



New Zealand Gazette

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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 2007

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 2007. 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 2007, 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 2007 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 29 November 2007 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 29 November 2007 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 black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

		LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
	Notes		
Operating revenue	2	538,389	507,820
Operating expenses	3	333,506	320,844
		<u>204,883</u>	<u>186,976</u>
Net finance costs	5	57,465	58,511
Surplus from operations before tax		147,418	128,465
Tax expense	6	41,033	44,586
Operating surplus after tax		<u>106,385</u>	<u>83,879</u>
Net surplus attributable to shareholders		<u>106,385</u>	<u>83,879</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 2007

		LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
	Notes		
Equity at the beginning of the year		1,138,324	1,060,859
Net surplus attributable to shareholders		106,385	83,879
Total recognised revenue and expenses for the year		106,385	83,879
Dividends paid	15	-	(6,414)
Equity at the end of the year		<u>1,244,709</u>	<u>1,138,324</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 2007

	Notes	LINES BUSINESS LINES BUSINESS	
		2007 \$000	2006 \$000
ASSETS EMPLOYED			
Current assets	7	598,715	81,373
Property, plant and equipment	8	2,338,062	2,175,521
Other long term assets	9	5,409	540,350
Total Assets Employed		<u>2,942,186</u>	<u>2,797,244</u>
FUNDS EMPLOYED			
Liabilities			
Current liabilities	10	843,912	231,666
Other long term liabilities		2,535	2,803
Long term lease liabilities	11	1,643	1,913
Long term debt	12	849,387	1,422,538
Total Liabilities		<u>1,697,477</u>	<u>1,658,920</u>
Equity			
Capital	13	1,200,000	1,200,000
Accumulated surplus (deficit)	14	44,709	(61,676)
Total Equity		<u>1,244,709</u>	<u>1,138,324</u>
Total Funds Employed		<u>2,942,186</u>	<u>2,797,244</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 29 November 2007.

For, and on behalf of, the Board



Paul Cochrane
Director

29 November 2007



Mark Tume
Director

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2007

	LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	536,030	503,885
Interest received	36,929	35,021
Cash was applied to:		
Payments to suppliers and employees	(220,511)	(166,076)
Tax payments	(38,130)	(48,426)
Interest paid	(101,345)	(100,540)
Net cash inflows from operations	<u>212,973</u>	<u>223,864</u>
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	547	3,514
Short term investments	285,724	421,574
Cash was applied to:		
Purchase of property, plant and equipment	(276,732)	(225,387)
Short term investments	(285,723)	(421,574)
Net cash outflows from investments	<u>(276,184)</u>	<u>(221,673)</u>
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	891,503	889,526
Cash was applied to:		
Dividends paid	-	(6,414)
Repayment of loans	(828,461)	(884,099)
Net cash inflows from financing	<u>63,042</u>	<u>(987)</u>
Net increase/(decrease) in cash held	(169)	1,004
Opening balance brought forward	2,088	1,084
Closing net cash carried forward	<u>1,919</u>	<u>2,088</u>
Closing net cash carried forward comprises:		
Cash and bank	<u>1,919</u>	<u>2,088</u>

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 2007 \$000	LINES BUSINESS 2006 \$000
Operating surplus after tax	106,385	83,879
Add/(deduct) non-cash items:		
Depreciation	116,064	117,639
Capitalised interest	(9,161)	(6,299)
Movements in working capital items:		
Decrease/(increase) in trade and other receivables	4,374	(9,464)
Decrease/(increase) in prepayments	(883)	515
Decrease/(increase) in stocks of materials	4,396	1,813
(Decrease)/increase in trade and other liabilities, interest payable and deferred income	(9,173)	20,710
(Decrease)/increase in taxation payable	2,903	(3,840)
Increase/(decrease) in provisions	(8,975)	9,489
Add/(deduct) items classified as investing activities:		
Property, plant and equipment write-offs and loss on sale	7,043	9,422
Net Cash Flow from Operations	<u>212,973</u>	<u>223,864</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 2007**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 2007. 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 2007**(f) Property, plant and equipment****Historical Cost Measurement**

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment to their location and condition. Finance costs incurred during the period of time that is required to complete and prepare the property, plant and equipment 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 property, plant and equipment as they become operational and available for use.

(g) Depreciation

Depreciation of property, plant and equipment is calculated using the straight line method to allocate the cost or valuation of the property, plant and equipment 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	8-55 years
HVDC	30 years
Communications	3-25 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 2007**(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 property, plant and equipment 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 2007**(l) Financial Instruments**

Derivative financial instruments include 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 substantially completed 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. To date, the opening balance sheet (1 July 2006) has been completed and has been audited. The adjustments to the balance sheet are shown below. The adjustments relating to the year ended 30 June 2007 are still to be completed.

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 differences between existing NZ GAAP and NZ IFRS.

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 calculations below, and the differences may be material.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007*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 also elected to 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. Changes in fair value will create some volatility in the income statement as market prices change.

Material foreign purchases which are economically hedged will be accounted for as hedges under NZ IAS 39 "Financial Instruments: Recognition and Measurement" where possible. The changes in hedged items 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. NZ IFRS requires that all deferred tax is 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 recognise its deferred tax liability in the balance sheet.

Revenue Deferral

New Investment Agreements are those agreements that Transpower enters into with customers in order to build certain grid connection assets. A minority of customers pay Transpower the contract amount up-front. Currently, where money is received up-front Transpower defers this evenly over the contract period. Under NZ IFRS, this revenue deferral will have to change to a yield to maturity basis separately recognising the imputed interest expense.

Audited Opening Balance Sheet Adjustments (1 July 2006)

	Financial Instruments	Taxation	Revenue Deferral	Other	Total
	\$000	\$000	\$000	\$000	\$000
Assets	8,632	-	-	13	8,645
Liabilities	2,769	160,408	3,213	1,219	167,609
Retained Earnings	5,863	(160,408)	(3,213)	(1,215)	(158,973)
Other Equity	-	-	-	9	9

2. OPERATING REVENUE

	LINES BUSINESS	
	2007	2006
	\$000	\$000
Transmission services revenue	535,407	506,285
Other revenue	2,982	1,535
Total operating revenue	538,389	507,820

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	257	229
Revenue - Electricity loss rental rebates	45,448	88,660
Expense - Electricity loss rental rebates	(45,448)	(88,660)
Electricity loss rental rebates not passed through to customers	-	-

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

3. OPERATING EXPENSES

	LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
Transmission charges	-	-
Transfer payments to "Other Transpower Businesses"		
Asset maintenance:		
Disconnection/reconnection services	-	-
Metering data	2,718	2,666
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Avoided transmission charges on account of own generation	-	-
Other - IT support	-	-
Other - insurance	9,548	10,206
Total	<u>12,266</u>	<u>12,872</u>
Expenses to entities that are not related parties for:		
Asset maintenance:		
Disconnection/reconnection services	121,090	104,188
Metering data	-	-
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Total	<u>121,090</u>	<u>104,188</u>
Employee salaries and redundancies	33,310	31,820
Consumer billing and information system expense	285	224
Depreciation		
Depreciation of system assets	101,987	104,737
Depreciation of other assets	14,077	12,902
Total	<u>116,064</u>	<u>117,639</u>
Amortised of:		
Goodwill	-	-
Other intangibles	-	-
Total	<u>-</u>	<u>-</u>
Corporate and administration expenses	11,737	10,415
Human resource expenses	5,007	5,727
Marketing / advertising expenses	411	1,272
Merger and acquisition expenses	-	-
Takeover defence expenses	-	-
Research and development expenses	-	-
Legal and consultancy expenses	10,546	11,197
Study grants and donations	977	802
Directors' fees	449	336
Audit fees		
Audit fees paid to principal auditors:	363	197
Audit fees paid to other auditors:	-	-
Fees paid for other services provided by principal and other auditors:	2,047	1,972
Total	<u>2,410</u>	<u>2,169</u>
Cost of offering credit		
Bad debts written off	1	14
Increase in estimated doubtful debts	-	-
Total	<u>1</u>	<u>14</u>
Local authority rates expense	2,524	2,341
AC loss-rental rebates (distributed to retailers/customers) expense:	-	-
Rebates to consumers due to ownership interests	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenses not listed - Industry related expenses	9,386	10,406
Other expenses not listed - Stock and asset W/O	7,043	9,422
Total operating expenses	<u>333,506</u>	<u>320,844</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

4. REMUNERATION OF AUDITORS	LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
Fees paid or payable to the auditors of the annual report		
As auditor of Transpower and Transpower subsidiaries	215	197
For other services		
Other assurance-oriented assignments	148	36
	363	233
Fees paid to other auditors		
As auditor of Transpower and Transpower subsidiaries	-	-
For other services		
Reporting engagements other than the annual report	311	241
Assistance to internal audit function	598	374
Other assurance-oriented assignments	162	131
Other	976	1,190
	2,047	1,936
5. NET FINANCE COSTS		
Finance costs	103,555	99,831
Capitalised interest	(9,161)	(6,299)
Interest received	(36,929)	(35,021)
Net finance costs	57,465	58,511
Total operating expenses	333,506	320,844
Net finance costs	57,465	58,511
Total expenses including net financing costs	390,971	379,355
6. TAXATION	LINES BUSINESS	LINES BUSINESS
	2007	2006
	\$000	\$000
Operating surplus before tax	147,418	128,465
Prima facie tax at 33%	48,648	42,393
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(4,210)	4,964
- current period revaluation adjustment	-	-
Permanent differences	-	-
Income tax charge in respect of the current year	44,438	47,357
Under / (over) provision in prior years	(3,405)	(2,771)
Tax expense	41,033	44,586
The income tax charge is represented by:		
Tax payable in the current year	41,033	44,586
Deferred tax	-	-
	41,033	44,586
Deferred tax asset		
Balance at the beginning of the year	-	-
Increase in deferred tax asset	-	-
Balance at the end of the year	-	-
Deferred tax liability memorandum account		
Balance at the beginning of the year	149,508	154,472
Increase (reduction) in deferred tax liability	4,210	(4,964)
Balance at the end of the year	153,718	149,508
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	154,898	109,631
Tax payments made	38,130	48,426
Imputation credits attached to dividends paid to shareholders	-	(3,159)
Balance at the end of the year	193,028	154,898

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

7. CURRENT ASSETS

	LINES BUSINESS	
	2007	2006
	\$000	\$000
Cash and bank	1,919	2,088
Short term investments	65	-
Trade receivables	57,279	59,465
Provision for current tax	8,402	11,305
Deferred tax	-	-
Other receivables	1,325	1,574
Stocks of materials	629	5,025
Structured financing transaction assets	526,297	-
Prepayments	2,799	1,916
Total current assets	598,715	81,373

Reconciliation of provision for current tax:

Balance at the beginning of the year	11,305	7,465
Tax payable in the current year (refer Note 6)	(41,033)	(44,586)
Provisional tax (payments) refunds made during the year	38,130	48,426
Balance at the end of the year	8,402	11,305

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated	Net Book Value	Net Book Value
	2007	Depreciation	2007	2006
	\$000	\$000	\$000	\$000
Transmission lines	497,224	88,686	408,538	411,850
Leased Transmission Lines	423,070	45,797	377,273	352,079
Freehold land	176,537	-	176,537	77,257
Freehold buildings	54,438	9,938	44,500	39,723
Leased substation buildings	5,154	806	4,348	4,586
Substations	801,844	119,031	682,813	670,121
Leased substations	172,847	28,328	144,519	146,168
HVDC	57,589	33,840	23,749	29,924
HVDC leased assets	222,905	55,350	167,555	181,662
Communications	68,586	27,896	40,690	43,185
Administration assets	59,723	43,604	16,119	8,160
Capital work in progress	251,421	-	251,421	210,806
Total property, plant and equipment	2,791,338	453,276	2,338,062	2,175,521

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

North Island Grid Upgrade (400kV project)

On 5 July 2007 the Electricity Commission approved the line proposed between Whakamaru and South Auckland. Transpower to date, including property purchases has capitalised \$140.9m in respect of the North Island Grid Upgrade. Transpower has yet to complete the resource consenting process.

LINES BUSINESS

Capital work in progress comprises the following asset classes:

	LINES BUSINESS	
	2007	2006
	\$000	\$000
Transmission lines	99,050	90,496
Freehold land and buildings	3,194	21,763
Substations	96,735	71,810
HVDC	6,293	3,155
Communications	7,142	2,609
Administration assets	39,007	20,973
	251,421	210,806

During the year the following borrowing costs were capitalised:

Transmission lines	3,791	2,940
Freehold land and buildings	390	895
Substations	2,536	2,114
HVDC	234	145
Communications	136	30
Administration assets	2,074	175
	9,161	6,299

Electricity regulations additional disclosures:

Motor vehicles	662	705
Office equipment	1,399	1,841
Customer billing and information assets	-	-

Transpower lines business system property, plant and equipment have a value in these financial statements of \$2,028 million (2006: \$1,919 million).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

9. OTHER LONG TERM ASSETS

	LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
Structured financing transaction assets	-	532,700
Trade receivables greater than one year	5,409	7,650
	<u>5,409</u>	<u>540,350</u>

The structured financing transaction assets are discussed in Note 12.

10. CURRENT LIABILITIES

	2007 \$000	2006 \$000
Trade creditors	25,429	29,160
Interest payable	11,255	9,045
Employee entitlements	9,663	8,469
Other creditors and provisions	27,056	36,031
Short term debt	32,324	24,819
Current portion of long term debt	726,271	105,648
Current portion of lease liabilities	153	-
Deferred income	11,761	18,494
Total current liabilities	<u>843,912</u>	<u>231,666</u>

11. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

One to two years	146	190
Two to five years	399	612
Later than five years	1,098	1,111
	<u>1,643</u>	<u>1,913</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 2007

12. LONG TERM DEBT

	LINES BUSINESS LINES BUSINESS	
	2007	2006
	\$000	\$000
The following loan arrangements included within long term debt have a face value as follows:		
Bonds	250,000	350,000
Euro Medium Term Notes	418,901	271,047
US Private Placement	164,474	164,474
Structured financing transaction liability	726,271	732,700
	<u>1,559,646</u>	<u>1,518,221</u>
Less unamortised discount	(1,147)	(1,531)
	<u>1,558,499</u>	<u>1,516,690</u>
Less current portion of long term debt	(726,271)	(105,648)
	<u>832,228</u>	<u>1,411,042</u>
Between one to two years	163,574	732,700
Between two to five years	350,691	265,536
Greater than five years	317,963	412,806
Long term debt	<u>832,228</u>	<u>1,411,042</u>
Add debt allocated (to) from non-lines businesses*	17,159	11,496
Total Long Term Debt	<u>849,387</u>	<u>1,422,538</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\$1,299,630,000) as at June 2007, US\$1,000,000,000 (NZ\$1,636,929,000) as at 30 June 2006 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\$827,003,000). There were no Australian Medium Term notes outstanding as at 30 June 2007 (2006: 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 2007

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 Parent and the Group have a net obligation of \$200,000,000.

This transaction was unwound during June 2007, with termination in July 2007. Therefore, the liability and asset are shown at their net realisable value.

13. CAPITAL

Transpower's share capital consists of 1,200,000,000 (2006: 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

	LINES BUSINESS 2007 \$000	LINES BUSINESS 2006 \$000
Balance at the beginning of the year	(61,676)	(139,141)
Operating surplus after tax	106,385	83,879
Accumulated surplus (deficit) before dividends paid	44,709	(55,262)
Dividends paid	-	(6,414)
Balance at the end of the year	44,709	(61,676)

15. DIVIDENDS TO THE SHAREHOLDER

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

16. CAPITAL COMMITMENTS	LINES BUSINESS LINES BUSINESS	
	2007	2006
	\$000	\$000
Capital commitments in respect of contracts for capital expenditure:		
Within one year	38,650	40,260
One to two years	-	-
Two to five years	-	-
Total capital commitments	38,650	40,260

17. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable operating leases payable:

Within one year	7,316	4,932
One to two years	7,063	4,922
Two to five years	12,935	11,631
Later than five years	8,956	12,338
Total operating lease commitments	36,270	33,823

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	248,729	348,233
Euro Medium Term Notes	419,025	271,283
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 as yet unquantified amount (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 various grounds. The High Court struck out one of Todd's causes of action against Transpower in April 2005. In July 2007 the Court of Appeal reinstated the struck out cause of action but struck out and amended some others. Aspects of the Court of Appeal decision have been appealed by both Todd and Transpower.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

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 2007 was \$37.4m to the credit of the customer (2006: \$111.6m)

(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 and \$67.4m for the period July 2006 to March 2007.

On 4 December 2006 Transpower issued new prices for April 2007 to March 2008 which represented a compounded average 15.2% increase on the March 2006 prices. The Commission's preliminary view was that the increase was appropriate.

Transpower submitted a formal Administrative Settlement proposal to the Commission on 31 August 2007. The proposal was accepted by the Commission on 21 September 2007 and was published for consultation on 5 October 2007. Following consultation and cross submission a final determination is expected to be reached in the New Year.

Until such time as an Administrative Settlement proposal is agreed with the Commission there remains some uncertainty around Transpower's current and future revenue.

(v) 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 \$1,607,982,000 as at 30 June 2007 (\$1,553,005,000 as at 30 June 2006) 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 2007

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 2007 (30 June 2006: 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 2007 or 30 June 2006.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

20. FINANCIAL INSTRUMENTS continued

Short 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	
	2007	2006
	\$000	\$000
Interest rate swaps	3,136,000	2,752,500

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	462,552	410,035
Principal payable	(583,374)	(441,977)

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 2007 was nil (2006; 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.

Interest rate options	100,000	-
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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	25,570	6,413
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

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 2007 \$000	LINES BUSINESS 2006 \$000
Interest rate swaps	102,022	14,750
Cross currency interest rate swaps	-	912
Foreign exchange forward contracts	-	314

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 gain arising from movements in interest rates since the acquisition date of debt carried at 30 June 2007 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$100,674,000 (unrealised loss NZ\$1,968,000 as at 30 June 2006). 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 gain realised.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

20. FINANCIAL INSTRUMENTS continued

Carrying value/fair value	Carrying Value 2007 \$000	Fair Value 2007 \$000	Carrying Value 2006 \$000	Fair Value 2006 \$000
LINES BUSINESS				
On Balance Sheet				
Other financial assets	526,362	526,362	-	-
Long term assets	-	-	532,700	532,551
Debt	(1,607,982)	(1,479,982)	(1,553,005)	(1,529,800)
Off Balance Sheet				
Cross currency interest rate swaps	(947)	(127,118)	1,618	(34,261)
Foreign exchange forward contracts	-	(3,609)	-	946
Interest rate swaps	(459)	102,022	859	10,769

(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 2007

	Effective interest rate	Within one year year \$000	One to two years years \$000	Two to five years years \$000	Greater than five years five years \$000	Total \$000
Assets						
Cash	6.90%	1,919	-	-	-	1,919
Short term assets	6.32%	526,297	-	-	-	526,297
		528,216	-	-	-	528,216
Liabilities						
Debt	7.29%	(758,595)	(167,063)	(350,691)	(331,633)	(1,607,982)
		(758,595)	(167,063)	(350,691)	(331,633)	(1,607,982)
Off Balance Sheet						
Interest rate swaps		2,223,500	158,000	(37,000)	(2,344,500)	-
Interest rate options		-	-	-	-	-
		2,223,500	158,000	(37,000)	(2,344,500)	-
Repricing Profile						
		1,993,121	(9,063)	(387,691)	(2,676,133)	(1,079,766)

The effective interest rate on debt as amended by interest rate swaps is 6.53%.

LINES BUSINESS 2006

	Effective interest rate	Within one year year \$000	One to two years years \$000	Two to five years years \$000	Greater than five years five years \$000	Total \$000
Assets						
Cash	6.15%	2,088	-	-	-	2,088
Long term investments	6.32%	-	532,700	-	-	532,700
		2,088	532,700	-	-	534,788
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	(67,000)	(278,536)	(2,210,870)	(1,018,217)

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2007

21. SUBSIDIARIES OF TRANSPOWER GROUP

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

Subsidiaries	2007 Holding	2006 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%
Transpower Holdings Limited	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.

23. OTHER ITEMS REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 2004

Assets	2007 \$000	2006 \$000
Goodwill	0	0
Total intangible assets	0	0
Total tangible assets	2,942,186	2,797,244

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	208,178				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIIT)	208,178				
Interest on cash, bank balances, and short-term investments (ISTI)	3,295				
OSBIIT minus ISTI	204,883	a	204,883		204,883
Net surplus after tax from financial statements	106,385				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	106,385	n		106,385	
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)	101,987				
Depreciation of SFA at ODV (y)	110,000				
ODV depreciation adjustment	-8,013	d	add -8,013	add -8,013	add -8,013
Subvention payment tax adjustment	0	s*t		deduct 0	deduct 0
Interest tax shield	23,074	q			deduct 23,074
Revaluations	0	r			add 0
Income tax	41,033	p			deduct 41,033
Numerator			196,870	98,372	132,763
			$OSBIIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s*t + d$	$OSBIIT^{ADJ} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,175,521				
Fixed assets at end of current financial year (FA ₁)	2,338,062				
Adjusted net working capital at end of previous financial year (ANWC ₀)	-33,219				
Adjusted net working capital at end of current financial year (ANWC ₁)	-23,132				
Average total funds employed (ATFE) (or regulation 33 time-weighted average)	2,228,616	c	2,228,616		2,228,616
Total equity at end of previous financial year (TE ₀)	1,138,324				
Total equity at end of current financial year (TE ₁)	1,244,709				
Average total equity (or regulation 33 time-weighted average)	1,191,517	k		1,191,517	
WUC at end of previous financial year (WUC ₀)	210,806				
WUC at end of current financial year (WUC ₁)	251,421				
Average total works under construction (or regulation 33 time-weighted average)	231,114	c	deduct 231,114	deduct 231,114	deduct 231,114
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		deduct 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	1,919,000				
System fixed assets at end of current financial year at book value (SFA _{bn,1})	2,028,000				
Average value of system fixed assets at book value (or regulation 33 time-weighted average)	1,973,500	f	deduct 1,973,500	deduct 1,973,500	deduct 1,973,500
System Fixed assets at year beginning at ODV value (SFA _{odv,0})	2,031,000				
System Fixed assets at end of current financial year at ODV value	2,025,000				
Average value of system fixed assets at ODV value (or regulation 33 time-weighted average)	2,028,000	h	add 2,028,000	add 2,028,000	add 2,028,000
Denominator			2,052,002	1,014,903	2,052,002
			$ATFE^{ADJ} = c - e - f +$	$Ave TE^{ADJ} = k - e - m +$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f +$
Financial Performance Measure:			9.6	9.7	6.5
			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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2007

	LINES BUSINESS 2007	LINES BUSINESS 2006	LINES BUSINESS 2005	LINES BUSINESS 2004	LINES BUSINESS 2003	
Financial Measures						
Return on Equity	9.7%	7.8%	8.1%	7.1%	5.9%	
Return on Funds	9.6%	9.0%	9.4%	7.9%	3.3%	
Return on Investment	6.5%	5.8%	6.1%	10.3%	7.1%	
Efficiency Measures						
Direct line costs per kilometre, which shall be calculated in accordance with the following formula:						
	$\frac{a}{b}$	121,090,000 17,334	140,965,000 17,248	152,499,000 17,045	134,120,000 17,041	147,249,000 17,134
a	is direct expenditure (in dollars); and	\$6,986	\$8,173	\$8,947	\$7,870	\$8,594
b	is system length (in kilometres);					

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2007

	2007	2006
	\$ million	\$ million
System fixed assets at ODV at 30 June 2006	<u>2,031</u>	<u>1,979</u>
<i>Add</i> system fixed assets acquired during the year at ODV	119	130
<i>Less</i> system fixed assets disposed of during the year at ODV	(15)	(13)
<i>Less</i> depreciation on system fixed assets at ODV	(110)	(108)
<i>Add</i> revaluations of system fixed assets	-	43
Equals system fixed assets at ODV at 30 June 2007	<u><u>2,025</u></u>	<u><u>2,031</u></u>

The Electricity Information Disclosure Requirements¹

(For 12 months ending 30 June 2007, 2006, 2005, 2004)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics

	2006/07	2005/06	2004/05	2003/04
(Disclosure under Requirement 20)				
1. Energy delivery efficiency performance measures				
<i>(a) Load factor (%)</i>				
<i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>	66.60	66.50	69.70	71.05
<i>(b) Loss ratio (%)</i>				
<i>Transmission losses as percentage of energy entering the system</i>	3.74	3.63	3.76	3.82
<i>(c) Capacity utilisation (%)</i>				
<i>Maximum demand as percentage of total transformer capacity Based on Maximum Continuous Ratings</i>	50.37	51.61	49.72	48.17
2. Statistics				
<i>(a) System length, broken down by voltage (km)</i>				
Total ^a	17,334	17,248	17,045	17,041
350 kV (HVDC)	611	611	611	611
270 kV (HVDC)	611	611	611	611
0 kV (HVDC earth electrode)	31	31	31	31
220 kV (HVAC)	8,617	8,611	8,380	8,376
110 kV (HVAC)	6,299	6,219	6,073	6,073
66/50/33/11 kV (HVAC) ^a	1,165	1,165	1,339	1,339
<i>(b) Circuit length of overhead electric lines, broken down by voltage (km).</i>				
Total ^a	17,249	17,163	16,960	16,956
350 kV (HVDC)	571	571	571	571
270 kV (HVDC)	571	571	571	571
0 kV (HVDC earth electrode)	31	31	31	31
220 kV (HVAC)	8,617	8,611	8,380	8,376
110 kV (HVAC)	6,294	6,214	6,068	6,068
66/50/33/11 kV (HVAC) ^a	1,165	1,165	1,339	1,339
NB: HVDC link submarine power cables measure approximately 80km. Broken down by voltage				
350 kV (HVDC)	40	40	40	40
270 kV (HVDC)	40	40	40	40
<i>(c) Total circuit length of underground electric lines (km)</i>				
(110 kV HVAC)	5	5	5	5
<i>(d) Transformer capacity (Maximum Continuous Ratings) (kVA)</i>				
	13.31x10 ⁶	12.88x10 ⁶	12.75x10 ⁶	12.65x10 ⁶
<i>(e) Maximum demand (kilowatts) ^{bc} (kW)</i>				
	6.71x10 ⁸	6.65x10 ⁸	6.34 x10 ⁸	6.09x10 ⁸
<i>(f) Total electricity entering the system (before losses) ^{bc} (kWh)</i>				
	39.13x10 ⁹	38.73x10 ⁹	38.71x10 ⁹	38.02x10 ⁹
<i>(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: ^{bcd} (kWh)</i>				
	37.66x10 ⁹	37.33x10 ⁹	37.25x10 ⁹	36.57x10 ⁹
<i>(h) Total connected customers</i>				
	48	47	48	48

Notes

- Excludes 61km of circuits leased from others and operated by Transpower, and 34 km owned by Transpower but operated by others.
- To 2 decimal places only, higher accuracy used in calculations.
- 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.
- Including sales to direct connected customers.

¹ Electricity Information Disclosure Requirements issued 31 March 2004 as amended by the Electricity Information Disclosure Amendment Requirements 2004 effective 8 May 2004 and the Electricity Information Disclosure Amendment Requirements 2006.

The Electricity Information Disclosure Requirements

(For 12 months ending 30 June 2007, 2006, 2005, 2004)

Part 6

Reliability Performance Measures to be Disclosed by Transpower^a

(Disclosure Under Requirement 21)	2006/07	2005/06	2004/05	2003/04
1. Total number of unplanned interruptions ^b				
Resulting from 62 loss of supply incidents in 2006/07	104	148	67	75
2. Electricity customer interruptions in system minutes ^c	11.7	40.8	6.7	5.3
Planned	3.3	2.8	3.4	1.7
Unplanned	8.4	38.0	3.3	3.6
3. Underlying electricity customer interruptions in system minutes ^c				
Underlying interruptions are those interruptions of 1 system minute or less duration	6.4	8.8	5.7	5.3
Planned	2.2	1.5	3.4	1.7
Unplanned	4.1	7.2	2.3	3.6
4. Average supply reliability (%)				
Measured by the energy supplied divided by the sum of the energy supplied and not supplied	99.9965	99.9879	99.9981	99.9985
5. Uneconomic generation due to planned and unplanned transmission system unavailability (%)	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability (%)	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability (%)	-	-	-	-
8. Planned interruption restoration performance (%)	73.1	72.2	71.9	71.0
9. Unplanned interruption response (%)	99.0	100.0	100.0	98.7

Notes

- a 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.
- b Where two supply voltages, or two customers, at the same station are both interrupted this is counted as two interruptions.
- c Any minor differences between the total and the sum of planned and unplanned are due to rounding. System minutes of interruptions do not include energy 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, Paul Cochrane 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, 16, 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 2007.



Paul Cochrane

29 November 2007



Mark Tume

Form 7

**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 2004
REGULATION 37**

**STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND
INFORMATION SUPPLIED TO COMMERCE COMMISSION**

I, Mark Tume, of Wellington being a Director 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 29 November 2007.

Mark Tume

Al. Walker

.....
Solicitor of the High Court
of New Zealand

*(Al. Walker
Solicitor
Wellington)*