Hutchings
 PricewaterhouseCoopers
 On behalf of the Controller and Auditor-General
 Wellington, New Zealand



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Certification of Performance Measures by Auditors

We have examined the attached information, being:

- (a) the derivation table specified in Regulation 16;
- (b) financial performance measures specified in Clause 1 of Part 3 of Schedule 1 of the Electricity (Information Disclosure) Regulations 1999; and
- (c) financial components of the efficiency performance measures specified in clause 2 of Part 3 of that Schedule;

and having been prepared by Transpower New Zealand Limited Lines Business and dated 30 June 1999 for the purposes of Regulation 15 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 1999.

A handwritten signature in black ink, appearing to read 'F A Hutchings', written in a cursive style.

F A Hutchings
PricewaterhouseCoopers
On behalf of the Controller and Auditor-General
Wellington, New Zealand

**PricewaterhouseCoopers**

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Electricity (Information Disclosure) Regulations 1999
Regulation 31(4)
Certification by Auditor in Relation to ODV Valuation

We have examined the valuation report prepared by Transpower New Zealand Limited and dated 29 November 1999, which report contains valuations of system fixed assets as at 30 June 1999.

We hereby certify that, having made all reasonable enquiry, to the best of our knowledge, the valuations contained in the report, including the total valuation of system fixed assets of \$2,089,000,000, have been made in accordance with the ODV Handbook.

A handwritten signature in dark ink, appearing to read 'F A Hutchings'. The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

F A Hutchings
PricewaterhouseCoopers
On behalf of the Controller and Auditor-General
Wellington, New Zealand

Explanatory Note

The ODV of Transpower New Zealand Limited's fixed assets as at 30 June 1999 was prepared by Transpower New Zealand Limited and independently reviewed by L.E.K. Consulting Pty Limited. L.E.K. Consulting Pty Limited have stated that in their opinion the process implemented by the valuation team is in accordance with the ODV handbook and is adequate to support a reasonable valuation. We have relied on this opinion and the technical expertise of L.E.K. Consulting Pty Limited for the purposes of our examination of the valuation report.

TRANSPOWER NEW ZEALAND LINES BUSINESS
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 1999

	Notes	LINES BUSINESS	GROUP
		1999 \$000	1998 \$000
Operating revenue	3	494,932	556,893
Operating expenses	4	247,864	348,774
		<hr/> 247,068	<hr/> 208,119
Net finance costs	6	96,344	113,537
Earnings / Surplus from operations before tax and revaluation		<hr/> 150,724	<hr/> 94,582
Less transfer from revaluation reserve	15	14,113	407,147
Surplus (deficit) from operations before tax		<hr/> 136,611	<hr/> (312,565)
Tax expense	7	39,712	25,494
Operating surplus (deficit) after tax		<hr/> 96,899	<hr/> (338,059)
Share of post tax acquisition surplus of the Transpower Group associate		<hr/> -	<hr/> 533
Net surplus (deficit) attributable to shareholders		<hr/> <hr/> 96,899	<hr/> <hr/> (337,526)

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 1999

	Notes	LINES BUSINESS	GROUP
		1999 \$000	1998 \$000
Equity at the beginning of the year		907,069	1,345,260
Net surplus (deficit) attributable to shareholders		96,899	(337,526)
Net revaluation (devaluation) of assets through reserves		-	(41,382)
Total recognised revenue and expenses for the year		96,899	(378,908)
Dividends paid or payable	16	(111,510)	(59,283)
Equity adjustment to comply with Electricity (Information Disclosure) Regulations 1999.		(18,181)	-
Equity at the end of the year		874,277	907,069

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1999

	Notes	LINES BUSINESS	GROUP
		1999 \$000	1998 \$000
Assets Employed			
Current assets	8	87,061	116,323
Investments	9	-	4,015
Fixed assets	10	2,193,947	2,294,704
Total Tangible Assets		<u>2,281,008</u>	<u>2,415,042</u>
Funds Employed			
Liabilities			
Current liabilities	11	244,174	417,887
Long term lease liabilities	12	-	-
Long term debt funding	13	1,162,557	1,090,086
Total Liabilities		<u>1,406,731</u>	<u>1,507,973</u>
Equity			
Capital	14	1,200,000	1,200,000
Reserves	15	8	8
Retained earnings	16	(325,731)	(292,939)
Total Equity		<u>874,277</u>	<u>907,069</u>
Total Equity and Liabilities		<u>2,281,008</u>	<u>2,415,042</u>

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

For, and on behalf of, the Board

Sir Colin Maiden

Chairman

David Sadler

Director

TRANSPower NEW ZEALAND LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 1999

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	517,794	556,126
Tax received from subsidiaries	-	-
Dividends received from subsidiaries	-	-
Interest received	1,158	1,426
Cash was applied to:		
Payments to suppliers and employees	(178,411)	(176,640)
Tax payments	(34,579)	(32,904)
Interest paid	(95,235)	(117,788)
Net cash flow from operations	210,727	230,220
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	586	2,175
Sale of shares in listed companies	-	9
Short term investments	309,198	721,212
Cash was applied to:		
Purchase of fixed assets	(46,125)	(64,407)
Short term investments	(304,130)	(718,337)
Net cash flow (to)/from investments	(40,471)	(59,348)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	1,874,604	1,015,750
Cash was applied to:		
Dividends paid	(80,955)	(66,647)
Repayment of loans	(1,960,545)	(1,123,659)
Net cash flow (to)/from financing	(166,896)	(174,556)
Net increase/(decrease) in cash held	3,360	(3,684)
Opening balance brought forward	(3,827)	(143)
Closing net cash carried forward	(467)	(3,827)
Closing net cash carried forward comprises:		
Bank overdraft	(517)	(3,832)
Cash and bank	50	5
	(467)	(3,827)

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

TRANSPower NEW ZEALAND LINES BUSINESS

STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED 30 JUNE 1999

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

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Operating surplus after tax	96,899	(338,059)
Add/(deduct) non-cash items:		
Depreciation	91,597	117,756
Infrastructure asset service potential adjustment	14,139	22,443
Transfer from revaluation reserve	14,113	407,147
Capitalised Interest	(720)	(1,261)
Increase/(decrease) in provisions	(7,912)	(270)
Other movements in working capital items:		
Decrease/(increase) in trade and other receivables	26,484	(5,587)
Decrease/(increase) in prepayments	614	509
Decrease/(increase) in stocks of materials	(375)	7,798
(Decrease)/increase in trade and other liabilities, interest payable and deferred income	(37,367)	9,048
(Decrease)/increase in taxation payable	5,132	(7,410)
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	8,123	18,106
Net Cash Flow from Operations	<u>210,727</u>	<u>230,220</u>

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These financial statements are for the reporting entity of Transpower New Zealand Limited's Line Business (The Transpower Lines Business).

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986, the Financial Reporting Act 1993 and the Electricity (Information Disclosure) Regulations 1999.

The Electricity Information Disclosure Handbook has been followed in the preparation of these financial statements.

Measurement Base

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

The avoidable cost allocation methodology is used for allocating costs and assets and liabilities between the Lines business and Other businesses.

Accounting Policies

The following accounting policies have been applied:

(a) Principles of Consolidation

The Transpower Lines Business financial statements are prepared from the financial statements of Transpower and its subsidiaries which undertake lines business activities, as at 30 June 1999. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

(b) Revenue

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

(c) Goods and Services Tax (GST)

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999**(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

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 (ODV) methodology.

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

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

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

Capital Work in Progress

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999*(f) Fixed Assets (cont.)*

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

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

(g) Infrastructure Asset

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

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

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

Transpower's asset management practices result in the infrastructure asset having an extremely long life. Having regard to the life and residual value of the infrastructure asset the Directors consider that the depreciation of the asset is immaterial. Accordingly, no depreciation is charged on the infrastructure asset.

Expenditure incurred to maintain the operating capability of the infrastructure asset is treated as an expense in the Statement of Financial Performance. This treatment differs from standard accounting for fixed assets which allocates the cost of the asset over its estimated economic life and capitalises any expenditure that extends the asset's life.

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

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999*(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
Substations	25-55
HVDC link	30
HVDC leased assets	30
Communications	10-25
Administration assets	3-10

(i) Leased Assets

The Transpower Lines Business leases certain plant, equipment, land and buildings.

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

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

(j) Statements of Cash Flows

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

- (i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- (ii) Operating activities comprise the transmission of bulk electricity, and the related support, maintenance, administration and interest costs.

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999*(j) Statements of Cash Flows (cont.)*

- (iii) Investing activities comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- (iv) Financing activities include changes in equity, borrowings and dividends paid on equity. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

(k) Taxation

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

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

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

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

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

(l) Foreign Currencies

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

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

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999**(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.

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

(n) Reclassifications

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

(o) Comparatives

Comparatives have not been restated to comply with the current regulations. As a result where new disclosures are required no comparative numbers have been disclosed. All comparative figures relate to Transpower New Zealand Limited and its subsidiaries and associate (The Transpower Group).

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, except for those required by the Electricity (Information Disclosure) Regulations 1999.

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999**2. RELATED PARTY**

As a State Owned Enterprise, 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 Group (ECNZ), Mighty River Power Limited, Genesis Power Limited, Meridian Energy Limited, Broadcast Communications Limited (BCL, a subsidiary of Television New Zealand) and the Crown.

d-Cypha Limited, a wholly owned subsidiary of Transpower New Zealand Limited and other business activities undertaken by Transpower New Zealand Limited ("Other Transpower Businesses") do not form part of the lines business. Transactions with these entities are disclosed in Note 8.

On 14 May 1999 Contact Energy Limited was sold, and therefore ceased to be a related party at that date.

Transactions entered into with related parties are disclosed as follows:

- * Revenue income from ECNZ, Contact Energy Limited, Genesis Power Limited, Mighty River Power Limited, Meridian Energy Limited and Transpower Group associate are disclosed in Note 3.
- * Operating expenses and financing costs/income in relation to ECNZ, Contact Energy Limited, BCL and the Crown are disclosed in Note 4 and Note 6.
- * Annual capital work in progress expenditure paid to ECNZ and BCL is disclosed in Note 10.
- * Outstanding balances due from and to ECNZ, Meridian Energy Limited, Genesis Power Limited, Mighty River Power Limited, BCL and the Crown are disclosed in Notes 8, 11 and 12.

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 LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

3. REVENUE

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Revenue	494,932	556,893
Total revenue	494,932	556,893

Related party transactions**Transmission services revenue from:**

ECNZ	59,159	79,235
Meridian Energy Limited	23,842	-
Mighty River Power Limited	560	-
Genesis Power Limited	664	-
Contact Energy Limited	12,047	13,900
Transpower Group associate	4,277	29,598
	100,549	122,733

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

Electricity regulations additional disclosures

Revenue provided to Lines Business from Other Transpower Businesses	155
AC rental rebates	2,048

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

4. OPERATING EXPENSES

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Administration and general costs	45,742	66,298
Asset operation and maintenance costs	85,120	96,252
Security Product Costs	-	24,241
<i>Charges in respect of assets:</i>		
Depreciation - leased assets	14,719	15,558
Depreciation - owned assets	76,878	102,198
Infrastructure asset service potential adjustment	14,139	22,443
Stock and asset write-offs	8,648	20,521
<i>Charges in respect of receivables:</i>		
Bad debts written off	39	7
Movement in the provision for doubtful debts	(39)	(1,500)
Directors' fees	247	221
Donations	154	316
Lease and rental costs	2,217	2,219
Total operating expenses	247,864	348,774

Related party transactions**Expenses charged by :**

ECNZ	20,400	18,923
Mighty River Power Limited	2,383	-
Meridian Energy Limited	70	-
Genesis Power Limited	15	-
BCL	255	284
Contact Energy Limited	3,807	6,061
	26,930	25,268

Expenses charged by ECNZ relate to certain contracts for the operation and maintenance of components of the National Grid, systems costs and consultancy services. Systems costs are also charged by Contact Energy Limited, Meridian Energy Limited and Genesis Power Limited. Lease costs for communications sites are charged by BCL.

Net loss on the disposal of assets included in stock and asset write-offs

Net loss on the disposal of assets	8,123	18,105
	8,123	18,105

Electricity regulations additional disclosures

Employee salaries and redundancies	19,616
Human resource expenses	2,377
Payment for metering data	900
Marketing / advertising expenses	158
Legal and consultancy expenses (including industry reform)	8,961
Corporate and administration expenses	4,322

Total expenses including gross financing costs amount to \$346,087,000.

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

5. REMUNERATION OF AUDITORS	LINES BUSINESS	GROUP
	1999	1998
Fees paid or payable to PricewaterhouseCoopers	\$000	\$000
As auditor of Transpower and Transpower Group subsidiaries	185	185
For other services	808	1,124
	<u>993</u>	<u>1,309</u>
6. NET FINANCE COSTS		
Finance costs	98,223	116,226
Lease costs	-	-
Capitalised interest	(720)	(1,261)
Interest received from short term investments	(1,158)	(1,426)
Dividends received	(1)	(2)
Net finance costs	<u>96,344</u>	<u>113,537</u>
Related Party Transactions		
Interest received from:		
ECNZ	-	(18)
Contact Energy Limited	-	(487)
Transpower Group associate	-	(136)
Transpower Group subsidiaries	-	-
	<u>-</u>	<u>(641)</u>
Dividends received from:		
Transpower Group subsidiaries	<u>-</u>	<u>-</u>

Interest is capitalised on capital work in progress in accordance with the accounting policy outlined in Note 1(f).

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

7. TAXATION

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Operating surplus (deficit) before tax	136,611	(312,565)
Prima facie tax at 33%	45,082	(103,146)
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(10,036)	(6,479)
- current period revaluation adjustment	4,657	134,452
Permanent differences	(858)	(175)
Income tax charge in respect of the current year	38,845	24,652
Under/(over) provision in prior years	867	842
Tax expense	39,712	25,494
The income tax charge is represented by:		
Tax payable in the current year	38,845	24,652
Deferred tax	-	-
	38,845	24,652
Deferred tax liability memorandum account		
Balance at the beginning of the year	104,606	231,920
Increase (reduction) in deferred tax liability	5,379	(127,314)
Balance at the end of the year	109,985	104,606
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	52,601	35,470
Transfer to subsidiaries	-	-
Imputation credits on dividends received	-	191
Tax payments made	32,601	49,766
Imputation credits attached to dividends paid to shareholders	(39,873)	(32,826)
Balance at the end of the year	45,329	52,601

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

8. CURRENT ASSETS

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Cash and bank	50	5
Short term investments	-	-
Trade receivables	60,089	86,258
Provision for current tax	-	2,584
Other receivables	44	359
Stocks of materials	26,008	25,633
Prepayments	870	1,484
Total Current Assets	87,061	116,323

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

ECNZ	97	27,993
Mighty River Power Limited	441	-
Meridian Energy Limited	13,326	-
Genesis Power Limited	702	-
Contact Energy Limited	-	13,097
"Other" Transpower businesses	2,455	4,249
	17,021	45,339

Included in other receivables:

Transpower Group subsidiaries		
- Interest receivable	-	-
- Dividends receivable	-	-
	-	-

Included in short term investments:

Transpower Group subsidiaries	-	-
	-	-

9. INVESTMENTS

Investment in Transpower Group associate	-	4,015
Investment in Transpower Group subsidiaries	-	-
Total investments	-	4,015

Investment in associate company comprises:

Ordinary shares at cost	-	778
Accumulated share of post acquisition retained earnings	-	(80)
	-	698
Advances to associate company	-	3,317
	-	4,015

Transpower sold its investment in the associate during the year ended 30 June 1999.

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

10. FIXED ASSETS

	LINES BUSINESS	GROUP
	Valuation 1999 \$000	Valuation 1998 \$000
Infrastructure asset		
Transmission lines	833,846	852,433
Non-infrastructure assets		
Freehold land	43,402	37,227
Freehold buildings	42,488	49,936
Substations	783,690	798,243
HVDC link	57,693	81,219
HVDC leased assets	281,526	327,067
Communications	47,936	65,390
Administration assets	27,121	31,674
Capital work in progress	76,245	51,515
Total non-infrastructure assets	<u>1,360,101</u>	<u>1,442,271</u>
Total fixed assets	<u>2,193,947</u>	<u>2,294,704</u>

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

The fixed assets of the Lines Business were valued at 30 June in accordance with the ODV methodology.

The valuation was completed by Transpower, and independently reviewed by L.E.K Consulting Pty. as valuation experts.

Electricity regulations additional disclosures

Motor vehicles	880
Office equipment	317
Customer billing and information assets	211
Capital work in progress - substations	56,573
Capital work in progress - lines and cables	2,491
Capital work in progress - other	17,181

Transpower line business system fixed assets have been valued at \$2,089 million.

Related party transactions**Annual capital work in****progress expenditure with:**

ECNZ	167	-
BCL	5	55
	<u>172</u>	<u>55</u>

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

11. CURRENT LIABILITIES

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Bank overdrafts	517	3,832
Accounts payable	16,619	49,783
Interest payable	19,791	20,622
Accrued payroll costs	4,738	3,770
Other provisions	4,868	12,780
Provision for dividend	62,863	32,308
Provision for current tax	2,548	-
Short term debt	86,432	46,668
Current portion of long term debt	29,848	227,834
Current portion of lease liabilities	-	-
Deferred income	15,950	20,290
Other liabilities	-	-
Total current liabilities	244,174	417,887
Related party transactions		
Included in trade creditors:		
ECNZ	268	19,774
Meridian Energy Limited	443	-
Contact Energy Limited	-	8,171
Design Power Limited	-	53
BCL	-	5
	711	28,003

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

11. CURRENT LIABILITIES (cont...)

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Reconciliation of provision for current tax payable:		
Tax payable in the current year (refer Note 7)	38,845	24,652
Provisional tax payments made during the year	(37,164)	(28,988)
Under provision in prior years	867	1,752
Total provision for current tax payable (receivable)	2,548	(2,584)

12. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

One to two years	-	-
Two to five years	-	-
Later than five years	-	-
	-	-

The Transpower Lines Business has two cross border leases.

The HVDC converter plant at the Haywards and Benmore substations were previously leased to a subsidiary company Haywards Limited, by ECNZ. The equipment was then sub-leased by Haywards Limited to Transpower. The head lease arrangement was renegotiated in the year ended 30 June 1997 with a third party and became subject to a cross border lease. The sub-lease arrangement between Haywards Limited and Transpower is unchanged, with the lease liability due by Transpower to Haywards Limited disclosed in the table above.

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

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

13. LONG TERM DEBT

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Between one to two years	185,708	-
Between two to five years	673,975	591,001
Greater than five years	302,874	499,085
Total long term debt	1,162,557	1,090,086

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

Bonds	662,106	622,731
Euro medium term notes	500,451	709,961
	1,162,557	1,332,692

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. The trust deed has been amended on 30 June 1997 and 26 June 1998 in accordance with the Supplemental Trust Deed. 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.

Euro Medium Term Notes

Under the Euro Medium Term Note Programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$1,000,000,000 (NZ\$1,890,359,168 as at 30 June 1999), (US\$1,000,000,000 (NZ\$1,976,089,000) as at 30 June 1998) 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.

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

14. CAPITAL

Transpower has contributed paid in capital of \$1,200,000,000 (1998: \$1,200,000,000).

15. RESERVES

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
<i>Capital redemption reserve</i>		
Balance at the beginning of the year	8	8
Movements during the year	-	-
Balance at the end of the year	8	8
<i>Asset revaluation reserve</i>		
Balance at the beginning of the year	-	43,827
Revaluation (devaluation) of assets*	(14,113)	(448,529)
Transfer to retained earnings	-	(2,445)
Transfer to statement of financial performance	14,113	407,147
Balance at the end of the year	-	-
Total reserves	8	8

*Transpower's Asset Revaluation Reserve has a debit balance and consequently revaluations flow through the Statement of Financial Performance.

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

16. RETAINED EARNINGS	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Balance at the beginning of the year	(292,939)	102,038
Operating surplus (deficit) after tax	96,899	(338,059)
Equity Adjustment to comply with Electricity (Information Disclosure) Regulations 1999.	(18,181)	-
Retained earnings available for appropriation	(214,221)	(236,021)
Transfer from the asset revaluation reserve	-	2,445
Dividends paid or payable	(111,510)	(59,283)
Balance at the end of the year	(325,731)	(292,859)
Share of associate entity's retained earnings		
Balance at the beginning of the year	-	(613)
Share of post tax surplus (deficit) for the year	-	533
Balance at the end of the year	-	(80)
Total retained earnings at the end of the year	(325,731)	(292,939)
17. CAPITAL COMMITMENTS		
Capital commitments in respect of contracts for capital expenditure:		
Within one year	22,198	17,749
One to two years	512	1,600
Two to five years	400	-
Total capital commitments	23,110	19,349
18. OPERATING LEASE COMMITMENTS		
Commitments in respect of non-cancellable operating leases payable:		
Within one year	1,962	1,639
One to two years	1,873	1,521
Two to five years	4,057	3,919
Greater than five years	711	1,285
Total operating lease commitments	8,603	8,364

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

19. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

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

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

Debt

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

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

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Bonds	674,918	633,879
Euro medium term notes	474,105	690,023

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

(ii) Contingencies

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

(iii) Vector Limited Claim (formerly Mercury Energy Limited)

Vector Limited (Vector) has commenced a claim against Transpower concerning Transpower's pricing methodologies under common law and a claim under the Commerce Act.

The amount claimed under common law cannot be quantified at present.

The amount claimed under the Commerce Act is for \$18 million.

In relation to the common law claim one cause of action was struck out and Vector ordered to replead the other. Vector is repleading that cause of action and has appealed the High Court's decision in relation to the cause of action that was struck out.

Transpower believes it is in a strong position.

(iv) Todd Energy and Kiwi Co-operative Dairies Claim

Todd Energy Limited and Kiwi Co-operative Dairies Limited have commenced a claim against both Transpower and Powerco Limited alleging breaches of the Commerce Act. The damages claimed total \$20 million. Transpower has filed a statement of defence and believes that it has not breached the Commerce Act in any respect.

There are no other material contingent liabilities for Transpower or the Transpower Lines Business as at balance date (1998: nil).

20. SEGMENTAL INFORMATION

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS

(a) Financial risks

The Transpower Lines Business is subject to a number of financial risks which arise as a result of having a debt portfolio of \$1,278,837,000 as at 30 June 1999 (\$1,364,588,000 as at 30 June 1998) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

(b) Risk management policies

The key risk management policies are as follows:

Interest rate risk management policy

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

Currency risk management policy

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

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

Credit risk management policy

Transpower's credit policy is to establish credit limits with counterparties that are either a bank, a financial institution or special purpose derivatives products company. These credit limits are not to exceed 20 per cent of Transpower Group shareholder's funds or 15 per cent of the Shareholders funds of the counterparty as shown in the most current annual report. If the counterparty is a New Zealand corporate, the credit limit is not to exceed NZ\$ 20 million.

In addition the counterparty must have a minimum long term credit rating of A or above by Standard & Poor's, or Moody's equivalent; or if the counterparty is a New Zealand corporate 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 Transpower's customer base. It is the Company's policy to perform credit evaluations on customers requiring credit and the Company may in some circumstances require collateral. No collateral is held at 30 June 1999 (1998: nil).

Liquidity risk policy

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

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

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

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

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

In the event Transpower is unable to utilise these facilities the Company has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks of which NZ\$125,000,000 is underwritten and which was unused as at 30 June 1999 and 30 June 1998. The second facility is a Standby Facility for US\$190,000,000 (NZ\$359,168,242) of which the total amount was unused at 30 June 1999 and 30 June 1998.

Term investments

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

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

Interest rate swaps are used to change the interest rate structure on physical debt issued by Transpower. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into an interest rate swap. In the normal course of Transpower's hedging activities interest rate swaps are entered into for periods of up to 10 years.

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

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

	LINES BUSINESS	GROUP
	1999 \$000	1998 \$000
Interest rate swaps	1,255,094	992,119

Cross currency interest rate swaps

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

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

Cross currency interest rate swaps		
Principal receivable	781,624	1,170,492
Principal payable	(753,450)	(1,142,138)

Forward rate agreements

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

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

Forward rate agreements	(25,000)	(134,000)
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Interest rate options

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

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

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

	LINES BUSINESS	GROUP
	1999	1998
	\$000	\$000
Interest rate options	115,000	225,000

Foreign exchange forward contracts

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

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

Forward foreign exchange contracts	9,442	8,201
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TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

(d) Maximum credit risk exposure

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

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

	LINES BUSINESS	GROUP
	1999	1998
	\$000	\$000
Cash settlement is represented by:		
<i>Principal amount receivable/(payable)</i>		
Cross currency interest rate swaps		
- receivable	781,624	1,170,492
- payable	(753,450)	(1,142,138)
Foreign exchange forward contracts	9,442	8,201
<i>Net interest payable</i>		
Interest rate swaps	(4,903)	(4,662)
<i>Current market value</i>		
Interest rate options	(614)	(834)
Forward rate agreements	2	299

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. Transpower further manages this risk by only entering into transactions with counterparties that fall within Transpower's credit risk management policy as outlined in section (b) risk management policies, of this Note.

(e) Carrying value and fair value

Carrying value

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

Fair value

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

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

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

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

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 1999 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$53,793,000 (NZ\$25,103,000 as at 30 June 1998).

This comprises the difference between the carrying values and fair values of debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

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

TRANSPower NEW ZEALAND LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

LINES BUSINESS Carrying value/fair value	LINES BUSINESS	LINES BUSINESS	GROUP	GROUP
	Carrying Value 1999 \$000	Fair Value 1999 \$000	Carrying Value 1998 \$000	Fair Value 1998 \$000
<i>On Balance Sheet</i>				
Debt	(1,278,837)	(1,345,056)	(1,364,588)	(1,430,446)
<i>Off Balance Sheet</i>				
Cross currency interest rate swaps	3,476	30,656	4,416	45,306
Foreign exchange forward contracts hedging foreign currency purchases	-	235	-	161
Interest rate swaps	(4,903)	(19,045)	(4,662)	(4,262)
Forward rate agreements	-	2	-	299
Interest rate options	-	(614)	-	(834)

(f) Interest rate re-pricing analysis

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

Trade receivables/creditors, other receivables 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 LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

21. FINANCIAL INSTRUMENTS (cont...)

LINES BUSINESS 1999

	Effective interest rate	Within one year	One to two years	Two to five years	Greater than five years	Total
		\$000	\$000	\$000	\$000	\$000
Assets						
Short term investment		-	-	-	-	-
Cash at Bank	2.00%	4	-	-	-	4
		<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>
Liabilities						
Debt	7.54%	(465,095)	(150,980)	(438,997)	(223,701)	(1,278,773)
		<u>(465,095)</u>	<u>(150,980)</u>	<u>(438,997)</u>	<u>(223,701)</u>	<u>(1,278,773)</u>
Off Balance Sheet						
Interest rate swaps		432,030	(50,250)	(236,400)	(145,380)	-
		<u>432,030</u>	<u>(50,250)</u>	<u>(236,400)</u>	<u>(145,380)</u>	<u>-</u>
Repricing Profile		<u>(33,061)</u>	<u>(201,230)</u>	<u>(675,397)</u>	<u>(369,081)</u>	<u>(1,278,769)</u>

The interest rate on debt as amended by interest rate swaps is 7.32%

GROUP 1998	Effective interest rate	Within one year	One to two years	Two to five years	Greater than five years	Total
		\$000	\$000	\$000	\$000	\$000
Assets						
Bank	4.50%	5	-	-	-	5
		<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>
Liabilities						
Debt	7.55%	(690,717)	-	(399,818)	(274,053)	(1,364,588)
		<u>(690,717)</u>	<u>-</u>	<u>(399,818)</u>	<u>(274,053)</u>	<u>(1,364,588)</u>
Off balance sheet						
Interest rate swaps		522,234	(25,204)	(213,950)	(283,080)	-
		<u>522,234</u>	<u>(25,204)</u>	<u>(213,950)</u>	<u>(283,080)</u>	<u>-</u>
Repricing Profile		<u>(168,478)</u>	<u>(25,204)</u>	<u>(613,768)</u>	<u>(557,133)</u>	<u>(1,364,583)</u>

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

TRANSPOWER NEW ZEALAND LINES BUSINESS

22. ITEMS WITH NIL BALANCES REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999.

	1999
Revenue	
Revenue from line/access charges invoiced to consumers by electricity retailers	0
Revenue from line/access charges from Line business to final consumer	0
Temporary supply sales (line charges)	0
Payments by Line businesses to "Other" for:	
Consumer based load control equipment	0
Disconnection/reconnection services	0
Asset maintenance services	0
Avoided transmission charges on account of own generation	0
Expense to non-related entity for:	
Meter data	0
Consumer-based load control	0
Disconnection/reconnection services	0
Asset maintenance services	0
Avoided transmission charges on account of any cause other than own generation	0
Depreciation upon capital works under construction	0
Merger and acquisition expenses	0
Takeover defence expenses	0
Research and development expenses	0
Amortised goodwill	0
Subvention payments	0
Transmission charges	0
Customer billing and information system expense	0
Other goods and services provided to Transpower lines business	0
Assets	
Capital works under construction upon:	
Subtransmission assets	0
Medium Voltage Switchgear	0
Distribution Transformers	0
Distribution substations	0
Low voltage lines and cables	0
Centralised load control equipment	0
Goodwill	0
Total intangible assets	0

**STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 1999**

	LINES BUSINESS	GROUP 1998	GROUP 1997	GROUP 1996	GROUP 1995
Financial Measures					
Return on Equity	13.4%	-30.0%	6.9%	7.4%	6.9%
Return on Assets	11.2%	-7.9%	8.1%	8.9%	8.2%
Return on Investment	7.3%	-11.3%	5.3%	7.2%	8.0%

Transpower has excluded from EBIT the change in revaluation reserve. In 1998 the Accounting Return on Equity and on Assets included the movement in the revaluation reserve. Including the devaluation of \$14.1 million alters the ROA to 10.6 and the ROE to 11.7.

Efficiency Measures

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

$\frac{a}{b}$	85,580,584	120,954,000	122,388,000	116,444,000	119,878,000
	17,640	17,640	17,693	17,739	17,626
<i>a</i> is direct expenditure (in dollars); and	\$4,852	\$6,857	\$6,917	\$6,564	\$6,801
<i>b</i> is system length (in kilometres);					

Direct line costs per kilometre

Transpower has altered its calculation of direct costs in 1999 to exclude security product costs. Including the Security product costs gives an efficiency measure of \$6,634.

Comparative figures have not been restated in accordance with the Electricity (Lines Disclosure) Regulations 1999.

In 1994 the infrastructure asset service potential adjustment determined in respect of transmission lines was included within the definition of direct expenditure and in 1995 system length was incorrectly defined. System length is now correctly reported as the average total circuit length of electric lines which form part of the system including the HVDC cables. Direct leases and rental costs are now also correctly reported.

The direct line costs per kilometre previously reported was \$9,521.

**FORM FOR THE DERIVATION OF FINANCIAL AND EFFICIENCY MEASURES FROM THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1999**

	in formula	calculations	ROA \$000	ROE \$000	ROI \$000		
Earnings before interest and tax (EBIT)	a		247,068		247,068		
Net profit after tax (NPAT)	n			111,012			
Amortised goodwill	g						
Subvention payment	s						
Depreciation of SFA at BV	d		91,597	91,597	91,597		
Depreciation of SFA at ODV	d		91,597	91,597	91,597		
ODV depreciation tax alignment	b						
Subvention payment tax adjustment	s*t						
Interest tax Shield	q				32,414		
Revaluations	r				(14,113)		
Income tax	p				39,712		
Numerator (as adjusted)		a + g + s + d	247,068	n+g+s-s*t +d-b	111,012	a+g-q+r+s+d-p s*t-b	160,829
Fixed assets at year beginning (FA o)			2,294,704	2,294,704	2,294,704		
Fixed assets at year end (FA i)			2,193,947	2,193,947	2,193,947		
Net working capital at year beginning (NWC o)			5,246	5,246	5,246		
Net working capital at year end (NWC I)			41,821	41,821	41,821		
Average total funds employed (ATFE)	c	(FA o + FA I + NWC o + NWC I)/2	2,267,859	2,267,859	2,267,859		
Total equity at year beginning (TE o)			907,069	907,069	907,069		
Total equity at year end (TE i)			874,277	874,277	874,277		
Average total equity	k	(TE o + TE I)/2	890,673	890,673	890,673		
Works under construction at year beginning (WUC o)			51,515	51,515	51,515		
Works under construction at year end (WUC i)			76,245	76,245	76,245		
Average total works under construction	e	(WUC o + WUC I)/2	63,880	63,880	63,880		
Revaluations	r		(14,113)	(14,113)	(14,113)		
Goodwill asset at year beginning (GW o)							
Goodwill asset at year end (GW i)							
Average goodwill asset	m	(GW o + GW I)/2					
Subvention payment for previous year (S o)							
Subvention payment for this year (S i)							
Subvention payment tax adjustment for previous year	S o - t						
Subvention payment tax adjustment for this year	S i - t						
Average subvention payment & related tax adjustment	v	[(S o + S I)(1 - t)]/2					
System fixed assets at year beginning at book value (SFA bvo)			2,182,000	2,182,000	2,182,000		
System fixed assets at year end at book value (SFA bvi)			2,089,000	2,089,000	2,089,000		
Average value of system fixed assets at book value	f	(SFA bvo + SFA bvi)/2	2,135,500	2,135,500	2,135,500		
System fixed assets at year beginning ODV value (SFA odvo)			2,182,000	2,182,000	2,182,000		
System fixed assets at year end ODV value (SFA odvi)			2,089,000	2,089,000	2,089,000		
Average value of system fixed assets at ODV value	h	odvi)/2	2,135,500	2,135,500	2,135,500		
Denominator (as adjusted)		c - e - f + h	2,203,979	k-e-m+v-f+h	826,793	c-e-.5r-f+h	2,211,036
Financial performance measure		ATFE adj x 100	11.2	adj/ATFE adj x100	13.4	adj/ATFE adj x 100	7.3

Transpower has excluded from EBIT the change in revaluation reserve. In 1998 the Accounting Return on Equity and on Assets included the movement in the revaluation reserve. Including the devaluation of \$14.1 million alters the ROA to 10.6 and the ROE to 11.7.

Paragraph 2.18 of the Electricity Information Disclosure Handbook issued by the Ministry of Commerce, requires that prior year figures are not to be recalculated. Accordingly year beginning balances represent balances of the Transpower Group rather than Transpower Lines Business. This does not have a material impact on the financial and efficiency measures.

**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999
REGULATION 32(3)**

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

We, Sir Colin Maiden and David Gregory Sadler, 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 1999, 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 15, 21 and 22 of the Electricity (Information Disclosure) Regulations 1999, comply with the requirements of the Electricity (Information Disclosure) Regulations 1999.

The valuations on which those financial performance measures are based are as at 30 June 1999.

Sir C Maiden.
19 November 1999

D Sadler.

The Electricity (Information Disclosure) Regulations 1999

(For 12 Months ending 30 June 1999, 30 June 1998, 30 June 1997, and 30 June 1996)

Part 4	1998-99	1997-98	1996-97	1995-96
Energy Delivery Efficiency Performance Measures And Statistics				
(Disclosure Under Regulation 21)				
1. Energy delivery efficiency performance measures				
(a) Load factor%	68.78	67.40	66.01	67.26
<i>Percentage of electrical energy entering the transmission system over maximum demand times hours per year</i>				
(b) Loss ratio%	3.83	4.27	3.61	5.69
<i>Transmission losses over energy entering the system</i>				
(c) Capacity utilisation.....%	65.11	66.99	67.48	70.99
<i>Maximum demand over total transformer capacity</i>				
2. Statistics				
<i>(a) System length, broken down by voltage</i>				
Totalkm	17,640	17,640	17,693	17,739
350 kV (HVDC)km	611	611	611	611
270 kV (HVDC)km	611	611	611	611
0 kV (HVDC earth electrode)km	31	31	31	31
220 kV (HVAC)km	8,365	8,365	8,363	8,361
110 kV (HVAC)km	6,270	6,263	6,323	6,384
66/50/33/11 kVkm	1,752	1,759	1,754	1,741
<i>(b) Circuit length of overhead electric lines, broken down by voltage:</i>				
Totalkm	17,555	17,556	17,610	17,659
350 kV (HVDC)km	571	571	571	571
270 kV (HVDC)km	571	571	571	571
0 kV (HVDC earth electrode)km	31	31	31	31
220 kV (HVAC)km	8,365	8,365	8,363	8,361
110 kV (HVAC)km	6,265	6,259	6,320	6,384
66/50/33/11 kVkm	1,752	1,759	1,754	1,741
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 (110 kV HVAC)km	5	4	3	0
<i>(d) Transformer capacity</i>				
(kilovolt amperes)*.....kVA	8.71*10 ⁶	8.64*10 ⁶	8.56*10 ⁶	7.99*10 ⁶
(e) Maximum demand (kilowatts) *.....kW	5.67*10 ⁶	5.79*10 ⁶	5.77*10 ⁶	5.67*10 ⁶
<i>(f) Total electricity supplied from the system</i>				
(kilowatt hours) *.....kWh	32.86*10 ⁹	32.73*10 ⁹	32.20*10 ⁹	31.53*10 ⁹
<i>(g) Total electricity conveyed through the system</i>				
(kilowatt hours) *..... kWh	34.17*10 ⁹	34.19*10 ⁹	33.40*10 ⁹	33.43*10 ⁹
(h) Total customers	55	51	50	49

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

Part 6	1998-99	1997-98	1996-97	1995-96
Reliability Performance Measures To Be Disclosed By Transpower (Disclosure Under Regulation 22)				
1. Total number of unplanned interruptions* <i>Resulting from 69 loss of supply incidents in 1998-99</i>	110	103	164	229
2. Electricity customer interruptions in system minutes.....**	9.7	5.1	13.6	12.2
planned	2.7	2.1	2.1	5.8
unplanned	7.1	2.9	11.5	6.4
3. Underlying electricity customer interruptions in system minutes.....** <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	7.3	5.1	6.9	7.1
planned	1.7	2.1	2.1	3.1
unplanned	5.6	2.9	4.8	4.0
4. Average supply reliability% <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	99.9972	99.9985	99.9959	99.9963
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>	0.01	0.02	0.55	0.81
6. Uneconomic generation due to HVDC system unavailability% <i>Effectively</i>	0	0.01	0.47	0.73
7. Uneconomic generation due to unplanned transmission system unavailability%	0.01	0.01	0.12	0.22
8. Planned interruption restoration performance%	94.4	90.5	72	80.5
9. Unplanned interruption response.....%	100	98.1	100	99.1

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

The 1997/98 and 1998/99 figures for uneconomic generation are considerably different than in previous years. The data for these figures has been collected in line with the specified guidelines. However, uneconomic generation is not relevant in the market environment as scheduling is carried out differently and 'offers to generate' are made after taking constraints into account and it is not possible to predict what the generator would have offered if the constraint was not present.

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

** Any minor differences between the total and the sum of planned and unplanned are due to rounding.

