



New Zealand Gazette

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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1999 AND THE
ELECTRICITY (INFORMATION DISCLOSURE)
AMENDMENT REGULATIONS 2000



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Auditors' Report

To the Readers of the financial statements of Transpower New Zealand Limited's Lines Business

We have audited the accompanying regulatory financial statements of the Transpower New Zealand Limited's Lines Business. The regulatory financial statements provide information about the past financial performance of the Transpower New Zealand Limited's Lines Business. 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 regulatory financial statements which give a true and fair view of the financial position of the Transpower New Zealand Limited's Lines Business as at 30 June 2001, and results of 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 regulatory financial statements presented by the Directors and report that opinion to you. The Controller and Auditor-General has appointed Tim J Fairhall of PricewaterhouseCoopers to carry out the audit.

Basis of opinion

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

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

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the regulatory 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 regulatory financial statements.

Our firm carried out other assignments for the Transpower New Zealand 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 or the Group.

Unqualified opinion

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

In our opinion:

- proper accounting records have been maintained for the Transpower New Zealand Limited's Lines Business as far as appears from our examination of those records; and
- the regulatory financial statements referred to above:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of the financial position of the Transpower New Zealand Limited's Lines Business as at 30 June 2001 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 20 November 2001 and our opinion is expressed as at that date.

Tim J Fairhall
 On behalf of the Controller and Auditor General
 Wellington, New Zealand

PricewaterhouseCoopers



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**Auditors' Opinion on Transpower New Zealand Limited Performance Measures
for the year ended 30 June 2001**

We have examined the attached information, being:

- (a) the derivation table in regulation 16;
- (b) the annual ODV reconciliation report in regulation 16A;
- (c) the financial performance measures required by clause 1 of part 3 of Schedule 1; and
- (d) the financial components of the efficiency performance measures required by clause 2 of part 3 of Schedule 1

that were prepared by Transpower New Zealand Limited for the year ended 30 June 2001 and dated 20 November 2001 for the purposes of Regulation 15 of the Electricity (Information Disclosure) Regulations 1999.

In our opinion, 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 'Tim J Fairhall'.

Tim J Fairhall
On behalf of the Controller and Auditor General
Wellington, New Zealand
20 November 2001

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers



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**Auditors' Opinion in relation to the ODV Valuation of Transpower New Zealand Limited
as at 30 June 2001**

We have examined* the ODV valuation report of Transpower New Zealand Limited at 30 June 2001 and dated 28 November 2001, which contains valuations of system fixed assets as at 30 June 2001.

In our opinion, having made all reasonable enquiry, to the best of our knowledge, the valuations contained in the report, including the total valuation of the system fixed assets of \$1,979,000,000, have been made in accordance with the ODV Handbook.

A handwritten signature in black ink, appearing to read 'Timothy J Fairhall'.

Timothy J Fairhall
On behalf of the Controller and Auditor General
Wellington, New Zealand
28 November 2001

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

***Explanatory Note**

The ODV valuation of Transpower New Zealand Limited's system fixed assets as at 30 June 2001 was prepared by Transpower New Zealand Limited and independently reviewed by The LEK Partnership. The LEK Partnership 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 the LEK Partnership for the purposes of our examination of the ODV valuation report.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2001

	Notes	LINES BUSINESS	LINES BUSINESS
		2001 \$000	2000 \$000
Operating revenue	3	441,403	485,208
Operating expenses	4	264,293	252,248
		<u>177,110</u>	<u>232,960</u>
Net finance costs	6	85,256	95,677
Surplus from operations before tax and revaluation		91,854	137,283
Transfer from asset revaluation reserve	14	(59,116)	54,096
Surplus from operations before tax		32,738	191,379
Tax expense	7	20,897	38,868
Operating surplus after tax		<u>11,841</u>	<u>152,511</u>
Net surplus attributable to shareholders		<u>11,841</u>	<u>152,511</u>

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2001

		LINES BUSINESS	LINES BUSINESS
	Notes	2001	2000
		\$000	\$000
Equity at the beginning of the year		944,101	874,277
Net surplus attributable to shareholders		11,841	152,511
Total recognised revenue and expenses for the year		11,841	152,511
Dividends paid or payable	16	(44,264)	(82,687)
Equity at the end of the year		911,678	944,101

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2001

	Notes	LINES BUSINESS	LINES BUSINESS
		2001 \$000	2000 \$000
ASSETS EMPLOYED			
Current assets	8	142,898	106,552
Fixed assets	9	2,089,099	2,193,227
Total Assets Employed		<u>2,231,997</u>	<u>2,299,779</u>
FUNDS EMPLOYED			
Liabilities			
Current liabilities	10	455,282	311,462
Long term lease liabilities	11	-	-
Long term debt	12	865,037	1,044,216
Total Liabilities		<u>1,320,319</u>	<u>1,355,678</u>
Equity			
Capital	13	1,200,000	1,200,000
Reserves	14	8	8
Accumulated deficit	15	(288,330)	(255,907)
Total Equity		<u>911,678</u>	<u>944,101</u>
Total Funds Employed		<u>2,231,997</u>	<u>2,299,779</u>

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

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 20 November 2001.

For, and on behalf of, the Board



Sir Colin Maiden
Chairman

20 November 2001



David Sadler
Deputy Chairman

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2001

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	454,653	469,648
Interest received	7,907	957
Cash was applied to:		
Payments to suppliers and employees	(145,829)	(130,542)
Tax payments	(47,452)	(45,759)
Interest paid	(99,076)	(100,179)
Net cash inflows from operations	<u>170,203</u>	<u>194,125</u>
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	3,261	1,467
Short term investments	511,930	135,097
Cash was applied to:		
Purchase of fixed assets	(63,554)	(60,550)
Short term investments	(511,930)	(135,097)
Net cash outflows from investments	<u>(60,293)</u>	<u>(59,083)</u>
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	1,004,495	1,077,625
Cash was applied to:		
Dividends paid	(86,637)	(103,177)
Repayment of loans	(1,027,594)	(1,110,714)
Net cash outflows from financing	<u>(109,736)</u>	<u>(136,266)</u>
Net increase/(decrease) in cash held	174	(1,224)
Opening balance brought forward	(1,691)	(467)
Closing net cash carried forward	<u>(1,517)</u>	<u>(1,691)</u>
Closing net cash carried forward comprises:		
Bank overdraft	(1,546)	(1,714)
Cash and bank	29	23
	<u>(1,517)</u>	<u>(1,691)</u>

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF CASH FLOWS continued
FOR THE YEAR ENDED 30 JUNE 2001

RECONCILIATION OF "OPERATING SURPLUS AFTER TAX" WITH "NET CASH FLOW FROM OPERATIONS"

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Operating surplus after tax	11,841	152,511
Add/(deduct) non-cash items:		
Depreciation	85,471	87,647
Infrastructure asset service potential adjustment	16,039	18,957
Transfer from asset revaluation reserve	59,116	(54,096)
Capitalised interest	(2,034)	(1,911)
Increase(decrease) in provisions	23,705	(181)
Movements in working capital items:		
Decrease(increase) in trade and other receivables	(10,125)	(16,869)
Decrease(increase) in prepayments	405	116
Decrease(increase) in stocks of materials	(65)	1,578
(Decrease)increase in trade and other liabilities, interest payable and deferred income	6,576	4,029
(Decrease)increase in taxation payable	(26,555)	(6,891)
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	5,829	9,235
Net Cash Flow from Operations	<u>170,203</u>	<u>194,125</u>

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2001

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 as amended by the Electricity (Information Disclosure) Amendment Regulations 2000.

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 are 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 2001. 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. Dividends received and interest income from investments are included within net finance costs.

(c) Goods and Services Tax (GST)

The Statement 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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001*(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 and 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 and 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 as part of the total cost for capital work in progress.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001*(f) Fixed Assets (continued)*

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. 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 Statement of Financial Performance is 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 LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001*(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
Administration assets	3-10 years

(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 and 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 Statement 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) Operations comprise the transmission of bulk electricity, and the related support, maintenance, administration and interest costs.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001*(j) Statements of Cash Flows (continued)*

- (iii) Investments 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 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.

Timing differences that are not recognised in the Statement of Financial Position are disclosed in the Deferred tax liability memorandum account 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 Statement of Financial Performance.

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 LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001*(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 which 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 and expensed 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.

Changes in Accounting Policies

Except for recognition of dividend provisions, there have been no changes in accounting policies with all policies having been applied on a basis consistent with those used in the previous year. Dividends declared by the directors after balance date have previously been treated as a liability at balance date. The recently released Financial Reporting Standard *5: Events After Balance Date* (FRS5) does not permit provisions for distributions declared after balance date. FRS 5 is mandatory for accounting periods ending on or after 30 June 2001. The dividend declared by directors on 9 August 2001 for the Transpower Group is disclosed as a post balance date event in note 16. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$8,954,000. The implementation of this change has had the impact of increasing equity and decreasing current liabilities by \$8,954,000.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

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, and Broadcast Communications Limited (BCL, a subsidiary of Television New Zealand).

d-cypha Limited, Risk Reinsurance Limited, two wholly owned subsidiaries 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.

The subsidiary companies identified in Note 22 are related parties of Transpower.

Transactions entered into with related parties are disclosed as follows:

- * Revenue from ECNZ, Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited are disclosed in Note 3.
- * Operating expenses in relation to ECNZ, Mighty River Power Limited, Meridian Energy Limited, Genesis Power Limited and BCL are disclosed in Note 4.
- * Annual capital work in progress expenditure paid to BCL is disclosed in Note 9.
- * Outstanding balances due from and to ECNZ, Meridian Energy Limited, Genesis Power Limited, Mighty River Power Limited and BCL are disclosed in Notes 8, 9 and 10.

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 LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

3. OPERATING REVENUE

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Transmission services revenue	437,420	483,879
Other revenue	3,983	1,329
Total operating revenue	<u>441,403</u>	<u>485,208</u>

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

ECNZ	-	(7)
Meridian Energy Limited	71,531	92,505
Mighty River Power Limited	1,764	2,377
Genesis Power Limited	2,399	2,683
	<u>75,694</u>	<u>97,558</u>

Transmission services 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	241	234
AC rental rebates	2,490	711

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

4. OPERATING EXPENSES

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Administration and general costs	51,227	41,920
Asset operation and maintenance costs	101,514	89,839
Charges in respect of assets:		
Depreciation - leased assets	13,391	13,286
Depreciation - owned assets	72,080	74,361
Infrastructure asset service potential adjustment	16,039	18,957
Stock and asset write-offs	7,125	10,810
Charges in respect of receivables:		
Bad debts written off	16	1
Movement in the provision for doubtful debts	-	-
Directors' fees	266	245
Donations	349	350
Lease and rental costs	2,286	2,479
Total operating expenses	<u>264,293</u>	<u>252,248</u>

Related party transactions**Expenses charged by :**

ECNZ	31	293
Mighty River Power Limited	-	-
Meridian Energy Limited	-	-
Genesis Power Limited	-	-
BCL	243	265
	<u>274</u>	<u>558</u>

Expenses charged by ECNZ relate to rental charges.

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	5,528	7,812
	<u>5,528</u>	<u>7,812</u>

Electricity regulations additional disclosures:

Employee salaries and redundancies	22,622	20,218
Human resource expenses	2,502	1,835
Marketing / advertising expenses	653	228
Legal and consultancy expenses (including industry reform)	10,603	10,596
Corporate and administration expenses	7,172	4,725
Other	7,675	4,318
Total administration and general expenditure	<u>51,227</u>	<u>41,920</u>

Transfer payments from "Other Transpower Businesses"

Payment for metering data	900	900
Payment for insurance	2,935	-
Total transfer payments from "Other Transpower Businesses"	<u>3,835</u>	<u>900</u>

Local authority rates expense	1,096	-
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Consumer billing and information system expense	458	459
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Depreciation of system assets	74,210	72,876
Depreciation of other assets	11,261	14,771
Total depreciation	<u>85,471</u>	<u>87,647</u>

Bad debts written off	16	1
Movement in the provision for doubtful debts	-	-
Total cost of offering credit	<u>16</u>	<u>1</u>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

5. REMUNERATION OF AUDITORS	LINES BUSINESS	
	2001	2000
	\$000	\$000
Fees paid or payable to PricewaterhouseCoopers		
As auditor of Transpower and Transpower Group subsidiaries	165	172
For other services	488	729
	<u>653</u>	<u>901</u>
6. NET FINANCE COSTS		
Finance costs	95,197	98,546
Capitalised interest	(2,034)	(1,911)
Interest received	(7,907)	(957)
Dividends received	-	(1)
Net finance costs	<u>85,256</u>	<u>95,677</u>
Total operating expenses	264,293	252,248
Net finance costs	85,256	95,677
Total expenses including net financing costs	<u>349,549</u>	<u>347,925</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

7. TAXATION

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Operating surplus before tax	32,738	191,379
Prima facie tax at 33%	10,804	63,155
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(10,087)	(4,899)
- current period revaluation adjustment	19,508	(17,852)
Permanent differences	(212)	(1,947)
Income tax charge in respect of the current year	20,013	38,457
Under provision in prior years	884	411
Tax expense	20,897	38,868
The income tax charge is represented by:		
Tax payable in the current year	20,883	38,457
Deferred tax	(870)	-
	20,013	38,457
Deferred tax asset		
Balance at the beginning of the year	-	-
Increase in deferred tax asset	870	-
Under provision in prior years	285	-
Balance at the end of the year	1,155	-
Deferred tax liability memorandum account		
Balance at the beginning of the year	132,736	109,985
Increase (reduction) in deferred tax liability	(9,421)	22,751
Balance at the end of the year	123,315	132,736
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	80,894	45,329
Tax payments made	48,682	51,978
Imputation credits attached to dividends paid to shareholders	(42,672)	(16,413)
Balance at the end of the year	86,904	80,894

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

8. CURRENT ASSETS

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Cash and bank	29	23
Short term investments	-	-
Trade receivables	87,127	77,002
Provision for current tax	29,743	4,343
Deferred tax	1,155	-
Other receivables	-	-
Stocks of materials	24,495	24,430
Prepayments	349	754
Total current assets	142,898	106,552
Related Party Transactions		
Included in trade receivables:		
ECNZ	-	-
Mighty River Power Limited	81	233
Meridian Energy Limited	96,594	61,724
Genesis Power Limited	253	211
	96,928	62,168
Reconciliation of provision for current tax:		
Balance at the beginning of the year	(4,343)	2,548
Tax payable in the current year (refer Note 7)	20,883	38,457
Provisional tax payments made during the year	(47,452)	(45,759)
Under provision in prior years	1,169	411
Balance at the end of the year	(29,743)	(4,343)

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

9. FIXED ASSETS

	LINES BUSINESS	
	Valuation 2001 \$000	Valuation 2000 \$000
Infrastructure asset		
Transmission lines	800,614	822,152
Non infrastructure assets		
Freehold land	45,403	44,967
Freehold buildings	35,364	42,071
Substations	779,642	803,793
HVDC link	47,356	58,705
HVDC leased assets	240,105	284,479
Communications	45,491	46,825
Administration assets	16,866	20,630
Capital work in progress	78,258	69,605
Total non infrastructure assets	1,288,485	1,371,075
Total fixed assets	2,089,099	2,193,227

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

The fixed assets of the Lines Business were valued at 30 June 2001 in accordance with the ODV methodology. The valuation was completed by Transpower, and independently reviewed by L.E.K Consulting Pty Ltd as valuation experts.

Electricity regulations additional disclosures:

Motor vehicles	850	805
Office equipment	254	412
Customer billing and information assets	113	289
Capital work in progress - substations	47,539	41,399
Capital work in progress - lines and cables	3,675	2,838
Capital work in progress - other	27,044	25,368
	78,258	69,605

Transpower lines business system fixed assets have been valued at \$1,979 million (2000: \$2,090 million).

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

BCL	12	5
	12	5

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

10. CURRENT LIABILITIES

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Bank overdrafts	1,546	1,714
Trade creditors	30,753	20,311
Interest payable	14,279	18,158
Employee entitlements	5,065	5,399
Other provisions	28,392	4,687
Provision for dividend	-	42,373
Short term debt	90,204	75,339
Current portion of long term debt	267,419	126,204
Current portion of lease liabilities	-	-
Deferred income	17,624	17,259
Other liabilities	-	18
Total current liabilities	455,282	311,462
Related party transactions		
Included in trade creditors:		
ECNZ	2	121
Meridian Energy Limited	-	-
Mighty River Power Limited	-	-
Genesis Power Ltd	-	-
	2	121

11. 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 LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

12. LONG TERM DEBT

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Net funding received from the non lines business*	11,056	13,675
Between one to two years	253,462	249,326
Between two to five years	498,339	661,787
Greater than five years	102,180	119,428
Long term debt	853,981	1,030,541
Total Long Term Debt	865,037	1,044,216

*These financial statements have been prepared by adjusting the Transpower Group financial statements for non lines business items included in those financial statements. The net assets of the non lines business have provided funds to the Transpower Group of \$11,056,000 (2000: \$13,675,000).

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

Bonds	380,450	570,036
Euro medium term notes	473,531	460,505
	853,981	1,030,541

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 Deeds. 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\$2,469,135,000) as at 30 June 2001, US\$1,000,000,000 (NZ\$2,138,351,331) as at 30 June 2000 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 LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

13. CAPITAL

Transpower has contributed paid in capital of \$1,200,000,000 (2000: \$1,200,000,000).

14. RESERVES

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Capital redemption reserve		
Balance at the beginning of the year	8	8
Movements during the year	-	-
Balance at the end of the year	<u>8</u>	<u>8</u>
Asset revaluation reserve		
Balance at the beginning of the year	-	-
Revaluation (devaluation) of fixed assets*	(59,116)	54,096
Transfer to retained earnings	-	-
Transfer to statement of financial performance	59,116	(54,096)
Balance at the end of the year	<u>-</u>	<u>-</u>
Total reserves	<u>8</u>	<u>8</u>

*Transpower's fixed assets were written down in previous years through the Statement of Financial Performance. Subsequent revaluations have not recovered this previous write down, hence such revaluations and any further devaluations are taken directly to the Statement of Financial Performance.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

15. ACCUMULATED DEFICIT	LINES BUSINESS	LINES BUSINESS
	2001	2000
	\$000	\$000
Balance at the beginning of the year	(255,907)	(325,731)
Operating surplus after tax	11,841	152,511
Accumulated deficit before dividends paid and payable	(244,066)	(173,220)
Dividends paid and payable	(44,264)	(82,687)
Balance at the end of the year	(288,330)	(255,907)

16. DIVIDENDS TO THE SHAREHOLDER

Interim dividend paid	44,264	40,314
Final dividend payable	-	42,373
	44,264	82,687

Subsequent to balance date, the directors have declared a final dividend payable of \$15,535,000 for the Transpower Group. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$8,954,000.

17. CAPITAL COMMITMENTS

Capital commitments in respect of contracts for capital expenditure:		
Within one year	21,017	10,252
One to two years	355	234
Two to five years	360	234
Total capital commitments	21,732	10,720

18. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable operating leases payable:		
Within one year	1,847	1,964
One to two years	1,696	1,887
Two to five years	1,015	2,337
Later than five years	547	542
Total operating lease commitments	5,105	6,730

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

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 11. 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 12.

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

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Bonds	598,999	675,401
Euro medium term notes	560,516	452,779

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

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

In 1998 Vector Limited (Vector) commenced a claim against Transpower concerning Transpower's pricing methodologies under common law and a claim under the Commerce Act.

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

The common law claim based on prime necessities was struck out and Vector was ordered to replead the Commerce Act claim. Vector filed repleaded causes of action based on judicial review and the Commerce Act. Transpower applied to have these repleaded causes of action struck out.

In August 2000 the High Court upheld Transpower's application to strike out Vector's causes of action.

There is no contingent liability as at 30 June 2001 due to a mutually satisfactory settlement being reached between the two companies.

(iii) 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.

(iv) Network Tasman

Network Tasman Limited has commenced a claim against Transpower alleging misrepresentation, breach of good faith, breach of collateral contract, estoppel, breach of the Fair Trading Act and breach of implied term. The damages claimed total \$7 million. Transpower has filed a statement of defence and believes that the claims against it are without merit.

(v) Economic Gain (Loss) Account

Transpower operates its pricing methodology within an EVA framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers may be passed on to customers over time. This transfer to customers will occur after consideration by Directors of the balance of this account and its likely future movement in order to preserve stability and predictability of prices. The EVA financial statements disclose that at 30 June 2001 there is \$90,185,000 to the credit of the customer account.

The electricity industry is undergoing significant change including the proposed establishment of an EGB (Electricity Governance Board). This EGB will be required to endorse Transpower's pricing methodology and may make changes accordingly.

There are no other material contingent liabilities for Transpower or the Transpower Group as at balance date.

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 LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

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 \$1,222,660,000 as at 30 June 2001 (\$1,245,759,000 as at 30 June 2000) 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 has 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 LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

21. FINANCIAL INSTRUMENTS continued

(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 50 per cent of total debt and no more than 40 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. Foreign currency borrowings are converted into New Zealand dollars at the time of commitment to drawdown 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 Shareholder's 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\$ 40 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 2001 (2000: 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 cumulative anticipated financing and operating cash flow requirements excluding long term debt 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 25 per cent of total debt.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200121. FINANCIAL INSTRUMENTS *continued*

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 2001 and 30 June 2000. The second facility is a Standby Facility for US\$150,000,000 (NZ\$370,370,370) of which the total amount was unused at 30 June 2001. At June 2000 this facility was US\$150,000,000 (NZ\$320,752,699) and was also unutilised.

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 ten years.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001**21. FINANCIAL INSTRUMENTS *continued***

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

	LINES BUSINESS 2001 \$000	LINES BUSINESS 2000 \$000
Interest rate swaps	2,342,899	1,510,448

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	948,170	911,633
Principal payable	(889,380)	(790,938)

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	40,000	270,000
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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.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

21. FINANCIAL INSTRUMENTS continued

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

	LINES BUSINESS	LINES BUSINESS
	2001	2000
	\$000	\$000
Interest rate options	251,800	550,000

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	53,165	2,459
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Foreign currency options

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

The notional contract amount of foreign currency options outstanding at balance date are:

Foreign currency options	-	-
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

21. FINANCIAL INSTRUMENTS continued

(d) Maximum credit risk exposure

The maximum credit exposure to which Transpower is subject is best measured by the net cash settlement amount receivable from the counterparty for cross currency interest rate swaps, foreign exchange forward contracts, 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 or 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 2001 \$000	LINES BUSINESS 2000 \$000
<i>Net cash settlement amount receivable</i>		
Cross currency interest rate swaps	92,541	120,695
Foreign exchange forward contracts	51	307
Interest rate swaps	1,740	2,063
<i>Current market value</i>		
Interest rate options	-	121
Foreign currency options	-	-
Forward rate agreements	-	12

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions of the documentation and the application of applicable law. The Group 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. The unrealised foreign currency gains and losses on cross currency interest rate swaps are included in the carrying value of debt.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200121. FINANCIAL INSTRUMENTS *continued**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 2001 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$27,988,000 (NZ\$21,960,000 as at 30 June 2000). 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 loss realised.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

21. FINANCIAL INSTRUMENTS continued

	Carrying Value 2001 \$000	Fair Value 2001 \$000	Carrying Value 2000 \$000	Fair Value 2000 \$000
LINES BUSINESS				
<i>On Balance Sheet</i>				
Debt	(1,222,660)	(1,254,232)	(1,245,759)	(1,269,334)
<i>Off Balance Sheet</i>				
Cross currency interest rate swaps	5,321	20,377	3,691	22,371
Foreign exchange forward contracts hedging foreign currency debt	-	(202)	-	-
Foreign exchange forward contracts hedging foreign currency purchases	-	(47)	-	306
Interest rate swaps	(4,065)	(12,737)	(3,373)	(19,439)
Forward rate agreements	-	(61)	-	(111)
Interest rate options	-	(2,611)	-	(888)
Foreign exchange options	-	-	-	-

(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 instrument. 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 re-pricing analysis as these contracts mature within one year. For the purpose of re-pricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

21. FINANCIAL INSTRUMENTS continued

LINES BUSINESS 2001		Within one year	One to two years	Two to five years	Later than five years	Total
Effective interest rate		\$000	\$000	\$000	\$000	\$000
Assets						
Cash at Bank	3.00%	25	-	-	-	25
		25	-	-	-	25
Liabilities						
Debt	7.06%	(692,585)	(100,000)	(333,940)	(96,135)	(1,222,660)
		(692,585)	(100,000)	(333,940)	(96,135)	(1,222,660)
Off Balance Sheet						
Interest rate swaps		249,780	(78,700)	33,920	(205,000)	-
Interest rate options		56,800	(15,000)	25,000	(66,800)	-
		306,580	(93,700)	58,920	(271,800)	-
Re-pricing Profile		(385,980)	(193,700)	(275,020)	(367,935)	(1,222,635)

The interest rate on debt as amended by interest rate swaps is 7.86%

LINES BUSINESS 2000

LINES BUSINESS 2000		Within one year	One to two years	Two to five years	Later than five years	Total
Effective interest rate		\$000	\$000	\$000	\$000	\$000
Assets						
Cash at Bank	3.50%	19	-	-	-	19
		19	-	-	-	19
Liabilities						
Debt	7.49%	(524,666)	(249,326)	(433,940)	(37,827)	(1,245,759)
		(524,666)	(249,326)	(433,940)	(37,827)	(1,245,759)
Off balance sheet						
Interest rate swaps		341,780	-	(196,400)	(145,380)	-
Interest rate options		(25,000)	-	30,000	(5,000)	-
		316,780	-	(166,400)	(150,380)	-
Re-pricing Profile		(207,867)	(249,326)	(600,340)	(188,207)	(1,245,740)

The interest rate on debt as amended by interest rate swaps is 7.63%

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2001

22. SUBSIDIARY AND JOINT VENTURES OF TRANSPOWER GROUP

The subsidiaries that make up the lines business of the Transpower Group are as follows:

Subsidiaries	Holding	Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
Transpower Land Holdings Limited (non-trading)	100%	100%

The subsidiaries that make up the "Other Transpower Businesses" are as follows:

d-cypha Limited	100%	100%
Risk Reinsurance Limited	100%	-
Omaka Training Limited (non-trading)	100%	100%

Joint Ventures

OPTIMAL Limited	50%	50%
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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 the trading subsidiaries (excluding d-cypha and Risk Reinsurance) is financing. d-cypha was established in 1998 as a separate legal entity to provide reconciliation and metering services for both MARIA and NZEM parties. Risk Reinsurance was established in 2001 to provide insurance services to the Transpower Group.

OPTIMAL Limited is a joint venture offering consulting services based upon Transpower's experience in outsourcing and maintenance standards.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2001

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

	2001	2000
Transfer Payments by Line businesses to "Other Transpower Businesses" for:		
Asset maintenance services	0	0
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Avoided transmission charges on account of own generation	0	0
Expense to non-related entities for:		
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Operating Expenditure		
Transmission charges	0	0
Amortised goodwill	0	0
Amortisation of other intangibles	0	0
Merger and acquisition expenses	0	0
Takeover defence expenses	0	0
Research and development expenses	0	0
Rebates to consumers due to ownership interests	0	0
Subvention payments	0	0
Other goods and services provided to Transpower lines business	0	0
Unusual expenses	0	0
Assets		
Goodwill	0	0
Total intangible assets	0	0
Equity		
Capital notes	0	0

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2001

	LINES BUSINESS 2001	LINES BUSINESS 2000	LINES BUSINESS 1999	GROUP 1998	GROUP 1997	GROUP 1996
Financial Measures						
Return on Equity	8.3%	11.8%	13.4%	-30.0%	6.9%	7.4%
Return on Funds	8.4%	10.7%	11.2%	-7.9%	8.1%	8.9%
Return on Investment	3.2%	10.1%	7.3%	-11.3%	5.3%	7.2%

Efficiency Measures

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

$\frac{a}{b}$	101,514,000	89,839,000	85,580,584	120,954,000	122,388,000	116,444,000
	17,471	17,542	17,640	17,640	17,693	17,739
<i>a</i> is direct expenditure (in dollars): and	\$5,810	\$5,121	\$4,852	\$6,857	\$6,917	\$6,564
<i>b</i> is system length (in kilometres);						

Direct line costs per kilometre

From the year end 30 June 1999, the Electricity (Information Disclosures) Regulations 1999 required that only the lines portion of the business was disclosed. The regulations did not require comparatives to be restated and as such have not been.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

FORM FOR THE DERIVATION OF FINANCIAL AND EFFICIENCY MEASURES FROM THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2001

	in formula	calculations	ROF \$000	ROE \$000	ROI \$000
Earnings before interest and tax (EBIT) before revaluations	a		177,110		177,110
Net profit after tax (NPAT)	n			70,957	
Amortised goodwill	g				
Subvention payment	s				
Depreciation of SFA at BV	x		74,210	74,210	74,210
Depreciation of SFA at ODV	y		74,210	74,210	74,210
ODV depreciation tax alignment	d	(x-y)	0	0	0
Subvention payment tax adjustment	s*t				
Interest tax Shield	q				28,806
Revaluations	r				-59,116
Income tax	p				20,897
Numerator (as adjusted)			177,110	70,957	68,291
			$EBIT^{ADJ} = a+g+s+d$	$NPAT^{ADJ} = n+g+s-s*t+d$	$EBIT^{ADJ} = a+g-q+r+s+d-p-s*t$
Fixed assets at year beginning (FA 0)			2,193,227	2,193,227	2,193,227
Fixed assets at year end (FA 1)			2,089,099	2,089,099	2,089,099
Net working capital at year beginning (ANWC 0)			58,855	58,855	58,855
Net working capital at year end (ANWC 1)			17,013	17,013	17,013
Average total funds employed (ATFE)	c	$(FA_0 + FA_1 + ANWC_0 + ANWC_1)/2$	2,179,097	2,179,097	2,179,097
Total equity at year beginning (TE 0)			944,101	944,101	944,101
Total equity at year end (TE 1)			911,678	911,678	911,678
Average total equity	k	$(TE_0 + TE_1)/2$	927,890	927,890	927,890
Works under construction at year beginning (WUC 0)			69,605	69,605	69,605
Works under construction at year end (WUC 1)			78,258	78,258	78,258
Average total works under construction	e	$(WUC_0 + WUC_1)/2$	73,932	73,932	73,932
Revaluations	r		-59,116	-59,116	-59,116
Intangible asset at year beginning (IA 0)					
Intangible asset at year end (IA 1)					
Average Intangible asset	m	$(IA_0 + IA_1)/2$			
Subvention payment for previous year (S 0)					
Subvention payment for this year (S 1)					
Subvention payment tax adjustment for previous year	S 0 * t				
Subvention payment tax adjustment for this year	S 1 * t				
Average subvention payment & related tax adjustment	v	$[(S_0 + S_1)(1 - t)]/2$			
System fixed assets at year beginning at book value (SFA bv 0)			2,090,000	2,090,000	2,090,000
System fixed assets at year end at book value (SFA bv 1)			1,979,000	1,979,000	1,979,000
Average value of system fixed assets at book value	f	$(SFA_{bv_0} + SFA_{bv_1})/2$	2,034,500	2,034,500	2,034,500
System fixed assets at year beginning ODV value (SFA odv 0)			2,090,000	2,090,000	2,090,000
System fixed assets at year end ODV value (SFA odv 1)			1,979,000	1,979,000	1,979,000
Average value of system fixed assets at ODV value	h	$(SFA_{odv_0} + SFA_{odv_1})/2$	2,034,500	2,034,500	2,034,500
Denominator (as adjusted)			2,105,165	853,958	2,134,723
			$ATFE^{ADJ} = c-e-f+h$	$Ave TE^{ADJ} = k-e-m+v-f+h$	$ATFE^{ADJ} = c-e-5r-f+h$
Financial performance measure			8.4	8.3	3.2
			$EBIT^{ADJ}/ATFE^{ADJ} \times 100$	$NPAT^{ADJ}/Ave TE^{ADJ} \times 100$	$EBIT^{ADJ}/ATFE^{ADJ} \times 100$

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDING 30 JUNE 2001**

	\$ million
System fixed assets at ODV at 30 June 2000	<u>2,090</u>
<i>Add</i> system fixed assets acquired during the year at ODV	80
<i>Less</i> system fixed assets disposed of during the year at ODV	11
<i>Less</i> depreciation on system fixed assets at ODV*	121
<i>Add</i> revaluations of system fixed assets	-59
Equals system fixed assets at ODV at 30 June 2001	<u><u>1,979</u></u>

*Depreciation on system fixed assets at ODV includes the Long Run Average Cost of maintaining the transmission lines.

Reconciliation of the Transpower Lines Business's depreciation to the "depreciation on the system fixed assets at ODV".

Depreciation on system fixed assets as per the Transpower Lines Business's financial statements	74
<i>Plus</i> Long Run Average cost**	<u>47</u>
Depreciation on system fixed assets at ODV	<u><u>121</u></u>

**Long Run Average Cost (LRAC) is the cost for a year to maintain the current service potential of transmission line. Therefore by its nature it is a proxy for the depreciation charge for the year.

Long Run Average Cost	47
<i>Less</i> Service Potential Adjustment	<u>16</u>
Life Extending Maintenance Expenditure	<u><u>31</u></u>

The \$31 million Life Extending Maintenance is included in the "system fixed assets acquired during the year at ODV".

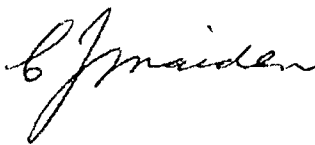
ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999
REGULATION 32(3)

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

We, Sir Colin Maiden and David Sadler, Directors of Transpower New Zealand Limited ("Transpower") certify that, having made all reasonable enquiry, to the best of our knowledge;

- (a) The attached audited financial statements of Transpower, prepared for the purposes of regulation 5 of the Electricity (Information Disclosure) Regulations 1999, give a fair view of the matters to which they relate and comply with the requirements of those regulations; and
- (b) The attached information, being the 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, 16, 16A, 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 2001.



Sir Colin Maiden.

20 November 2001



David Sadler.

The Electricity Information Disclosure Regulations 1999

(For 12 months ending 30 June 2001, 30 June 2000, 30 June 1999, 30 June 1998)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Regulation 21)

	2000-01	1999-00	1998-99	1997-98
1. Energy delivery efficiency performance measures				
(a) Load factor%	68.02	69.08	68.78	67.40
<i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>				
(b) Loss ratio%	5.94	3.97	3.83	4.27
<i>Transmission losses as percentage of energy entering the system</i>				
(c) Capacity utilisation.....%	72.35	63.48	65.11	66.99
<i>Maximum demand as percentage of total transformer capacity #</i>				
2. Statistics				
(a) System length, broken down by voltage				
Totalkm	17,471	17,542	17,640	17,640
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	8,381	8,365	8,365	8,365
110 kV (HVAC)km	6,158	6,212	6,270	6,263
66/50/33/11 kVkm	1,679	1,712	1,752	1,759
(b) Circuit length of overhead electric lines, broken down by voltage				
Totalkm	17,386	17,457	17,555	17,556
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	8,381	8,365	8,365	8,365
110 kV (HVAC)km	6,153	6,207	6,265	6,259
66/50/33/11 kVkm	1,679	1,712	1,752	1,759
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	5	5	4
(d) Transformer capacity				
(kilovolt amperes)* #kVA	8.48x10 ⁶	9.18x10 ⁶	8.71x10 ⁶	8.64x10 ⁶
(e) Maximum demand (kilowatts) *kW	6.17x10 ⁶	5.83x10 ⁶	5.67x10 ⁶	5.79x10 ⁶
(f) Total electricity supplied from the system				
(kilowatt hours) *kWh	34.57x10 ⁹	33.88x10 ⁹	32.86x10 ⁹	32.73x10 ⁹
(g) Total electricity conveyed through the system				
(kilowatt hours) * kWh	36.75x10 ⁹	35.28x10 ⁹	34.17x10 ⁹	34.19x10 ⁹
(h) Total customers	50	54	55	51

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

Installed transformer capacity based on ONAN ratings for 2000/01 data.

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Regulation 22)	2000/01	1999/00	1998/99	1997/98
1. Total number of unplanned interruptions* <i>Resulting from 55 loss of supply incidents in 2000/01</i>	102	62	110	103
2. Electricity customer interruptions in system minutes.....**	12.5	4.9	9.7	5.1
planned	0.9	2.8	2.7	2.1
Unplanned	11.6	2.1	7.1	2.9
3. Underlying electricity customer interruptions in system minutes.....** <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	4.0	4.9	7.3	5.1
planned	0.9	2.8	1.7	2.1
Unplanned	3.1	2.1	5.6	2.9
4. Average supply reliability% <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	99.9963	99.9986	99.9972	99.9985
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>	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability%	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability%	-	-	-	-
8. Planned interruption restoration performance.....%	89.5	100	94.4	90.5
9. Unplanned interruption response.....%	100	100	100	98.1

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

Uneconomic generation (Part 6 sections 5, 6 and 7) is not relevant in the market environment because scheduling is now based on offered price, not economic cost. In the market, 'offers to generate' are made after taking constraints into account and it is not possible to predict what a generator would have offered if the constraint was not present. As a result data is not available to allow a calculation and a null entry has been returned.

* 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. System minutes of interruptions are not counted if energy is made up by backfeed from another point of supply or by embedded generation within a customer's network.