



New Zealand Gazette

OF THURSDAY, 23 NOVEMBER 2006

WELLINGTON: FRIDAY, 24 NOVEMBER 2006 — ISSUE NO. 149

TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO
SECTION 57T OF THE COMMERCE ACT 1986



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REPORT OF THE AUDITORS

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2006

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 2006. 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 2006, and results of operations and cash flows for the year then ended.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

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

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Transpower New Zealand Limited 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 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 financial advisory services. Other than these assignments and in our capacity as auditor, 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; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2006 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 22 November 2006 and our unqualified opinion is expressed as at that date.

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AUDITORS OPINION ON THE PERFORMANCE MEASURES OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

We have examined the attached information, being:

- (a) the derivation table; and
- (b) the annual ODV reconciliation report; and
- (c) financial performance measures; and
- (d) financial components of the efficiency performance measures,

that were prepared by Transpower New Zealand Limited Lines Business and dated 22 November 2006 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers



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AUDITORS 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 November 2006, which report contains valuations of system fixed assets as at 30 June 2006.

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 \$2,031,000,000 have been made in accordance with the ODV Handbook.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	LINES BUSINESS	LINES BUSINESS
		2006 \$000	2005 \$000
Operating revenue	2	507,820	510,681
Operating expenses	3	320,844	310,091
		<u>186,976</u>	<u>200,590</u>
Net finance costs	5	58,511	65,841
Surplus from operations before tax		128,465	134,749
Tax expense	6	44,586	43,990
Operating surplus after tax		<u>83,879</u>	<u>90,759</u>
Net surplus attributable to shareholders		<u>83,879</u>	<u>90,759</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 2006

	Notes	LINES BUSINESS	LINES BUSINESS
		2006 \$000	2005 \$000
Equity at the beginning of the year		1,060,859	1,008,027
Net surplus attributable to shareholders		83,879	90,759
Total recognised revenue and expenses for the year		<u>83,879</u>	<u>90,759</u>
Dividends paid	15	(6,414)	(37,927)
Equity at the end of the year		<u>1,138,324</u>	<u>1,060,859</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 2006

	Notes	LINES BUSINESS LINES BUSINESS	
		2006 \$000	2005 \$000
ASSETS EMPLOYED			
Current assets	7	81,373	71,340
Fixed assets	8	2,175,521	2,071,103
Other long term assets	9	540,350	541,710
Total Assets Employed		<u>2,797,244</u>	<u>2,684,153</u>
FUNDS EMPLOYED			
Liabilities			
Current liabilities	10	231,666	202,070
Other long term liabilities		2,803	1,502
Long term lease liabilities	11	1,913	-
Long term debt	12	1,422,538	1,419,722
Total Liabilities		<u>1,658,920</u>	<u>1,623,294</u>
Equity			
Capital	13	1,200,000	1,200,000
Accumulated deficit	14	(61,676)	(139,141)
Total Equity		<u>1,138,324</u>	<u>1,060,859</u>
Total Funds Employed		<u>2,797,244</u>	<u>2,684,153</u>

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

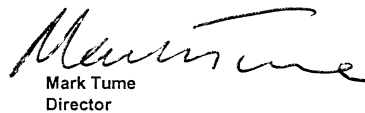
The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 22 November 2006.

For, and on behalf of, the Board



David Gascoigne
Chairman

22 November 2006



Mark Tume
Director

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	503,885	517,487
Interest received	35,021	33,933
Cash was applied to:		
Payments to suppliers and employees	(166,076)	(190,482)
Tax payments	(48,426)	(49,676)
Interest paid	(100,540)	(104,668)
Net cash inflows from operations	223,864	206,594
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	3,514	191
Short term investments	421,574	710,079
Cash was applied to:		
Purchase of fixed assets	(225,387)	(99,876)
Short term investments	(421,574)	(710,069)
Net cash outflows from investments	(221,873)	(99,675)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	889,526	747,796
Cash was applied to:		
Dividends paid	(6,414)	(37,927)
Repayment of loans	(884,099)	(816,426)
Net cash outflows from financing	(987)	(106,557)
Net increase/(decrease) in cash held	1,004	362
Opening balance brought forward	1,084	722
Closing net cash carried forward	2,088	1,084
Closing net cash carried forward comprises:		
Cash and bank	2,088	1,084
Bank overdraft	-	-
	2,088	1,084

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

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

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Operating surplus after tax	83,879	90,759
Add/(deduct) non-cash items:		
Depreciation	117,639	114,401
Capitalised interest	(6,299)	(3,262)
Movements in working capital items:		
Decrease(increase) in trade and other receivables	(9,464)	8,322
Decrease(increase) in prepayments	515	(74)
Decrease(increase) in stocks of materials	1,813	4,032
(Decrease)increase in trade and other liabilities, interest payable and deferred income	20,710	(2,043)
(Decrease)increase in taxation payable	(3,840)	(5,686)
Increase(decrease) in provisions	9,489	(5,716)
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	9,422	5,861
Net Cash Flow from Operations	223,864	206,594

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 2006**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 assets and 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 2006. 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.

(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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006**(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 value.

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 Transpower's weighted average cost of capital.

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

(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	20-70 years
Freehold buildings	20-55 years
Substations	15-55 years
HVDC	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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006**(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.
- (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.

(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 2006**(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

There has been no change in accounting policies during the year.

The Impacts of Adopting New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

In December 2002 the Accounting Standards Review Board announced that New Zealand entities required to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) under the Financial Reporting Act 1993 would be required to apply New Zealand International Financial Reporting Standards (NZ IFRS). The new standards are able to be applied for periods beginning on or after 1 January 2005. Mandatory application of the new standards is required for periods beginning on or after 1 January 2007.

Transpower has elected to adopt NZ IFRS for the financial year beginning 1 July 2007 with comparatives required to be restated on initial adoption. Transpower has commenced a project assessing the impacts of changes in accounting standards on Transpower and designing and implementing processes to deliver NZ IFRS compliant financial reporting as well as dealing with any related business impacts.

Transition from existing NZ GAAP to NZ IFRS will be made in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards". Upon adoption of NZ IFRS, comparative information will be restated to conform with the requirements of NZ IFRS and the impact that adoption of NZ IFRS has had on Transpower's financial statements will be set out.

The material areas of difference identified to date between existing NZ GAAP and NZ IFRS are detailed below. This list is intended to be a summary of the potential significant impacts resulting from transition to NZ IFRS. The differences below should not be taken as an exhaustive list of all significant differences between existing NZ GAAP and NZ IFRS. We note the quantitative impact has yet to be calculated.

We note the NZ IFRS standards are subject to ongoing review by the Company and industry. Furthermore NZ IFRS, and interpretations of NZ IFRS continue to be reviewed and new standards issued. As a result the effect of the actual impact of adopting NZ IFRS may vary from the estimates indicated below, and the differences may be material.

Financial Instruments

Transpower economically hedges against the vast majority of its interest rate and currency risk using derivatives. NZ IFRS requires derivative financial instruments to be recognised in the balance sheet at fair value. Transpower has elected to also fair value its net debt portfolio. Subsequent to transition, changes in fair value of both the derivatives and the net debt will flow through to the income statement. This will create some volatility in the income statement as market prices change. Under existing NZ GAAP, financial instruments, including derivatives, are included at their fair value in the notes to the financial statements. Material foreign purchases which are economically hedged will be accounted for as hedges under NZ IAS 39 where possible. The changes in hedged terms will flow through the income statement but will offset to the extent that they qualify for fair value hedges in accordance with NZ IAS 39.

Taxation

Transpower currently accounts for tax using the liability method applied on a partial basis. This means that deferred tax is not recognised if the timing difference is not expected to reverse in the foreseeable future. This amount is disclosed in the notes to the financial statements. NZ IFRS requires that all deferred tax be recognised in the balance sheet. Also, the tax basis will change from the current "income statement" approach to a "balance sheet" approach. The net effect of these changes will mean that Transpower will have to recognise its deferred tax liability in the balance sheet.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

2. OPERATING REVENUE

	LINES BUSINESS 2006 \$000	LINES BUSINESS 2005 \$000
Transmission services revenue	506,285	509,417
Other revenue	1,535	1,264
Total operating revenue	507,820	510,681

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	229	229
Revenue - AC loss rental rebates	88,660	58,690
Expense - AC loss rental rebates	(88,660)	(58,690)
AC loss rental rebates not passed through to customers	-	-

3. OPERATING EXPENSES

	LINES BUSINESS 2006 \$000	LINES BUSINESS 2005 \$000
Business support costs	33,274	33,249
Asset operation and maintenance costs	140,965	152,499
Industry Levies	10,406	5,777
Charges in respect of assets:		
Depreciation - Buildings	2,808	2,540
Depreciation - Substations	37,247	36,107
Depreciation - HVDC	24,884	24,379
Depreciation - Communication assets	7,036	7,853
Depreciation - Administration assets	11,490	11,345
Depreciation - Transmission lines	34,174	32,177
Stock and asset write-offs	9,422	5,861
Charges in respect of receivables:		
Bad debts written off	14	-
Movement in the provision for doubtful debts	-	-
Provision for industry related costs	-	(10,000)
Directors' fees	336	306
Study grants and donations	802	840
Lease and rental costs	7,986	7,158
Total operating expenses	320,844	310,091

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

Net loss on the disposal of assets	9,422	5,861
	9,422	5,861

Electricity regulations additional disclosures:

Employee salaries and redundancies	37,260	36,878
Human resource expenses	5,675	5,692
Marketing / advertising expenses	1,266	556
Legal and consultancy expenses	11,213	7,574
Corporate and administration expenses	19,885	19,326

Transfer payments to "Other Transpower Businesses"

Payment for metering data	1,825	1,333
Payment for IT support	274	-
Payment for insurance	10,206	10,595
Total transfer payments to "Other Transpower Businesses"	12,305	11,928

Local authority rates expense	2,341	1,864
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Consumer billing and information system expense	224	1,132
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Depreciation of system assets	104,737	101,026
Depreciation of other assets	12,902	13,375
Total depreciation	117,639	114,401

Bad debts written off	14	-
Movement in the provision for doubtful debts	-	-
Total cost of offering credit	14	-

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

4. REMUNERATION OF AUDITORS	LINES BUSINESS LINES BUSINESS	
	2006	2005
Fees paid or payable to the auditors of the annual report	\$000	\$000
As auditor of Transpower and Transpower subsidiaries	197	183
For other services		
Other assurance-oriented assignments	36	10
	<u>233</u>	<u>193</u>
Fees paid to other auditors		
As auditor of Transpower and Transpower subsidiaries	-	-
For other services		
Reporting engagements other than the annual report	241	146
Assistance to internal audit function	374	157
Other assurance-oriented assignments	131	268
Other	1,190	250
	<u>1,936</u>	<u>821</u>
5. NET FINANCE COSTS		
Finance costs	99,831	103,036
Capitalised interest	(6,299)	(3,262)
Interest received	(35,021)	(33,933)
Net finance costs	<u>58,511</u>	<u>65,841</u>
Total operating expenses	320,844	310,091
Net finance costs	58,511	65,841
Total expenses including net financing costs	<u>379,355</u>	<u>375,932</u>
6. TAXATION		
	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Operating surplus before tax	128,465	134,749
Prima facie tax at 33%	42,393	44,467
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	4,964	(3,078)
- current period revaluation adjustment	-	-
Permanent differences	-	-
Income tax charge in respect of the current year	47,357	41,389
Under / (over) provision in prior years	(2,771)	2,601
Tax expense	<u>44,586</u>	<u>43,990</u>
The income tax charge is represented by:		
Tax payable in the current year	44,586	42,652
Deferred tax	-	1,338
	<u>44,586</u>	<u>43,990</u>
Deferred tax asset		
Balance at the beginning of the year	-	1,338
Increase in deferred tax asset	-	(1,338)
Balance at the end of the year	<u>-</u>	<u>-</u>
Deferred tax liability memorandum account		
Balance at the beginning of the year	154,472	151,394
Increase (reduction) in deferred tax liability	(4,964)	3,078
Balance at the end of the year	<u>149,508</u>	<u>154,472</u>
These timing differences predominantly relate to depreciation and are not recognised in the financial statements.		
Imputation credit memorandum account		
Balance at the beginning of the year	109,631	78,635
Tax payments made	48,426	49,676
Imputation credits attached to dividends paid to shareholders	(3,159)	(18,680)
Balance at the end of the year	<u>154,898</u>	<u>109,631</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

7. CURRENT ASSETS

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Cash and bank	2,088	1,084
Short term investments	-	-
Trade receivables	59,465	52,341
Provision for current tax	11,305	7,465
Deferred tax	-	-
Other receivables	1,574	1,181
Stocks of materials	5,025	6,838
Prepayments	1,916	2,431
Total current assets	81,373	71,340

Reconciliation of provision for current tax:

Balance at the beginning of the year	(7,465)	(441)
Tax payable in the current year (refer Note 6)	44,586	42,652
Provisional tax (payments) refunds made during the year	(48,426)	(49,676)
Balance at the end of the year	(11,305)	(7,465)

8. FIXED ASSETS

	Cost	Accumulated	Net Book Value	Net Book Value
	2006	Depreciation	2006	2005
	\$000	2006	\$000	\$000
		\$000		
Transmission lines	476,237	64,387	411,850	405,503
Leased Transmission Lines	385,654	33,575	352,079	357,781
Freehold land	77,257	-	77,257	54,008
Freehold buildings	47,471	7,748	39,723	36,694
Leased substation buildings	5,154	568	4,586	4,563
Substations	755,297	85,176	670,121	651,688
Leased substations	166,827	20,659	146,168	146,292
HVDC	59,869	29,945	29,924	39,334
HVDC leased assets	222,798	41,136	181,662	194,883
Communications	58,865	15,680	43,185	43,506
Administration assets	45,257	37,097	8,160	20,901
Capital work in progress	210,806	-	210,806	115,950
Total fixed assets	2,511,492	335,971	2,175,521	2,071,103

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

Capital work in progress comprises the following asset classes:

Transmission lines	90,496	38,243
Freehold land and buildings	21,763	5,212
Substations	71,810	53,617
HVDC	3,155	3,336
Communications	2,609	4,496
Administration assets	20,973	11,046
	210,806	115,950

During the year the following borrowing costs were capitalised:

Transmission lines	2,940	1,076
Freehold land and buildings	895	146
Substations	2,114	1,508
HVDC	145	94
Communications	30	126
Administration assets	175	322
	6,299	3,272

Electricity regulations additional disclosures:

Motor vehicles	705	739
Office equipment	1,841	1,469
Customer billing and information assets	-	-

Transpower lines business system fixed assets have a value in these financial statements of \$1,919 million (2005: \$1,899 million)

9. OTHER LONG TERM ASSETS

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Structured financing transaction assets	532,700	532,700
Trade receivables greater than one year	7,650	9,010
	540,350	541,710

The structured financing transaction assets are discussed in Note 12.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

10. CURRENT LIABILITIES

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Bank overdrafts	-	-
Trade creditors	29,160	15,279
Interest payable	9,045	9,754
Employee entitlements	8,469	7,418
Other creditors and provisions	36,031	26,542
Short term debt	24,819	34,720
Current portion of long term debt	105,648	95,392
Deferred income	18,494	12,965
Total current liabilities	231,666	202,070

11. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

One to two years	190	-
Two to five years	612	-
Later than five years	1,111	-
	<u>1,913</u>	<u>-</u>

The HVDC converter plants 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 lease arrangement entered into by Halfway Bush Finance Limited and TB and T Limited 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 all obligations have been prepaid 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 2006

12. LONG TERM DEBT

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
The following loan arrangements included within long term debt have a face value as follows:		
Bonds	350,000	400,000
Euro Medium Term Notes	271,047	183,903
US Private Placement	164,474	164,474
Structured financing transaction liability	732,700	732,700
	<u>1,518,221</u>	<u>1,481,077</u>
Less unamortised discount	(1,531)	(2,323)
	<u>1,516,690</u>	<u>1,478,754</u>
Less current portion of long term debt	(105,648)	(95,392)
	<u>1,411,042</u>	<u>1,383,362</u>
Between one to two years	732,700	105,394
Between two to five years	265,536	767,100
Greater than five years	412,806	510,868
Long term debt	<u>1,411,042</u>	<u>1,383,362</u>
Add debt allocated (to) from non-lines businesses*	11,496	36,360
Total Long Term Debt	<u>1,422,538</u>	<u>1,419,722</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 Guarantoring Subsidiaries (including Transpower Finance Limited) and The New Zealand Guardian Trust Company Limited. The trust deed has been amended on various occasions to incorporate new subsidiaries into the Guarantoring Group.

Pursuant to the trust deed, Transpower and its fellow subsidiaries excluding Risk Reinsurance Limited, Benmore Finance and Bunnythorpe Holdings (the "Guarantoring 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 Guarantoring Group has guaranteed all amounts payable on redemption or repayment of the Bonds and the payment of interest during the term of the Bonds.

Euro Medium Term Notes

Under the Euro Medium Term Note programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$1,000,000,000 (NZ\$1,636,929,000) as at June 2006, US\$1,000,000,000 (NZ\$1,427,348,000) as at 30 June 2005 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

Under the Australian Medium Term Note programme, Transpower Finance Limited may issue notes guaranteed by Transpower New Zealand Limited. The aggregate principal amount of the notes outstanding may not exceed AU\$750,000,000 (NZ\$911,995,000). There were no Australian Medium Term notes outstanding as at 30 June 2006 (2005: nil).

US Private Placement

Bonds are issued by Transpower Finance Limited under a Note and Guarantee Agreement dated 27 September 2004. The bonds are guaranteed by Transpower (the "Guarantor"), Fighting Bay Finance Limited, Haywards Limited, Oteranga Bay Limited, Omaka Training Limited, Energy Market Services Limited, Aratiatia Holdings Limited, Halfway Bush Finance Limited and TB and T Limited (the "Subsidiary Guarantors"). The Guarantor and Subsidiary Guarantors have unconditionally guaranteed payment of the principal, interest and other amounts owing under the Agreement.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

12. LONG TERM DEBT continued

Structured Financing Transaction

In 2002, Transpower entered into a transaction which raised gross funds of \$732,700,000 of which \$532,700,000 was on-lent to financial institutions. The economic substance of the transaction, is that the Lines Business has a net obligation of \$200,000,000.

13. CAPITAL

Transpower's share capital consists of 1,200,000,000 (2005: 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.

14. ACCUMULATED DEFICIT

Balance at the beginning of the year	(139,141)	(191,973)
Operating surplus after tax	83,879	90,759
Accumulated deficit before dividends paid	(55,262)	(101,214)
Dividends paid	(6,414)	(37,927)
Balance at the end of the year	(61,676)	(139,141)

15. DIVIDENDS TO THE SHAREHOLDER

Final dividend paid	6,414	37,927
Interim dividend paid	-	-
	6,414	37,927

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

16. CAPITAL COMMITMENTS	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Capital commitments in respect of contracts for capital expenditure:		
Within one year	40,260	13,589
One to two years	-	2,412
Two to five years	-	-
Total capital commitments	40,260	16,001

17. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable operating leases payable:

Within one year	4,932	3,196
One to two years	4,922	3,104
Two to five years	11,631	8,784
Later than five years	12,338	12,852
Total operating lease commitments	33,823	27,936

18. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

Transpower has entered into three cross border leases in respect of certain HVDC converter stations, the submarine cables and the majority of the AC transmission assets in the South Island. 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, a limited guarantee dated 31 May 1996 in respect of the submarine cables and a limited guarantee dated 22 December 2003 in respect of the South Island AC assets.

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 12.

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

Bonds	348,233	397,681
Euro Medium Term Notes	271,283	183,178
Australian Medium Term Notes	-	-
US Private Placement	164,474	164,474

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 (Todd) and Kiwi Co-operative Dairies Limited have commenced a claim against both Transpower and Powerco Limited alleging breaches of the Commerce Act 1986.

Kiwi Co-operative Dairies Limited has since withdrawn from the proceedings. Todd is seeking declarations, injunctions and damages in an amount that it has indicated it will quantify two months before trial (plus interest and costs). Transpower has filed a statement of defence and believes that it has not breached the Commerce Act in any respect. Transpower applied to the High Court for summary judgement and strikeout against Todd on the grounds that there is no arguable basis for Todd's claim. The High Court struck out one of Todd's causes of action against Transpower in April 2005. Transpower is appealing the High Court decision (in respect of the remaining two causes of action that were not struck out) to the Court of Appeal (and Todd has cross-appealed).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

18. CONTINGENT LIABILITIES continued

(iii) Economic Gain (Loss) Account

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 passed on or claimed from customers over time.

The EV balance at 30 June 2006 has yet to be calculated. The balance of the EV account at 30 June 2005 was \$98,740,000 to the credit of the customer.

(iv) Administrative settlement and Customer Rebates

On 23 December 2005 the Commerce Commission (the Commission) published notice of its intention to make a declaration of control of Transpower under Part 4A of the Commerce Act.

On 27 January 2006 the Commission published a paper setting out its draft reasons for forming an intention to declare control.

Transpower disagreed with the Commission's preliminary conclusions and the reasons, and provided the Commission with detailed written submissions setting out Transpower's views on the matter. Transpower also provided the Commission with a number of reports prepared by independent experts, which supported Transpower's views.

On 31 March 2006, the Commission and Transpower reached agreement whereby: (a) the Commission agreed to delay its decision on whether to impose control and to provide Transpower with an opportunity to put forward an administrative settlement proposal and (b) Transpower agreed to invoice customers in accordance with notified 2006/07 prices, but provide a credit note that effectively restored customer charges to the level applicable in March 2006.

Transpower has issued credit notes for \$22.4m for the period April to June 2006.

Depending upon the outcome of the administrative settlement Transpower's Transmission revenue for the period April to June 2006 may vary from that invoiced and disclosed in Note 2.

(v) 400kV project

On 30 September 2005 Transpower submitted its Grid Upgrade Plan. This included the North Island 400kV project, being the line proposed between Whakamaru and South Auckland. On 27 April 2006 the Electricity Commission (EC) issued a draft "no" to Transpower's 400kV proposal, on the basis that there were more economic alternatives. Transpower disputed the EC findings and intends to submit a revised project to the EC in the near future. To date, including property purchases, Transpower has capitalised some \$46.8 million of costs relating to the 400kV project. The vast majority of these costs are expected to be recycled into a revised project that is acceptable to the EC. In the event that there is no line constructed between Whakamaru and South Auckland then Transpower would face a write-down in the value of the Capitalised Costs. No such provision for any write-down has been made for the June 2006 financial statements.

(vi) Various other lawsuits, claims and investigations

Various other lawsuits, claims and investigations have been brought or are pending against Transpower. The Directors of Transpower cannot reasonably estimate the adverse effect (if any) on Transpower if any of the foregoing claims are ultimately resolved against Transpower's interests.

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.

20. FINANCIAL INSTRUMENTS

(a) Financial risks

The Transpower Group is subject to a number of financial risks which arise as a result of its business activities, including having a debt portfolio of \$1,541,509,000 as at 30 June 2006 (\$1,513,474,000 as at 30 June 2005) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

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

Currency risk

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

20. FINANCIAL INSTRUMENTS continued

Credit risk

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

Liquidity risk

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

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.

(b) Risk management policies

The key risk management policies are as follows:

Interest rate risk management policy

The Group's policy sets annual minimum and maximum hedging parameters expressed as a percentage of forecast debt out to 10 years. This policy ensures that the Group's costs of funds will be reasonably predictable from year to year.

Currency risk management policy

The Transpower Group's policy is to hedge all material foreign currency denominated purchases. Foreign currency borrowings are hedged into New Zealand dollars at the time of commitment to drawdown by the Transpower Group. Currency risk is eliminated using cross currency interest rate swaps.

Credit risk management policy

The Transpower Group's credit policy is to establish credit limits with counterparties that are either a bank, a financial institution or special purpose derivative products company. These net credit limits are not to exceed 20 per cent of Transpower Group shareholders' funds or 15 per cent of the shareholders' funds of the counterparty as shown in the most current annual report. If the counterparty is a New Zealand Corporate, the credit limit is not to exceed NZ\$40,000,000.

In addition, the counterparty must have a minimum long term credit rating of A or above by Standard & Poor's, or Moody's equivalent. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising the Group's customer base. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 2006 (30 June 2005: nil).

Liquidity risk policy

To ensure the Group has adequate funding facilities in place to support future operations, the Group's liquidity policy requires the Group to have access to committed debt facilities (i.e. guaranteed funds) that exceed the peak cumulative anticipated financing and operating cash flow requirements excluding long term debt over the next six months by 20 per cent. To smooth the Group's refinancing requirements in future periods, committed debt facilities maturing in any 12 month period are not to exceed NZ\$350,000,000. No more than 50% of debt facilities can mature within the next three years and at least 20% of debt facilities must mature after five years.

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

The 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 programme, a Euro Medium Term Note programme, a Domestic Medium Term Note programme, an Australian Medium Term Note programme and a Domestic Multi-option Facility. The Group uses these facilities to issue debt securities into different global debt markets.

In the event the Transpower Group is unable to utilise these facilities the Group has established a committed credit facility. This is a Standby Facility for NZ\$250,000,000 which was not in use at 30 June 2006 or 30 June 2005.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

20. FINANCIAL INSTRUMENTS continued

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 Group's hedging activities interest rate swaps are entered into for periods of up to ten years.

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

	LINES BUSINESS LINES BUSINESS	
	2006	2005
	\$000	\$000
Interest rate swaps	2,752,500	1,877,500

Cross currency interest rate swaps

Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by the Group into New Zealand dollar denominated debt. Cross currency interest rate swap contracts eliminate foreign currency risk on the underlying debt by determining the New Zealand dollar equivalent of the interest payments and 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	410,035	369,194
Principal payable	(441,977)	(438,773)

Forward rate agreements

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

The notional contract amounts of forward rate agreements outstanding as at 30 June 2006 was nil (2005; nil)

Interest rate options

The Group enters into interest rate options to manage interest rate repricing 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 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 as at 30 June 2006 was nil (2005; nil)

Foreign exchange forward contracts

The Transpower Group uses foreign exchange forward contracts to fix the New Zealand dollar cost of foreign denominated capital equipment and stock purchases.

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

Forward foreign exchange contracts	6,413	7,073
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

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 LINES BUSINESS	
	2006	2005
	\$000	\$000
Interest rate swaps	14,750	179
Cross currency interest rate swaps	912	3,754
Foreign exchange forward contracts	314	170

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 the Group'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.

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 loss arising from movements in interest rates since the acquisition date of debt carried at 30 June 2006 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$1,968,000 (NZ\$31,492,000 as at 30 June 2005).

This comprises the difference between the carrying values and fair values of debt, cross currency interest rate swaps, 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 2006

20. FINANCIAL INSTRUMENTS continued

Carrying value/fair value	Carrying Value 2006 \$000	Fair Value 2006 \$000	Carrying Value 2005 \$000	Fair Value 2005 \$000
LINES BUSINESS				
On Balance Sheet				
Cash (bank overdraft)	2,088	2,088	1,084	1,084
Long term assets	540,350	540,201	541,710	541,765
Debt	(1,553,005)	(1,529,800)	(1,549,834)	(1,567,534)
Off Balance Sheet				
Cross currency interest rate swaps	1,618	(34,261)	2,263	1,127
Foreign exchange forward contracts	-	946	-	171
Interest rate swaps	859	10,769	1,197	(13,187)

(f) Interest rate repricing 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 repricing analysis as these contracts mature within one year. For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

LINES BUSINESS 2006

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash	6.15%	2,088	-	-	-	2,088
Long term assets	6.32%	-	534,230	6,120	-	540,350
		2,088	534,230	6,120	-	542,438
Liabilities						
Debt	6.95%	(130,399)	(732,700)	(265,536)	(424,370)	(1,553,005)
		(130,399)	(732,700)	(265,536)	(424,370)	(1,553,005)
Off Balance Sheet						
Interest rate swaps		1,666,500	133,000	(13,000)	(1,786,500)	-
Interest rate options		-	-	-	-	-
		1,666,500	133,000	(13,000)	(1,786,500)	-
Repricing Profile		1,538,189	(65,470)	(272,416)	(2,210,870)	(1,010,567)

The interest rate on debt as amended by interest rate swaps is 6.64%

LINES BUSINESS 2005

	Effective interest rate	Within one \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash	5.65%	1,084	-	-	-	1,084
Long term investments	6.33%	-	1,802	539,908	-	541,710
		-	1,802	539,908	-	542,794
Liabilities						
Debt	6.78%	(130,112)	(105,694)	(768,302)	(547,228)	(1,551,336)
		(130,112)	(105,694)	(768,302)	(547,228)	(1,551,336)
Off balance sheet						
Interest rate swaps		297,000	(14,500)	(56,500)	(226,000)	-
Interest rate options		-	-	-	-	-
		297,000	(14,500)	(56,500)	(226,000)	-
Repricing Profile		167,972	(118,392)	(284,894)	(773,228)	(1,008,542)

The interest rate on debt as amended by interest rate swaps is 6.72%

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2006

21. SUBSIDIARIES OF TRANSPOWER GROUP

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

Subsidiaries	2006 Holding	2005 Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
TB and T Limited	100%	100%
Aratiatia Holdings Limited	100%	100%
Benmore Finance	100%	100%
Bunnythorpe Holdings	100%	100%
Benmore Trust	100%	100%
Halfway Bush Finance Limited	100%	100%

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

Energy Market Services Limited	100%	100%
Risk Reinsurance Limited	100%	100%
Omaka Training Limited (non-trading)	100%	100%

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 Limited ("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 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 200623. OTHER ITEMS REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 2004

	2006	2005
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	2,797,244	2,684,153
Equity		
Capital notes	0	0

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 statements	188,383				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIIT)	188,383				
Interest on cash, bank balances, and short-term investments (ISTI)	1,407				
OSBIIT minus ISTI	186,976	a	186,976		186,976
Net surplus after tax from financial statements	83,879				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	83,879	n		83,879	
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)	104,737				
Depreciation of SFA at ODV (y)	108,000				
ODV depreciation adjustment	-3,263	d	add -3,263	add -3,263	add -3,263
Subvention payment tax adjustment	0	s*t		deduct 0	deduct 0
Interest tax shield	21,852	q			deduct 21,852
Revaluations	0	r			add 0
Income tax	44,586	p			deduct 44,586
Numerator			183,713	80,616	117,275
			$OSBIIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s*t + d$	$OSBIIT^{ADJ} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,071,103				
Fixed assets at end of current financial year (FA ₁)	2,175,521				
Adjusted net working capital at end of previous financial year (ANWC ₀)	-9,167				
Adjusted net working capital at end of current financial year (ANWC ₁)	-33,219				
Average total funds employed (ATFE) (or regulation 33 time-weighted average)	2,102,119	c	2,102,119		2,102,119
Total equity at end of previous financial year (TE ₀)	1,060,859				
Total equity at end of current financial year (TE ₁)	1,138,324				
Average total equity (or regulation 33 time-weighted average)	1,099,592	k		1,099,592	
WUC at end of previous financial year (WUC ₀)	115,950				
WUC at end of current financial year (WUC ₁)	210,806				
Average total works under construction (or regulation 33 time-weighted average)	163,378	e	deduct 163,378	deduct 163,378	deduct 163,378
Revaluations	0	r			
Half of revaluations	0	r/2			deduct 0
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 (or regulation 33 time-weighted average)	0	m		add 0	
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	
System fixed assets at end of previous financial year at book value	1,899,000				
System fixed assets at end of current financial year at book value	1,919,000				
Average value of system fixed assets at book value (or regulation 33 time-weighted average)	1,909,000	f	deduct 1,909,000	deduct 1,909,000	deduct 1,909,000
System Fixed assets at year beginning at ODV value (SFA _{odv0})	1,979,000				
System Fixed assets at end of current financial year at ODV value	2,031,000				
Average value of system fixed assets at ODV value (or regulation 33 time-weighted average)	2,005,000	h	add 2,005,000	add 2,005,000	add 2,005,000
Denominator			2,034,741	1,032,214	2,034,741
			$ATFE^{ADJ} = c - e - f +$	$Ave TE^{ADJ} = k - e - m +$	$ATFE^{ADJ} = c - e - 1/2r - f +$
Financial Performance Measure:			9.0	7.8	5.8
			ROF =	ROE =	ROI =

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2006

	LINES BUSINESS 2006	LINES BUSINESS 2005	LINES BUSINESS 2004	LINES BUSINESS 2003	LINES BUSINESS 2002
Financial Measures					
Return on Equity	7.8%	8.1%	7.1%	5.9%	8.6%
Return on Funds	9.0%	9.4%	7.9%	3.3%	8.5%
Return on Investment	5.8%	6.1%	10.3%	7.1%	9.3%

Efficiency Measures

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

$\frac{a}{b}$	140,965,000	152,499,000	134,120,000	147,249,000	134,087,000
	17,248	17,045	17,041	17,134	17,145
a is direct expenditure (in dollars); and	\$8,173	\$8,947	\$7,870	\$8,594	\$7,821
b is system length (in kilometres);					

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS**ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2006**

	2006	2005
	\$ million	\$ million
System fixed assets at ODV at 30 June 2005	<u>1,979</u>	<u>2,026</u>
<i>Add</i> system fixed assets acquired during the year at ODV	130	73
<i>Less</i> system fixed assets disposed of during the year at ODV	(13)	(5)
<i>Less</i> depreciation on system fixed assets at ODV	(108)	(109)
<i>Add</i> revaluations of system fixed assets	43	(6)
Equals system fixed assets at ODV at 30 June 2006	<u><u>2,031</u></u>	<u><u>1,979</u></u>

The Electricity Information Disclosure Requirements 2004

(For 12 months ending 30 June 2006, 2005, 2004, 2003)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Requirement 20)	2005/06	2004/05	2003/04	2002/03	
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>	66.50	69.70	71.05	70.50	
(b) Loss ratio % <i>Transmission losses as percentage of energy entering the system</i>	3.63	3.76	3.82	4.36	
(c) Capacity utilisation % <i>Maximum demand as percentage of total transformer capacity Based on Maximum Continuous Ratings</i>	51.61	49.72	48.17	50.81	
2. Statistics					
(a) System length, broken down by voltage					
Total ^{&}	km	17,248	17,045	17,041	17,134
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	8,611	8,380	8,376	8,357
110 kV (HVAC)	km	6,219	6,073	6,073	6,076
66/50/33/11 kV (HVAC) ^{&}	km	1,165	1,339	1,339	1,449
(b) Circuit length of overhead electric lines, broken down by voltage.					
Total ^{&}	km	17,163	16,960	16,956	17,049
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	8,611	8,380	8,376	8,357
110 kV (HVAC)	km	6,214	6,068	6,068	6,071
66/50/33/11 kV (HVAC) ^{&}	km	1,165	1,339	1,339	1,449
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)					
Maximum Continuous Ratings	kVA	12.88x10 ⁶	12.75x10 ⁶	12.65x10 ⁶	11.87x10 ⁶
(e) Maximum demand (kilowatts) ^{*\$}	kW	6.65x10 ⁶	6.34 x10 ⁶	6.09x10 ⁶	6.04x10 ⁶
(f) Total electricity entering the system (before losses of electricity), in kilowatt hours: ^{*\$}					
	kWh	38.73x10 ⁹	38.71x10 ⁹	38.02x10 ⁹	37.28x10 ⁹
(g) 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	37.33x10 ⁹	37.25x10 ⁹	36.57x10 ⁹	35.65x10 ⁹
(h) Total connected customers					
		47	48	48	48

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

@ Including sales to direct connected customers.

& 2005/06, 2004/05, 2003/04 data excludes 61 km of 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.

The Electricity Information Disclosure Requirements 2004

(For 12 months ending 30 June 2006, 2005, 2004, 2003)

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Requirement 21)	2005/06	2004/05	2003/04	2002/03
1. Total number of unplanned interruptions* <i>Resulting from 80 loss of supply incidents in 2005/06</i>	148	67	75	72
2. Electricity customer interruptions in system minutes**	40.8	6.7	5.3	6.3
Planned	2.8	3.4	1.7	3.6
Unplanned	38.0	3.3	3.6	2.6
3. Underlying electricity customer interruptions in system minutes ** <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	8.8	5.7	5.3	6.3
Planned	1.5	3.4	1.7	3.6
Unplanned	7.2	2.3	3.6	2.6
4. Average supply reliability <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	% 99.9879	99.9981	99.9985	99.9982
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 %	72.2	71.9	71.0	81.3
9. Unplanned interruption response %	100.0	100.0	98.7	100.0

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.

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 2006.



David Gascoigne

22 November 2006



Mark Tume

Form 6

**ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS 2004
REQUIREMENT 31(5)****CERTIFICATION OF VALUATION REPORT OF DISCLOSING ENTITIES**

We, David Gascoigne and Mark Tume, directors of Transpower New Zealand Limited certify that, having made all reasonable enquiry, to the best of our knowledge-

- (a) The attached valuation report of Transpower New Zealand Limited, prepared for the purposes of requirement 19 of the Commerce Commission's Electricity Information Disclosure Requirements 2004 complies with those requirements; and
- (b) The replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$5,545,000,000; and
- (c) The depreciated replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$2,277,000,000; and
- (d) The optimised depreciated replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$2,032,000,000; and
- (e) The optimised deprival valuation of the lines business system fixed assets of Transpower New Zealand Limited is \$2,031,000,000; and
- (f) The values in paragraphs (b) through to (e) have been prepared in accordance with eh ODV Handbook (as defined in the Electricity Information Disclosure requirements 2004). These valuations are as at 30 June 2006.

Signed: David Gascoigne

David Gascoigne

Mark Tume

Mark Tume

Date: 22 November 2006

Form 7

**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 2004
REGULATION 37****STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND
INFORMATION SUPPLIED TO COMMERCE COMMISSION**

I, David Gascoigne, of Wellington being Chairman of Transpower New Zealand Limited, solemnly and sincerely declare that having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public by Transpower under the Electricity Information Disclosure Requirements 2004.

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957. Declared at this day of 22 November 2006.

David Gascoigne



Solicitor of the High Court
of New Zealand

Helena Rose Harbrow
Solicitor
Wellington

