



New Zealand Gazette

OF THURSDAY, 16 DECEMBER 2004

WELLINGTON: WEDNESDAY, 22 DECEMBER 2004 — ISSUE NO. 171

TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO
SECTION 57T OF THE COMMERCE ACT 1986



PricewaterhouseCoopers
113 – 119 The Terrace
PO Box 243
Wellington, New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001
www.pwc.com/nz

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2004

We have audited the financial statements of Transpower New Zealand Limited Lines Business. The financial statements provide information about the past financial performance of Transpower New Zealand Limited Lines Business and its financial position as at 30 June 2004. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

Directors' responsibilities

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 57T of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2004, and results of operations and cash flows for the year then ended.

Auditors' responsibilities

Section 15 of the Public Audit Act 2001 and Regulation 30 of the Electricity Information Disclosure Requirements 2004 require the Auditor-General to audit the financial statements. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Jim Chin 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 Lines Business' circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate 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.

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

**Unqualified opinion**

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 Lines Business as far as appears from our examination of those records; and
- the financial statements of Transpower New Zealand Limited Lines Business:
 - (a) comply with generally accepted accounting practice in New Zealand; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2004 and the results of its operations and cash flows for the year ended on that date; and
 - (c) comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 17 December 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink that reads "Jim Chin". The signature is written in a cursive, flowing style.

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers



PricewaterhouseCoopers
113 – 119 The Terrace
PO Box 243
Wellington, New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001
www.pwc.com/nz

AUDITOR-GENERAL'S OPINION ON THE PERFORMANCE MEASURES OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

We have examined the attached information, being:

- (a) the derivation table in requirement 15;
- (b) the annual ODV reconciliation report in requirement 16;
- (c) the financial performance measures in clause 1 of Part 3 of Schedule 1; and
- (d) the financial components of the efficiency performance measures in clause 2 of Part 3 of Schedule 1,-

that were prepared by Transpower New Zealand Limited Lines Business and dated 16 December 2004 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, that information has been prepared in accordance with the Electricity Information Disclosure Requirements 2004.

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

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
17 December 2004

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

PricewaterhouseCoopers



PricewaterhouseCoopers
113-119 The Terrace
PO Box 243
Wellington, New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001

**AUDITOR-GENERAL'S OPINION ON THE VALUATION REPORT OF
TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS**

We have examined the valuation report of Transpower New Zealand Limited Lines Business and dated 16 December 2004, which report contains valuations of system fixed assets as at 30 June 2004.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, the valuations contained in the report, including the total valuation of system fixed assets of \$2,026,000,000, have been made in accordance with the ODV Handbook.

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

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
17 December 2004

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

PricewaterhouseCoopers

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Notes	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Operating revenue	2	456,646	441,288
Operating expenses	3	295,381	294,557
		<hr/>	<hr/>
Net finance costs	5	161,265	146,731
Surplus from operations before tax and revaluation		67,049	78,714
Transfer from asset revaluation reserve	13	94,216	68,017
Surplus from operations before tax		<hr/>	<hr/>
Tax expense	6	(5,477)	(33,208)
Operating surplus after tax		88,739	34,809
		<hr/>	<hr/>
Net surplus attributable to shareholders		27,430	16,360
		<hr/>	<hr/>
		61,309	18,449
		<hr/>	<hr/>
		61,309	18,449

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 2004

	Notes	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Equity at the beginning of the year		963,461	972,778
Net surplus attributable to shareholders		61,309	18,449
Total recognised revenue and expenses for the year		61,309	18,449
Dividends paid	15	(16,743)	(27,766)
Equity at the end of the year		<u>1,008,027</u>	<u>963,461</u>

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 2004

	Notes	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
ASSETS EMPLOYED			
Current assets	7	77,582	62,592
Fixed assets	8	2,086,819	2,122,626
Total Assets Employed		2,164,401	2,185,218
FUNDS EMPLOYED			
Liabilities			
Current liabilities	9	499,589	419,738
Long term lease liabilities	10	-	-
Long term debt	11	656,785	802,019
Total Liabilities		1,156,374	1,221,757
Equity			
Capital	12	1,200,000	1,200,000
Reserves	13	-	-
Accumulated deficit	14	(191,973)	(236,539)
Total Equity		1,008,027	963,461
Total Funds Employed		2,164,401	2,185,218

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 16 December 2004.

For, and on behalf of, the Board



David Gascoigne
Chairman

16 December 2004



Mark Tume
Director

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	431,586	441,458
Interest received	5,537	4,120
Cash was applied to:		
Payments to suppliers and employees	(172,963)	(196,447)
Tax payments	(18,820)	(23,192)
Interest paid	(78,407)	(81,896)
Net cash inflows from operations	<u>166,933</u>	<u>144,043</u>
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	453	2,321
Short term investments	569,646	842,460
Cash was applied to:		
Purchase of fixed assets	(96,596)	(99,322)
Short term investments	(569,138)	(834,050)
Net cash outflows from investments	<u>(95,635)</u>	<u>(88,591)</u>
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	958,970	1,035,167
Cash was applied to:		
Dividends paid	(16,743)	(27,766)
Repayment of loans	(1,012,051)	(1,061,886)
Net cash outflows from financing	<u>(69,824)</u>	<u>(54,485)</u>
Net increase/(decrease) in cash held	1,474	967
Opening balance brought forward	(752)	(1,719)
Closing net cash carried forward	<u>722</u>	<u>(752)</u>
Closing net cash carried forward comprises:		
Cash and bank	722	-
Bank overdraft	-	(752)
	<u>722</u>	<u>(752)</u>

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS continued
FOR THE YEAR ENDED 30 JUNE 2004

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

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Operating surplus after tax	61,309	18,449
Add/(deduct) non-cash items:		
Depreciation	114,409	81,307
Infrastructure asset service potential adjustment	-	8,545
Transfer from asset revaluation reserve	5,477	33,208
Capitalised interest	(2,956)	(3,179)
Movements in working capital items:		
Decrease(increase) in trade and other receivables	(22,976)	1,757
Decrease(increase) in prepayments	(625)	(423)
Decrease(increase) in stocks of materials	223	891
(Decrease)increase in trade and other liabilities, interest payable and deferred income	(15,715)	(2,785)
(Decrease)increase in taxation payable	8,610	(6,832)
Increase(decrease) in provisions	4,166	6,295
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	15,011	6,810
Net Cash Flow from Operations	<u>166,933</u>	<u>144,043</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 2004

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These financial statements are for the lines business of Transpower New Zealand Limited 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 Requirements 2004.

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

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

Measurement Base

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

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 2004. 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 Statement 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 2004*(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 are recorded at the lower of cost and net realisable value.

*(f) Fixed Assets***Historical Cost Measurement**

Fixed assets are recorded at cost less accumulated depreciation. In respect of assets acquired prior to 1 July 2003, cost represents the valuation of those assets at 30 June 2003. In respect of assets acquired after 1 July 2003 cost is determined by including all costs directly associated with bringing the fixed assets to their location and condition.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004*(f) Fixed Assets (continued)**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.

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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004**(g) Depreciation**

Depreciation of 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:

Transmission Lines	35-70 years
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

(h) 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.

(i) Statement of Cash Flows

The following are the definitions of the terms used in the Statement 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 2004*(i) Statement 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.

(j) 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 6.

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.

(k) 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 2004*(l) 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 20.

(m) Reclassifications

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

Changes in Accounting Policies**Historical cost**

The measurement base for fixed assets has changed from modified historical cost to historical cost. The carrying value of assets as at 30 June 2003 has been used as the opening value for historical cost accounting.

This change in accounting policy has been adopted on the basis that annual revaluations have not been material relative to the asset base.

Based on the latest valuation this change in accounting policy had the effect of reducing by \$95 million the Transfer from Asset Revaluation Reserve and the Operating Surplus after Tax shown in the Statement of Financial Performance, and the carrying value of Fixed Assets in the Statement of Financial Position.

Infrastructure Accounting

In accordance with FRS-3 Transpower has ceased using infrastructure accounting with effect from 1 July 2003. As a result in this change in accounting policy Depreciation has increased by \$31 million, the Infrastructure asset service potential adjustment (SPA) has ceased resulting in a decrease of expenses for SPA of \$11 million. Asset operation and maintenance costs have decreased by \$17 million. The effect on the Net Surplus from Operations is a reduction of \$3 million.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

2. OPERATING REVENUE

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Transmission services revenue	455,416	439,616
Other revenue	1,230	1,672
Total operating revenue	456,646	441,288

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	71	71
Revenue - AC loss rental rebates	38,322	69,076
Expense - AC loss rental rebates	(38,322)	(69,063)
AC loss rental rebates not passed through to customers	-	13

A \$36 million gain arising from a Cross Border Lease dated December 2003 has been excluded from these statements as it has been deemed not to relate to the lines business. Associated expenses and taxation costs relating to the transaction have been excluded on the same basis.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

3. OPERATING EXPENSES

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Administration and general costs	66,306	65,099
Asset operation and maintenance costs	107,345	120,445
Charges in respect of assets:		
Depreciation - Buildings	2,737	1,942
Depreciation - Substations	35,491	32,893
Depreciation - HVDC Link	10,155	10,788
Depreciation - HVDC leased assets	13,698	12,176
Depreciation - Communication assets	7,741	9,464
Depreciation - Administration assets	13,282	14,044
Depreciation - Transmission Lines	31,305	-
Infrastructure asset service potential adjustment	-	8,545
Stock and asset write-offs	16,266	7,105
Charges in respect of receivables:		
Bad debts written off	-	8
Movement in the provision for doubtful debts	(8,251)	8,251
Provision for industry related costs	(5,000)	-
Directors' fees	297	329
Study grants and donations	940	877
Lease and rental costs	3,069	2,591
Total operating expenses	295,381	294,557
Net loss on the disposal of assets included in stock and asset write-offs:		
Net loss on the disposal of assets	15,011	6,810
	<u>15,011</u>	<u>6,810</u>
Electricity regulations additional disclosures:		
Employee salaries and redundancies	30,413	28,688
Human resource expenses	3,150	2,766
Marketing / advertising expenses	571	551
Legal and consultancy expenses (including industry reform)	9,357	12,419
Corporate and administration expenses	18,219	14,891
Other	4,596	5,784
Total administration and general expenditure	<u>66,306</u>	<u>65,099</u>
Transfer payments to "Other Transpower Businesses"		
Payment for metering data	1,242	988
Payment for insurance	11,314	11,427
Total transfer payments to "Other Transpower Businesses"	<u>12,556</u>	<u>12,415</u>
Local authority rates expense	<u>1,385</u>	<u>1,145</u>
Consumer billing and information system expense	<u>375</u>	<u>375</u>
Depreciation of system assets	97,799	65,847
Depreciation of other assets	16,610	15,460
Total depreciation	<u>114,409</u>	<u>81,307</u>
Bad debts written off	-	8
Movement in the provision for doubtful debts	(8,251)	8,251
Total cost of offering credit	<u>(8,251)</u>	<u>8,259</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2004

4. REMUNERATION OF AUDITORS

	LINES BUSINESS 2004	LINES BUSINESS 2003
Fees paid or payable to PricewaterhouseCoopers	\$000	\$000
As auditor of Transpower and Transpower subsidiaries	265	207
For other services		
Reporting Engagements other than the annual report	216	58
Assistance to Internal Audit function	329	272
Other Assurance-oriented assignments	254	273
Other	216	237
	<u>1,280</u>	<u>1,047</u>

5. NET FINANCE COSTS

Finance costs	75,542	86,013
Capitalised interest	(2,956)	(3,179)
Interest received	(5,537)	(4,120)
Net finance costs	<u>67,049</u>	<u>78,714</u>

Total operating expenses	295,381	294,557
Net finance costs	67,049	78,714
Total expenses including net financing costs	<u>362,430</u>	<u>373,271</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

6. TAXATION

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Operating surplus before tax	88,739	34,809
Prima facie tax at 33%	29,284	11,487
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(5,154)	(7,696)
- current period revaluation adjustment	1,807	10,959
Permanent differences	(440)	468
Income tax charge in respect of the current year	25,497	15,218
Under / (over) provision in prior years	1,933	1,142
Tax expense	27,430	16,360
The income tax charge is represented by:		
Tax payable in the current year	26,897	16,566
Deferred tax	533	(206)
	27,430	16,360
Deferred tax asset		
Balance at the beginning of the year	1,871	1,665
Increase in deferred tax asset	(533)	206
Balance at the end of the year	1,338	1,871
Deferred tax liability memorandum account		
Balance at the beginning of the year	148,047	151,310
Increase (reduction) in deferred tax liability	3,347	3,263
Balance at the end of the year	151,394	148,047
These timing differences predominantly relate to depreciation and previous infrastructure asset service potential adjustments in respect of fixed assets, and are not recognised in the financial statements.		
Imputation credit memorandum account		
Balance at the beginning of the year	54,419	45,684
Tax payments made	32,354	25,901
Imputation credits attached to dividends paid to shareholders	(8,138)	(17,166)
Balance at the end of the year	78,635	54,419

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

7. CURRENT ASSETS

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Cash and bank	722	-
Short term investments	10	510
Trade receivables	59,012	36,303
Provision for current tax	441	8,518
Deferred tax	1,338	1,871
Other receivables	2,832	2,565
Stocks of materials	10,870	11,093
Prepayments	2,357	1,732
Total current assets	77,582	62,592
Reconciliation of provision for current tax:		
Balance at the beginning of the year	(8,518)	(1,892)
Tax payable in the current year (refer Note 6)	26,897	16,566
Provisional tax (payments) refunds made during the year	(18,820)	(23,192)
Balance at the end of the year	(441)	(8,518)

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

8. FIXED ASSETS

	Cost	Accumulated	Net Book Value	Valuation
	2004	Depreciation	2004	2003
	\$000	\$000	\$000	\$000
Transmission lines	809,845	31,298	778,547	806,001
Freehold land	52,997	0	52,997	51,807
Freehold buildings	44,816	2,689	42,127	38,472
Substations	821,467	35,147	786,320	773,267
HVDC link	60,299	10,155	50,144	60,309
HVDC leased assets	222,261	13,698	208,563	222,178
Communications	54,712	7,702	47,010	47,356
Administration assets	30,499	7,258	23,241	24,081
Capital work in progress	97,870	0	97,870	99,155
Total fixed assets	2,194,766	107,947	2,086,819	2,122,626

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

The majority of the AC transmission assets in the South Island are subject to a cross border finance lease.
The total net book value of all South Island AC assets at 30 June 2004 is \$612 million.

Capital work in progress comprises the following asset classes:

Transmission lines	21,130	5,700
Freehold land	4,117	247
Freehold buildings	1,374	198
Substations	53,778	68,898
HVDC link	565	191
HVDC leased assets	1,319	237
Communications	5,568	5,183
Administration assets	10,019	18,501
	97,870	99,155

During the year the following borrowing costs were capitalised:

Transmission lines	624	348
Freehold land	20	95
Freehold buildings	10	76
Substations	1,655	1,734
HVDC link	14	6
HVDC leased assets	32	7
Communications	100	321
Administration assets	491	592
	2,946	3,179

Transpower has elected to follow FRS-3, 7.2(b) and change its measurement base for fixed assets from modified historical cost to historic cost. The opening cost of the assets represents the valuation of those assets at 30 June 2003.

2003 Asset valuation

The fixed assets of the Lines Business were valued at 30 June 2003 in accordance with the ODV methodology. The valuation was completed by Transpower, and independently reviewed by PricewaterhouseCoopers.

In conducting this valuation the following significant assumptions or limiting conditions were taken into account:

Valuations have been established in accordance with the ODV methodology as described in the Optimised Deprival Valuation of Electricity Lines Business System Fixed Assets (4th edition) (the Handbook), published by the Ministry of Economic Development.

Replacement costs for AC transmission assets have been obtained from the Handbook, or derived from costings prepared in accordance with the Handbook procedures.

Replacement Costs for HVDC assets are based on:

International costs for HVDC equipment obtained from Teshmont Consultants Inc.

Historical exchange rates over the period April 2000 to June 2003, with the average USD exchange rate over that period being 0.4780.

Easement costs capitalised in accordance with the Handbook.

Interest during construction used in establishing replacement costs has been established as 4% of replacement cost for AC transmission lines, 4.8% for AC substation assets and 5.8% for HVDC assets.

Assets have been optimised in accordance with the Handbook, utilising demand growth assumptions. The ratio of optimised replacement cost to replacement cost is approximately 83%.

Electricity regulations additional disclosures:

Motor vehicles	752	848
Office equipment	822	55
Customer billing and information assets	-	-

Transpower lines business system fixed assets have a value in these financial statements of \$1,919 million (2003: \$1,966 million).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

9. CURRENT LIABILITIES

	LINES BUSINESS	
	2004	2003
	\$000	\$000
Bank overdrafts	-	752
Trade creditors	14,475	25,512
Interest payable	11,386	14,253
Employee entitlements	7,092	6,820
Other creditors and provisions	32,258	28,094
Short term debt	12,432	71,233
Current portion of long term debt	407,440	256,485
Current portion of lease liabilities	-	-
Deferred income	14,506	16,589
Total current liabilities	499,589	419,738

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

The majority of the AC transmission assets in the South Island are subject to a cross border finance lease entered into by Halfway Bush Finance Limited entered into in the period ended 30 June 2004.

The Transpower Lines Business does not recognise a lease liability with respect to these cross border leases as Haywards Limited, Oteranga Bay Limited and Halfway Bush 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 2004

11. LONG TERM DEBT

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
The following loan arrangements included within long term debt have a face value as follows:		
Bonds	435,000	535,000
Euro medium term notes	183,905	340,827
Other	422,439	200,000
	<u>1,041,344</u>	<u>1,075,827</u>
Less unamortised discount	(2,870)	(3,544)
	<u>1,038,474</u>	<u>1,072,283</u>
Less current portion of long term debt	(407,440)	(256,485)
	<u>631,034</u>	<u>815,798</u>
Between one to two years	95,393	185,722
Between two to five years	339,615	435,541
Greater than five years	196,026	194,535
Long term debt	<u>631,034</u>	<u>815,798</u>
Add debt allocated (to)/from non-lines businesses*	25,751	(13,779)
Total Long Term Debt	<u>656,785</u>	<u>802,019</u>

*These financial statements have been prepared by adjusting the Transpower Group financial statements for non lines business items included in those financial statements.

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 Supplemental Trust Deeds.

Pursuant to the trust deed, Transpower, Transpower Finance Limited and Transpower Finance Limited's fellow subsidiaries, excluding Risk Reinsurance Limited, Benmore Finance, Bunnythorpe Holdings and Benmore Trust (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 Program 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\$1,584,786,000) as at June 2004, US\$1,000,000,000 (NZ\$1,778,410,000) as at 30 June 2003 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.

Australian Medium Term Notes

During the period Transpower arranged an Australian Medium Term Note Program. Under the Australian Medium Term Note Program, Transpower Finance Limited may issue notes guaranteed by TPNZ. The aggregate principal amount of the notes outstanding may not exceed AU\$750,000,000 (NZ\$820,127,000).

There were no Australian Medium Term notes outstanding as at 30 June 2004 (2003: nil).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

12. CAPITAL

Transpower's share capital consists of 1,200,000,000 (2002: 1,200,000,000) issued and fully paid ordinary shares which confer on the holders the right to vote at any annual general meeting of Transpower. All ordinary shares rank equally.

13. RESERVES

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Asset revaluation reserve		
Balance at the beginning of the year	-	-
Revaluation (devaluation) of fixed assets*	(5,477)	(33,208)
Transfer to retained earnings	-	-
Transfer to statement of financial performance	5,477	33,208
Balance at the end of the year	-	-
Total reserves	-	-

*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 2004

14. ACCUMULATED DEFICIT	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Balance at the beginning of the year	(236,539)	(227,222)
Operating surplus after tax	61,309	18,449
Accumulated deficit before dividends paid	(175,230)	(208,773)
Dividends paid	(16,743)	(27,766)
Balance at the end of the year	(191,973)	(236,539)

15. DIVIDENDS TO THE SHAREHOLDER	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Final dividend paid (relating to the previous year)	16,743	5,766
Interim dividend paid	-	22,000
	16,743	27,766

Subsequent to balance date, the directors have declared a final dividend payable of \$40,000,000 for the Transpower Group. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$41,315,000

16. CAPITAL COMMITMENTS	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Capital commitments in respect of contracts for capital expenditure:		
Within one year	4,166	9,979
One to two years	614	840
Two to five years	-	1,108
Total capital commitments	4,780	11,927

17. OPERATING LEASE COMMITMENTS	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Commitments in respect of non-cancellable operating leases payable:		
Within one year	2,673	2,993
One to two years	2,488	2,619
Two to five years	7,308	7,535
Later than five years	14,585	15,985
Total operating lease commitments	27,054	29,132

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

18. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

Transpower has entered into three cross border leases in respect of certain HVDC converter stations and the submarine cables, and the majority of the South Island AC transmission assets. The nature of these transactions is described in Note 10.

Transpower has given guarantees and certain undertakings in accordance with a limited guarantee dated 24 October 1996 in respect of certain HVDC converter stations, a limited guarantee dated 31 May 1996 in respect of the submarine cables and a limited guarantee dated 22 December 2003.

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, Euro medium term notes and Australian medium term notes as described in Note 11.

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

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Bonds	439,134	541,463
Euro Medium Term Notes	125,401	244,923

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

(ii) 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. Transpower has filed a statement of defence and believes that it has not breached the Commerce Act in any respect. Kiwi Co-operative Dairies Limited has since withdrawn from the proceedings.

(iii) Economic Gain (Loss) Account

In the current regulatory environment, Transpower operates its revenue setting methodology within an Economic Value ("EV") 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 ("the EV balance") has been, at Directors discretion, passed on to customers over time. Any such transfer to customers would occur after consideration by Directors of the balance of this account.

Under the proposed new regulatory regime the Electricity Commission will be required to determine transmission pricing. Also, the Commerce Commission will set revenue thresholds for Transpower. With the transition to this new regulatory environment in mind, Directors have recently reset prices with effect from 1 April 2004 to a level necessary to earn an appropriate rate of return in respect of an asset value from which have been deducted the asset revaluations giving rise to the EV customer account balance.

At 30 June 2004 there is \$86,930,000 (30 June 2003: \$68,185,000) to the credit of the customer account.

(iv) Debt Defeasance

The Transpower Group has entered into a funding arrangement which resulted in the Group raising \$200,000,000 in debt. The funding arrangement raised gross funding of \$732,700,000 of which \$532,700,000 was on lent to financial institutions. The net effect of this transaction is that \$532,700,000 of funding is defeased and is therefore not recognised in the Group Statements of Financial Position. There were no gains or losses on defeasance. In respect of the \$532,700,000 defeased Transpower has a secondary obligation of up to \$100,000,000 if a financial institution does not honour its obligations on the loan note and has not provided adequate capital. Transpower considers that the likelihood of being required to satisfy this secondary obligation is remote.

(vi) Provision for Industry Related Costs

Directors have provided for certain industry related costs. Directors believe that further disclosure of the details of these costs could adversely influence Transpower's position in its negotiations with third parties. As a result, disclosure is limited in accordance with section 11.13 of FRS-15.

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

19. 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 2004

20. FINANCIAL INSTRUMENTS

(a) Financial risks

The Transpower Group is subject to a number of financial risks which arise as a result of having a debt portfolio which is 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 2004

20. 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 2004 (2003: 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 NZ \$350,000,000.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

20. 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**

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

In the event the Transpower Group is unable to use these facilities the Group has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks. This was not used at 30 June 2004 or 30 June 2003. The second facility is a Standby Facility for NZ\$250,000,000 which was not used at 30 June 2004, or 30 June 2003.

Term investments

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

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

Interest rate swaps are used to change the interest rate structure on physical debt issued by the Group. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into an interest rate swap. In the normal course of the Groups 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 2004

20. FINANCIAL INSTRUMENTS continued

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

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
Interest rate swaps	3,650,380	3,610,080

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	251,253	573,686
Principal payable	(281,414)	(629,618)

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	-	60,000
-------------------------	---	--------

Interest rate options

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

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

Interest rate options	-	110,000
-----------------------	---	---------

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	10,000	-
------------------------------------	--------	---

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

20. FINANCIAL INSTRUMENTS continued

(d) Maximum credit risk exposure

The maximum credit exposure in respect of on balance sheet assets is best represented by their carrying value. For other financial instruments the maximum credit exposure is best represented by the net marked to market valuation by Counterparty where the valuation is positive, as follows:

	LINES BUSINESS 2004 \$000	LINES BUSINESS 2003 \$000
<i>Net cash settlement amount receivable</i>		
Interest rate swaps	4,333	7,095
Cross currency interest rate swaps	4,395	4,341
Forward rate agreements	-	-

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 2004

20. 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 2004 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$17,218,000 (NZ\$66,506,000 as at 30 June 2003).

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 2004

20. FINANCIAL INSTRUMENTS continued

Carrying value/fair value	Carrying Value 2004 \$000	Fair Value 2004 \$000	Carrying Value 2003 \$000	Fair Value 2003 \$000
LINES BUSINESS				
On Balance Sheet				
Cash at bank	722	722	(752)	(752)
Short term investments	10	10	510	510
Debt	(1,074,404)	(1,082,413)	(1,129,737)	(1,178,551)
Off Balance Sheet				
Cross currency interest rate swaps	600	(82)	378	8,430
Interest rate swaps	(223)	(223)	951	(23,355)
Forward rate agreements	457	(8,070)	-	58
Interest rate 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 repriced and the current weighted average interest rate of each maturity. Transpower will transact further interest rate hedging in advance of the repricing 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 2004

20. FINANCIAL INSTRUMENTS continued

LINES BUSINESS 2004						
	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Later than five years \$000	Total \$000
Assets						
Cash at bank	4.00%	722	-	-	-	722
Short term investments	4.22%	10	-	-	-	10
		732	-	-	-	732
Liabilities						
Bank Overdraft	9.20%	-	-	-	-	-
Debt	6.70%	(419,872)	(95,393)	(339,615)	(221,777)	(1,076,657)
		(419,872)	(95,393)	(339,615)	(221,777)	(1,076,657)
Off Balance Sheet						
Interest rate swaps		302,000	(28,000)	61,000	(335,000)	-
Interest rate options		-	-	-	-	-
		302,000	(28,000)	61,000	(335,000)	-
Re-pricing Profile		(117,140)	(123,393)	(278,615)	(556,777)	(1,075,925)

The interest rate on debt as amended by interest rate swaps is 7.14%

LINES BUSINESS 2003

LINES BUSINESS 2003						
	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Later than five years \$000	Total \$000
Assets						
Short Term Investments	6.39%	510	-	-	-	510
		510	-	-	-	510
Liabilities						
Bank Overdraft	9.20%	(752)	-	-	-	(752)
Debt	6.70%	(497,880)	(185,722)	(319,716)	(126,419)	(1,129,737)
		(498,632)	(185,722)	(319,716)	(126,419)	(1,130,489)
Off balance sheet						
Interest rate swaps		73,000	130,000	87,000	(290,000)	-
Interest rate options		-	-	-	-	-
		73,000	130,000	87,000	(290,000)	-
Re-pricing Profile		(425,122)	(55,722)	(232,716)	(416,419)	(1,129,979)

The interest rate on debt as amended by interest rate swaps is 7.14%

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2004

21. SUBSIDIARY AND JOINT VENTURES OF TRANSPOWER GROUP

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

Subsidiaries	2004 Holding	2003 Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
TB & T Limited (established December 2003)	100%	-
Aratiatia Holdings Limited	100%	100%
Benmore Finance	100%	100%
Bunnythorpe Holdings	100%	100%
Benmore Trust	100%	100%
Halfway Bush Finance Limited (formerly Transisland Grid Assets Limited)	100%	100%

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

Energy Market Services Limited (formerly d-cypha Limited).	100%	100%
Risk Reinsurance Limited	100%	100%
Onaka Training Limited (non-trading)	100%	100%

Joint Ventures

OPTIMAL Limited	0%	50%
-----------------	----	-----

Following a shareholders' resolution, OPTIMAL Limited was removed from the Register of Companies on 29 March 2004

All subsidiary entities have a balance date of 30 June.

Risk Reinsurance Limited is incorporated in the Cayman Islands. All other subsidiary entities are incorporated in New Zealand.

All subsidiaries are direct subsidiaries of Transpower except for:

- Oteranga Bay Limited and Haywards Limited which are wholly owned by Fighting Bay Finance Limited.
- Benmore Finance in which Bunnythorpe Holdings has a 4% share.
- Benmore Trust which is wholly owned by Aratiatia Holdings Limited and Benmore Finance.

The principal activity of the trading subsidiaries (excluding Energy Market Services (EMS) and Risk Reinsurance) is financing.

EMS 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.

22. RELATED PARTY TRANSACTIONS

Transpower conducts transactions with other State-Owned Enterprises and Government Departments.

These transactions are undertaken on a commercial and arm's length basis and it is considered that these do not fall within the intended scope of related party disclosure.

The subsidiaries, associate and joint venture companies identified in Note 21 are related parties of Transpower.

Transactions with these parties are disclosed as "Other Business" transactions in Note 2 and 3.

All of these 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 2004

23. OTHER ITEMS REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999.

	2004	2003
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
Total tangible assets	2,164,401	2,185,218
Equity		
Capital notes	0	0

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2004

	LINES BUSINESS 2004	LINES BUSINESS 2003	LINES BUSINESS 2002	LINES BUSINESS 2001
Financial Measures				
Return on Equity	7.1%	5.9%	8.6%	8.3%
Return on Funds	7.9%	3.3%	8.5%	8.4%
Return on Investment	10.3%	7.1%	9.3%	3.2%

Efficiency Measures

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

	107,345,427 17,041	120,445,000 *17,134	106,599,000 17,145	101,514,000 *17,288
$\frac{a}{b}$				
<i>a</i> is direct expenditure (in dollars); and	\$6,299	\$7,030	\$6,217	\$5,872
<i>b</i> is system length (in kilometres);				

Direct line costs per kilometre

*2000/01 and 2003 figures updated with revised data.

SCHEDULE 1 - PART 7
FORM FOR THE DERIVATION OF FINANCIAL PERFORMANCE MEASURES FROM FINANCIAL STATEMENTS

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial	166,801				
Operating surplus before interest and income tax adjusted pursuant to requirement 18 (OSBIIT)	166,801				
Interest on cash, bank balances, and short-term investments (ISTI)	5,537				
OSBIIT minus ISTI	161,265	a	161,265		161,265
Net surplus after tax from financial statements	66,786				
Net surplus after tax adjusted pursuant to requirement 18 (NSAT)	66,786	n		66,786	
Amortisation of goodwill and amortisation of other intangibles	0	g	add 0	add 0	add 0
Subvention payment	0	s	add 0	add 0	add 0
Depreciation of SFA at BV (x)	97,799				
Depreciation of SFA at ODV (y)	97,821				
ODV depreciation adjustment	-22	d	add -22	add -22	add -22
Subvention payment tax adjustment	0	s*t		deduct 0	deduct 0
Interest tax shield	23,102	q			deduct 23,102
Revaluations	95,000	r			add 95,000
Income tax	27,430	p			deduct 27,430
Numerator			161,242	66,764	205,711
			$OSBIIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s \cdot s*t + d$	$OSBIIT^{ADJ} = a + g - q + r + s + d \cdot p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,122,626				
Fixed assets at end of current financial year (FA ₁)	2,086,819				
Adjusted net working capital at end of previous financial year	-39,574				
Adjusted net working capital at end of current financial year (ANWC ₁)	-4,647				
Average total funds employed (ATFE)	2,082,612	c	2,082,612		2,082,612
(or regulation 33 time-weighted average)					
Total equity at end of previous financial year (TE ₀)	963,461				
Total equity at end of current financial year (TE ₁)	1,008,027				
Average total equity	985,744	k		985,744	
(or regulation 33 time-weighted average)					
WUC at end of previous financial year (WUC ₀)	99,155				
WUC at end of current financial year (WUC ₁)	97,870				
Average total works under construction	98,513	e	deduct 98,513	deduct 98,513	deduct 98,513
(or regulation 33 time-weighted average)					
Revaluations	95,000	r			
Half of revaluations	47,500	r/2			deduct 47,500
Intangible assets at end of previous financial year (IA ₀)	0				
Intangible assets at end of current financial year (IA ₁)	0				
Average total intangible asset	0	m		deduct 0	0
(or regulation 33 time-weighted average)					
Subvention payment at end of previous financial year (S ₀)	0				
Subvention payment at end of current financial year (S ₁)	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v		add 0	0
System fixed assets at end of previous financial year at book value	1,965,000				
System fixed assets at end of current financial year at book value	1,919,255				
Average value of system fixed assets at book value	1,942,127	f	deduct 1,942,127	deduct 1,942,127	deduct 1,942,127
(or regulation 33 time-weighted average)					
System Fixed assets at year beginning at ODV value (SFA _{odv0})	1,965,000				
System Fixed assets at end of current financial year at ODV value	2,026,000				
Average value of system fixed assets at ODV value	1,995,500	h	add 1,995,500	add 1,995,500	add 1,995,500
(or regulation 33 time-weighted average)					
Denominator			2,037,472	940,604	1,989,972
			$ATFE^{ADJ} = c - e - f + h$	$Ave TE^{ADJ} = k - e - m + v - f + h$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f + h$
Financial Performance Measure:			7.9	7.1	10.3
			$ROF = OSBIIT^{ADJ} / ATFE^{ADJ} \times 100$	$ROE = NSAT^{ADJ} / ATE^{ADJ} \times 100$	$ROI = OSBIIT^{ADJ} / ATFE^{ADJ} \times 100$

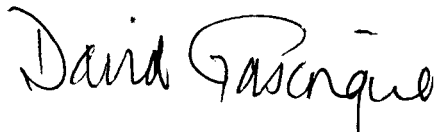
t = maximum statutory income tax rate applying to corporate entities bv = book value ave = average odv = optimised deprival valuation subscript '0' = end of financial year subscript '1' = end of the current financial year ROF = return on funds ROE = return on equity ROI = return on investment

Form 5**ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS 2004
REGULATION 31(2)****CERTIFICATE BY DIRECTORS OF FINANCIAL STATEMENTS,
PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY
TRANSPOWER NEW ZEALAND LIMITED**

We, David Gascoigne and Mark Tume, 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 Commerce Commission's Electricity Information Disclosure Requirements 2004, comply with those Requirements; and
- (b) The attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of requirements 14, 15, 20, and 21 of the Electricity Information Disclosure Requirements 2004, comply with those Requirements

The valuations on which those financial performance measures are based are as at 30 June 2004.



David Gascoigne

16 December 2004



Mark Tume

The Electricity Information Disclosure Requirements 2004

(For 12 months ending 30 June 2004, 30 June 2003, 30 June 2002, 30 June 2001)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Requirement 20)	2003/04	2002/03	2001/02	2000/01	
1. Energy delivery efficiency performance measures					
(a) Load factor % <i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>	71.05	70.50	67.09	68.67	
(b) Loss ratio % <i>Transmission losses as percentage of energy entering the system</i>	3.82	4.36	2.90	4.65	
(c) Capacity utilisation % <i>Maximum demand as percentage of total transformer capacity #</i>	69.49	69.86	70.71	71.00	
2. Statistics					
(a) System length, broken down by voltage					
Total ^{&}	km	17,041	17,134	17,145	17,286
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	8,376	8,357	8,357	8,357
110 kV (HVAC)	km	6,073	6,076	6,108	6,134
66/50/33/11 kV ^{&}	km	1,339	1,449	1,428	1,545
(b) Circuit length of overhead electric lines, broken down by voltage.					
Total ^{&}	km	16,956	17,049	17,060	17,203
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	8,376	8,357	8,357	8,357
110 kV (HVAC)	km	6,068	6,071	6,103	6,129
66/50/33/11 kV ^{&}	km	1,339	1,449	1,428	1,545
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	5
(d) Transformer capacity (kilovolt amperes)					
ONAN Rating #	kVA	8.77x10 ⁶	8.64x10 ⁶	8.59x10 ⁶	8.53x10 ⁶
Maximum Continuous Rating	kVA	12.65x10 ⁶	11.87x10 ⁶		
(e) Maximum demand (kilowatts) ^{*\$}	kW	6.09x10 ⁶	6.04x10 ⁶	6.07x10 ⁶	6.05x10 ⁶
(f) Total electricity entering the system (before losses of electricity), in kilowatt hours: ^{*\$}	kWh	38.02x10 ⁹	37.28x10 ⁹	35.70x10 ⁹	36.42x10 ⁹
(g) The total amount of electricity (in kilowatt hours) supplied from the system (after losses of electricity) during the financial year on behalf of each person that is an electricity generator or an electricity retailer, or both: ^{*\$@}	kWh	35.65x10 ⁹	35.65x10 ⁹	34.66x10 ⁹	34.72x10 ⁹
(h) Total connected customers		48	48	49	50

* To 2 decimal places only, higher accuracy used in calculations.

Installed transformer capacity based on ONAN ratings.

@ Including sales to direct connected customers.

& 2003/04 data excludes circuits leased from others and operated by Transpower. 34km owned by Transpower but operated by others not included above.

\$ For all years, figures for maximum demand kW and kWh injected and supplied include loads on circuits leased by Transpower. The effect of these circuits cannot be measured as metering equipment is not installed at the inter-connection points with Transpower-owned assets, but the difference is estimated to be no more than 0.1% of totals. Loads on Transpower assets leased to others are not included as Transpower does not collect operational data for these assets.

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Requirement 21)	2003/04	2002/03	2001/02	2000/01
1. Total number of unplanned interruptions* <i>Resulting from 45 loss of supply incidents in 2003/04</i>	75	72	113	102
2. Electricity customer interruptions in system minutes**	5.3	6.3	8.1	12.7
Planned	1.7	3.6	3.2	0.9
Unplanned	3.6	2.6	4.9	11.8
3. Underlying electricity customer interruptions in system minutes ** <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	5.3	6.3	8.1	4.0
Planned	1.7	3.6	3.2	0.9
Unplanned	3.6	2.6	4.9	3.1
4. Average supply reliability <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	99.9985	99.9982	99.9976	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>	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability %	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability %	-	-	-	-
8. Planned interruption restoration performance %	71.0	81.3	81.8	89.5
9. Unplanned interruption response %	98.7	100	100	100

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.

The reliability performance measures given in Part 6 do not include the performance of the 34km of circuit leased to other parties because Transpower does not collect operational data for these assets.

* 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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2004

	\$ million
System fixed assets at ODV at 30 June 2003	<u>1,965</u>
<i>Add</i> system fixed assets acquired during the year at ODV	74
<i>Less</i> system fixed assets disposed of during the year at ODV	-10
<i>Less</i> depreciation on system fixed assets at ODV	-98
<i>Add</i> revaluations of system fixed assets at ODV	95
Equals system fixed assets at ODV at 30 June 2004	<u><u>2,026</u></u>