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TRANSPower NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO
SECTION 54W OF THE COMMERCE ACT 1986

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	LINES BUSINESS	
		2012 \$M	2011 \$M
Transmission revenue	2	725.2	675.3
Insurance claim revenue	2	3.5	-
Finance revenue	5	3.1	0.3
		731.8	675.6
Operating expenses	4	271.6	261.3
Earnings before finance expenses, tax, depreciation, amortisation, impairment, asset write-offs and changes in the fair value of financial instruments		460.2	414.3
Depreciation	4	148.8	145.9
Amortisation	4	8.1	9.0
Impairment	13	3.9	19.7
Asset write-offs	4	12.1	12.5
Finance expenses	5	85.4	82.5
Earnings before changes in the fair value of financial instruments and tax		201.9	144.7
(Gain) loss in the fair value of financial instruments	6	121.8	74.9
Earnings before tax		80.1	69.8
Income tax expense (credit)	7	22.9	21.1
NET PROFIT (LOSS)		57.2	48.7
<i>Total net profit (loss) for the period is attributable to:</i>			
Owners of the parent		57.2	48.7
Other comprehensive income for the period net of tax		0.9	-
Total comprehensive income for the period		58.1	48.7
<i>Total comprehensive income for the period is attributable to:</i>			
Owners of the parent		58.1	48.7

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 2012**

		LINES BUSINESS	
	Notes	2012 \$M	2011 \$M
ASSETS EMPLOYED			
Current assets			
Cash and cash equivalents		0.9	0.1
Trade and other receivables	8	77.0	76.9
Derivatives and hedge commitment in gain	10	47.7	52.4
Non current assets held for sale	13	67.1	37.5
Inventories	11	11.3	11.7
		<u>204.0</u>	<u>178.6</u>
Non current assets			
Trade and other receivables	8	24.0	16.3
Derivatives and hedge commitment in gain	10	169.8	167.7
Other financial assets	12	7.7	3.9
Property, plant and equipment	13	2,713.8	2,605.7
Capital work in progress	13	1,287.2	735.2
Intangibles	13	283.9	259.2
		<u>4,486.4</u>	<u>3,788.0</u>
TOTAL ASSETS EMPLOYED		<u>4,690.4</u>	<u>3,966.6</u>
FUNDS EMPLOYED			
Current liabilities			
Cash and cash equivalents		6.4	-
Trade and other payables	14	181.2	152.2
Current tax liability		4.5	2.1
Current debt	17	10.1	493.5
Derivatives and hedge commitment in loss	10	100.2	130.7
Deferred income	3	50.6	34.8
Provisions	15	7.4	12.2
		<u>360.4</u>	<u>825.5</u>
Non current liabilities			
Non current payables		1.6	1.7
Finance lease liabilities	16	0.7	1.0
Derivatives and hedge commitment in loss	10	340.9	214.3
Non current debt	17	2,481.3	1,369.2
Deferred tax	18	156.6	154.1
Provisions	15	9.1	9.1
		<u>2,990.2</u>	<u>1,749.4</u>
Total liabilities		<u>3,350.6</u>	<u>2,574.9</u>
Equity			
Capital	19	1,200.0	1,200.0
Available for sale financial assets reserve	19	-	(0.9)
Accumulated surplus (deficit)	19	139.8	192.6
Total equity		<u>1,339.8</u>	<u>1,391.7</u>
TOTAL FUNDS EMPLOYED		<u>4,690.4</u>	<u>3,966.6</u>

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 15 November 2012. For, and on behalf of, the board

DIRECTOR



DIRECTOR



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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

LINES BUSINESS

	Notes	Ordinary Shares	Available for Sale Reserve	Retained Earnings	Owners of the Parent
		\$M	\$M	\$M	\$M
2010/11					
Equity at 1 July 2010		1,200.0	(0.9)	143.9	1,343.0
Profit for the period		-	-	48.7	48.7
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income		-	-	48.7	48.7
Transactions with Owners	19	-	-	-	-
Total equity at 30 June 2011		1,200.0	(0.9)	192.6	1,391.7

	Notes	Ordinary Shares	Available for Sale Reserve	Retained Earnings	Owners of the Parent
		\$M	\$M	\$M	\$M
2011/12					
Equity at 1 July 2011		1,200.0	(0.9)	192.6	1,391.7
Profit for the period		-	-	57.2	57.2
Other Comprehensive Income		-	0.9	-	0.9
Total Comprehensive Income		-	0.9	57.2	58.1
Transactions with Owners	19	-	-	(110.0)	(110.0)
Total equity at 30 June 2012		1,200.0	-	139.8	1,339.8

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

	LINES BUSINESS	
	2012	2011
	\$M	\$M
CASH FLOW FROM OPERATIONS :		
Cash was provided from:		
Receipts from customers	743.7	662.5
Dividends received from subsidiaries	-	-
Interest received	3.1	0.3
Cash was applied to:		
Payments to suppliers and employees	(273.3)	(276.4)
Tax payments	(25.2)	(23.4)
Interest paid	(157.8)	(120.2)
Net cash inflows (outflows) from operations	290.5	242.8
CASH FLOW FROM INVESTMENTS :		
Cash was provided from:		
Sale of property, plant and equipment	34.3	25.4
Short term investments	-	437.1
Cash was applied to:		
Purchase of property, plant and equipment	(823.1)	(650.3)
Short term investments	-	(436.4)
Other investments	(3.8)	-
Net cash inflows (outflows) from investments	(792.6)	(624.2)
CASH FLOW FROM FINANCING:		
Cash was provided from:		
Increase in loans	1,420.1	1,171.9
Cash was applied to:		
Increase in long term investments	-	-
Dividends paid	(110.0)	-
Repayment of loans	(813.6)	(810.8)
Net cash inflows (outflows) from financing	496.5	361.1
Net increase (decrease) in cash held	(5.6)	(20.3)
Opening balance brought forward	0.1	20.4
Closing net cash carried forward	(5.5)	0.1
Closing net cash carried forward comprises:		
Cash and cash equivalents - asset	0.9	0.1
Cash and cash equivalents - liability	(6.4)	-

RECONCILIATION OF NET PROFIT (LOSS) WITH NET CASH FLOW FROM OPERATIONS

	2012	2011
	\$M	\$M
Net profit (loss)	57.2	48.7
Add (deduct) non-cash items:		
Change in fair value of financial instruments	121.8	74.9
Unpaid insurance claim revenue	(3.5)	-
Depreciation and amortisation	156.9	154.9
Deferred tax	2.5	(0.3)
Impairment	3.9	19.7
Imputed interest	2.4	2.4
Movements in working capital items:		
(Increase) decrease in trade and other receivables	(0.8)	(13.2)
Decrease (increase) in prepayments	(7.0)	(2.0)
(Increase) decrease in stocks of materials	0.4	(1.0)
(Decrease) increase in trade and other payables, interest payable and deferred income	24.2	(25.6)
(Decrease) increase in taxation payable	(2.4)	7.3
(Decrease) increase in provisions	(4.8)	2.2
Add (deduct) items classified as investing activities:		
Property, plant and equipment write-offs and loss on sale	12.1	12.5
Capitalised interest	(72.4)	(37.7)
Net cash flow from operations	290.5	242.8

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

1. Statement of accounting policies

Reporting entity and statutory base

These financial statements are for the lines business of Transpower New Zealand (the Lines Business). The Lines Business is a notional entity comprising the parts of the Transpower Group (Transpower) that supply electricity transmission services. The financial statements are in New Zealand dollars.

Nature of operations

Transpower is the owner and operator of New Zealand's national electricity grid. Transpower is a for-profit entity for the purposes of NZ IAS 1 "Presentation of Financial Statements".

Basis of preparation

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 Financial Reporting Act 1993 requires compliance with generally accepted accounting practice (GAAP) in New Zealand.

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable reporting standards. The financial statements comply with International Financial Reporting Standards (IFRS).

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.

The financial statements are derived by taking the Transpower Group annual report figures and then deducting non-lines companies or areas and adding back intercompany items or areas that relate to the Lines Business.

Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified for certain investments, held for sale assets, investment property, financial assets and financial liabilities as identified in specific accounting policies below.

Specific accounting policies

a) Basis of consolidation

The Transpower Lines Business financial statements consolidate the financial statements of transmission lines related subsidiaries as at and for the year ended 30 June 2012. Subsidiaries are those entities controlled, directly or indirectly, by the Parent. All significant intercompany accounts and transactions are eliminated on consolidation.

b) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. The Transpower Lines Business had no goodwill in the period.

c) Revenue

The Transpower Lines Business recognises revenue as it provides services or delivers products to customers.

Agreements between the Transpower Lines Business and customers regarding the construction of network assets are recognised over the contract period or asset life with revenue shown on a yield to maturity basis grossed up for an imputed interest expense.

Certain transactions relating to the operation of the electricity market, specifically wholesale market related ancillary services and losses and constraint payments, are "passed-through" and are therefore not recorded in profit or loss. This pass-through occurs

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because the Transpower Lines Business is deemed to act only as a collection agent.

d) Goods and services tax (GST)

The statement of comprehensive income and the cash flow statement are prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables, which include GST.

e) Accounts receivable

Accounts receivable are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment. Impairment of receivables is calculated on an individual customer basis and recognised in cases where, based on objective evidence, the debt will not be paid when due by the customer.

f) Inventories

Stocks of materials are recorded at the lower of cost and net realisable value after due consideration for excess and obsolete items. Cost is determined on a weighted average basis.

g) Investments

Regular way financial asset purchases

All regular way financial asset purchases are accounted for on settlement date and not trade date.

Fair value through profit or loss

Investments (excluding Fonterra shares (section k), derivatives (section h) and property loans (section i)) are designated as fair value through profit or loss on the basis of preventing an "accounting mismatch".

Fair values of quoted investments are based on prices current at balance date. If the market for a financial asset is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments, discounted cash flow analysis and option pricing models.

h) Other financial assets at fair value through profit or loss

Other assets at fair value through profit or loss are derivatives. Derivatives are classified as held for trading unless they are designated as hedging instruments in a hedging relationship. Realised and unrealised gains and losses arising from changes in the fair values are included in the profit or loss in the period in which they arise.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. These assets are carried at amortised cost using the effective interest rate method.

j) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Transpower Lines Business prior to the end of the financial year that are unpaid.

Provisions are liabilities of uncertain timing or amount. They are measured at the amounts expected to be paid when the liabilities are settled.

k) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale by management or not designated in any of the other categories. These investments are carried at fair value with any unrealised gains and losses arising from changes in fair value recognised directly in other comprehensive income. On sale or on impairment, the accumulated fair value adjustments are included in profit or loss. The Transpower Lines Business has classified Fonterra shares, which are held as part of a land portfolio, in this category.

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l) Property, plant and equipment

Property, plant and equipment is recognised at cost less accumulated depreciation. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for their intended use.

m) Capital work in progress

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for use. Finance costs incurred during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the total cost for capital work in progress. The finance costs capitalised are based on the Transpower Lines Business's weighted average cost of borrowing. Assets are transferred from capital work in progress to property, plant and equipment, or intangible assets as they become operational and available for use.

n) Depreciation

Depreciation of property, plant and equipment is calculated using the straight line method to write down the cost of property, plant and equipment to its estimated residual value over its estimated useful life.

The estimated useful lives are as follows:

Transmission lines	40-70 years
Freehold buildings	30-55 years
Substation assets	8-55 years
HVDC assets	30 years
Communication assets	8-25 years
Administration assets	3-10 years

o) Non current assets held for sale

Non current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and is expected to be completed within one year from the date of classification.

p) Leased assets

The Transpower Lines Business is a lessee of certain property, plant and equipment under both finance and operating leases. The Transpower Lines Business is also a lessor of certain property, plant and equipment under operating leases.

Finance leases effectively transfer all of the risks and benefits incidental to ownership to the lessee, being the Transpower Lines Business. Leased assets are depreciated over their useful 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 remain with the lessor. Operating lease payments/receipts are recognised in profit or loss in accordance with the pattern of benefits derived/received.

q) Intangibles

The cost of acquiring an intangible asset is amortised from the date the underlying asset is held ready for use on a straight line basis over the period of its expected benefit, which is as follows:

Software	5-8 years
Easements	Indefinite
Right to access asset	90 years

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Easements are deemed to have an indefinite useful life, as the contracts do not have a maturity date and the Transpower Lines Business expects to use the easements indefinitely. Therefore, easements are not amortised. Their value is assessed annually for impairment, and their carrying value is written down if found impaired. The Transpower Lines Business capitalises the direct costs associated with putting the easements in place. These costs include registration and associated valuation and legal costs and also any injurious affection payments. Where the Transpower Lines Business buys land and then establishes an easement, a valuation is obtained for the easement. This valuation is used as deemed easement cost and capitalised, with a corresponding reduction in the land valuation.

Certain easements have been donated by the Crown. These are recognised at cost (nil) plus any direct cost associated with putting the easement in place.

For intangibles with a finite life, where the periods of expected benefit or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

r) Impairment of assets

At each reporting date, the Transpower Lines Business reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are largely independent from other assets, the Transpower Lines Business estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

s) Debt

Debt is designated as fair value through profit or loss on the basis of preventing an "accounting mismatch". The Transpower Lines Business's net debt and derivatives are managed as one integrated portfolio; therefore, measuring derivatives and net debt on different bases would create a recognition inconsistency or accounting mismatch.

Fair values of quoted debt are based on prices current at balance date. If the market for a financial liability is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments and discounted cash flow analysis.

The effect on fair values of credit risk (i.e. the premium over the basis interest rate risk for credit to reflect the credit rating of the relevant counterparty or the Transpower Lines Business) is based on quoted market yields.

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t) Employee benefits

Provision is made for benefits accruing to employees when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated cash flows to be made by the Transpower Lines Business in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution plans are expensed when incurred.

u) Taxation

Current and deferred tax for the period is recognised as an expense or income in profit or loss. There are two exceptions to this. Firstly, when items are credited or debited directly to other comprehensive income, the related deferred tax or current tax is also recognised directly in other comprehensive income. Secondly, where tax arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill or discount on acquisition.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax carrying amounts.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit.

v) Foreign currency transactions

Transactions denominated in a foreign currency that are not hedged are converted at the New Zealand exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange differences arising on the translation or settlement of accounts payable and receivable in foreign currencies are recognised in profit or loss.

Certain purchase commitments denominated in a foreign currency are hedged against foreign currency risk and designated as hedge items in fair value hedges under NZ IAS 39. The cumulative change in the fair value of the purchase commitments attributable to the hedged foreign currency risk is recorded as an asset or liability using forward rate based measurement with the corresponding gains or losses recognised in profit or loss. The gains or losses in the associated derivative are also recognised in profit or loss.

w) Derivative financial instruments

The Transpower Lines Business uses derivative financial instruments to reduce its exposures to fluctuations in foreign currency exchange rates and interest rates. The Transpower Lines Business has designated certain derivatives as hedges, which are used to reduce foreign currency exposure on purchases. These hedges are designated as fair value hedges. For fair value hedging relationships, gains or losses on hedging instruments are included in profit or loss together with any change in the fair value of the hedged purchase commitment.

For an instrument to qualify as a designated and effective hedging instrument, at the inception of the derivative transaction, the relationship between hedging instruments and hedged items must be documented, as must the Transpower Lines Business's risk management objective and strategy for undertaking the hedge. Documentation is maintained upon the effectiveness of the hedge, i.e. whether the hedges are highly effective in offsetting changes in fair values of hedged items.

x) Cash flow statement

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For the purposes of the cash flow statement, cash is considered to be cash held in bank accounts (net of bank overdrafts) plus highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value. Investments with an original maturity of less than three months are classified as cash.

New standards not yet adopted

The Transpower Lines Business has elected not to early adopt the following standards (or revisions to standards), considered to be materially relevant to the financial statements, but not effective until 1 July 2013 or later.

NZ IFRS 9 Financial Instruments.

For the areas of NZ IFRS 9 that have been released and can be early adopted, there is no material impact on the financial statements. The main area that has not been finalised and therefore cannot be early adopted, relates to hedge accounting. NZ IFRS 9, hedge accounting, may have a material impact upon the financial statements. It is too early to comment until the standard, in particular the transitional arrangements, are finalised.

NZ IFRS 10 Consolidated Financial Statements

NZ IFRS 11 Joint Arrangements

NZ IFRS 12 Disclosure of Interests in Other Entities

NZ IFRS 13 Fair Value Measurement

For the above four standards, the Transpower Lines Business anticipates that the changes will not have a material impact on the financial statements in the period of initial application other than increased disclosure.

New standards adopted during the period

There were no new or revised standards that had a material impact on the financial statements.

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2. Operating revenue

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Transmission revenue		
HVAC interconnection	512.7	464.8
HVAC connection	121.0	124.0
EV (rebate) charge - HVAC	(40.8)	(42.8)
HVDC	78.9	75.5
EV (rebate) charge - HVDC	16.8	9.4
Customer investment contracts	26.2	26.6
Other transmission	10.4	17.8
Total transmission revenue	725.2	675.3
Non transmission revenue		
Insurance claim revenue	3.5	-
Total operating revenue	728.7	675.3

Transmission revenue

Transmission revenue consists of charges for the transmission of electricity from the point of generation to the point of supply, being high voltage alternating current (HVAC) interconnection, connection and high voltage direct current (HVDC).

The Lines Business 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 regulated transmission activities attributable to customers ("the EV balance") is passed on to or claimed from customers over time as EV (rebates) or charges.

Customer investment contracts are contracts entered into with customers to build grid connection assets.

Other transmission revenue was higher in 2011 due to the sale of copper from the dismantling of the old transmission line on the North Island Grid Upgrade (NIGU) route.

Electricity regulations additional disclosures:

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Revenue provided to Lines Business from other Transpower businesses	-	-
Revenue - electricity loss rental rebates	100.2	75.5
Expense - electricity loss rental rebates	(100.2)	(75.5)
Electricity loss rental rebates not passed through to customers	-	-
	-	-

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3. Deferred income

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Customer investment contracts	16.8	12.1
Transmission realignment	32.3	21.5
Other	1.5	1.2
Total deferred income	50.6	34.8

Customer investment contracts

Customer investment contracts are contracts entered into with customers to build grid connection assets. Where the customer pays upfront to construct the asset, the revenue is recognised over the contract period. Related imputed interest expense is based on the rate of return in the year the payment was received.

Transmission realignment

The Transpower Lines Business has entered into contracts to underground and realign some transmission line assets. The upfront revenue received is recognised over the life of the related transmission assets. Related imputed interest expense is based on the rate of return in the year the payment was received.

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4. Operating expenses

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Transmission charges	-	-
Transfer payments to "other Transpower businesses"		
Transmission asset maintenance:	-	-
Disconnection/reconnection services	-	-
Metering data	-	2.7
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Avoided transmission charges on account of own generation	-	-
Other - IT support	-	-
Other - insurance	11.3	10.2
Total	11.3	12.9
Expenses to entities that are not related parties for:		
Transmission asset maintenance:	127.4	133.6
Disconnection/reconnection services	-	-
Information technology costs including lease costs	27.3	23.9
Metering data	-	-
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Total	154.7	157.5
Employee salaries and redundancies	43.7	40.0
Consumer billing and information system expense	-	-
Corporate and administration expenses	13.5	13.5
Human resource expenses	5.8	6.2
Marketing / advertising expenses	0.2	0.3
Merger and acquisition expenses	-	-
Takeover defence expenses	-	-
Research and development expenses	-	-
Legal and consultancy expenses	12.4	13.0
Study grants and donations	1.3	1.7
Directors' fees	0.5	0.5
	77.4	75.2
Audit fees		
Audit fees paid to principal auditors	0.3	0.3
Audit fees paid to other auditors	-	-
Fees paid for other services provided by principal and other auditors	0.3	0.3
Total	0.6	0.6
Cost of offering credit		
Bad debts written off	-	-
Increase in estimated doubtful debts	-	-
Total	-	-
Local authority rates expense	3.4	3.4
AC loss-rental rebates (distributed to retailers/customers) expense	-	-
Rebates to consumers due to ownership interests	-	-
HVDC share of reserves	17.5	4.7
Subvention payments	-	-
Unusual expenses	-	-
Other expenses not listed - Industry related expenses	6.7	7.0
Total operating expenses	271.6	261.3
Depreciation, amortisation and write-offs		
Depreciation of system assets	148.1	136.8
Depreciation of other assets	0.7	9.1
Total depreciation expense	148.8	145.9
Amortisation of intangibles	8.1	9.0
Other expenses not listed - Stock and asset write-offs	12.1	12.5
Total depreciation, amortisation and write-offs	169.0	167.4
Operating expenses including asset write-offs, depreciation and amortisation	440.6	428.7

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

5. Net finance expenses

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Finance revenue		
Interest received	3.1	0.3
Finance expenses		
Interest paid and associated fees	155.4	117.8
Capitalised interest	(72.4)	(37.7)
Imputed interest	2.4	2.4
	<u>85.4</u>	<u>82.5</u>
Total net finance expenses	<u>85.4</u>	<u>82.5</u>

Interest paid and associated fees

All interest paid is on debt designated as fair value through profit or loss.

Imputed interest

Imputed interest is on customer investment contracts and transmission realignment and certain other prepaid transactions. Refer to Note 3 Deferred income for more information.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

6. Change in fair value of financial instruments

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Accounting hedges		
Foreign exchange forward contracts - hedge accounted	(5.8)	12.2
Hedge commitment	5.8	(12.3)
	-	(0.1)
Other		
Foreign debt	16.7	(60.2)
Cross currency interest rate swaps	(75.5)	77.3
Foreign interest rate swaps	2.3	1.8
Basis swaps	2.6	(1.0)
NZD interest rate swaps	169.1	43.0
Foreign exchange forward contracts - not hedge accounted	0.2	(1.2)
Investments	-	-
NZD debt	5.8	15.3
Available for sale assets	0.6	-
	121.8	75.0
Total fair value (gain) loss	121.8	74.9

The above fair value movements are as a result of the Transpower Lines Business recognising the financial instruments at fair value through profit or loss or as fair value hedges.

The Transpower Lines Business experiences fair value movements principally through movements in underlying interest rates and exchange rates. The Transpower Lines Business generally seeks to fix interest rates to provide certainty of interest rate costs. This means that, prima facie, a decrease in market interest rates will result in the Transpower Lines Business sustaining fair value losses and conversely an increase in market interest rates will result in fair value gains.

Credit spread impact

Corporate debt normally has a credit spread built into the pricing that is applied by the market, over and above the swap curve. This spread represents the additional risk of a corporate debt obligation compared with a liquid net settled swap transaction. Note 17 Debt, financial Instruments and risk management, part iv credit risk, includes discussion of the credit spread impact on fair value.

Foreign purchases

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of foreign exchange forward contracts. The "hedge commitment" represents the non derivative fair value movement, attributable to foreign exchange movements, on the commitment to buy the goods, i.e. before the goods or an invoice are received.

Debt and investments

Refer to Note 17 Debt, financial Instruments and risk management for information on the use of debt, investments and derivatives.

Available for sale assets

This relates to an impairment of Fonterra shares. The shares are held as part of the Transpower Lines Business land holdings. The Transpower Lines Business revalues the Fonterra shares based on the annual "fair value share price" released by Fonterra. For the last three years, the fair value share price of the shares has been \$4.52. The Transpower Lines Business purchased the majority of Fonterra shares at a share price higher than \$4.52. Accordingly, the Transpower Lines Business has held these revaluation losses in the available for sale reserve. Due to the duration of the revaluation losses, a fair value impairment is required.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

7. Income tax expense**LINES BUSINESS**

	2012 \$M	2011 \$M
Current tax expense		
Current period	16.7	14.9
Adjustment for prior periods	3.7	6.5
	<u>20.4</u>	<u>21.4</u>
Deferred tax expense		
Origination and reversal of temporary differences	5.4	5.9
Adjustment for prior periods	(2.9)	(5.8)
Change in future tax rate	-	(0.4)
	<u>2.5</u>	<u>(0.3)</u>
Total income tax expense (credit)	<u><u>22.9</u></u>	<u><u>21.1</u></u>
Amounts charged or credited to other comprehensive income		
Unrealised gain on available for sale investments	-	-
Income tax expense (credit) reported in other comprehensive income	<u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of effective tax		
Operating surplus before tax	80.1	69.8
Income tax at 28c (2012) or 30c (2011)	22.4	20.9
Tax effect of:		
Change in future tax rate	-	(0.4)
Non deductible expenses	-	0.1
Tax exempt income	(0.3)	(0.2)
Adjustment for prior periods	0.8	0.7
Total income tax expense (credit)	<u><u>22.9</u></u>	<u><u>21.1</u></u>

On 20 May 2010, the Government announced its budget tax changes. These changes included reducing the company tax rate from 30% to 28% which was effective 1 July 2011 for the Transpower Lines Business.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

8. Trade and other receivables

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Current		
Trade and other receivables	71.3	70.5
Prepayments	5.7	6.4
Total trade and other receivables	77.0	76.9
Non current		
Prepayments	24.0	16.3
Total trade and other receivables	101.0	93.2

There was no impairment of receivables during the year (2011: nil).

9. Financial instrument categorisation

	Designated fair value through profit or loss (accounting mismatch)	Fair value through profit or loss (held for trading)	Hedge accounting (fair value method)	Available for sale	Loans and receivables	Other liabilities
Current assets						
Cash and cash equivalents					\$0	
Trade and other receivables					\$0	
Investments other	\$0					
Hedge commitments			\$0			
Non current assets						
Other financial assets (Fonterra shares)				\$0		
Other financial assets (Loans)					\$0	\$0
Current liabilities						
Trade and other payables						\$0
Current debt	\$0					
Current portion of non current debt	\$0					
Non current liabilities						
Bonds	\$0					
Term borrowing	\$0					
Euro medium term notes	\$0					
US private placement	\$0					
Other	\$0					
Derivatives						
Interest rate swaps		\$0				
Interest rate options		\$0				
Basis swaps		\$0				
Gross currency interest rate swaps		\$0				
Foreign exchange forward contracts - not hedge accounted			\$0			
Foreign exchange forward contracts - hedge accounted			\$0			

10. Derivatives and hedge commitment

This note shows the short term (ST) and long term (LT) breakdown of the derivatives and hedge commitment.

2012	LINES BUSINESS				Total
	ST asset \$M	LT asset \$M	ST (liability) \$M	LT (liability) \$M	
Debt related derivatives					
Cross currency interest rate swaps	-	105.9	-	(3.7)	102.2
Interest rate swaps	16.0	59.6	(68.6)	(331.1)	(324.1)
Basis swaps	-	-	-	(1.8)	(1.8)
FX swaps	0.1	-	-	-	0.1
	16.1	165.5	(68.6)	(336.6)	(223.6)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	-	-	(31.6)	(4.3)	(35.9)
Commitment on fair value hedges	31.6	4.3	-	-	35.9
Total derivatives and hedge commitment	47.7	169.8	(100.2)	(340.9)	(223.6)
Commitment on fair value hedges (above)	31.6	4.3	-	-	35.9
Total derivatives	16.1	165.5	(100.2)	(340.9)	(259.5)

2011	LINES BUSINESS				Total
	ST asset \$M	LT asset \$M	ST (liability) \$M	LT (liability) \$M	
Debt related derivatives					
Cross currency interest rate swaps	6.3	106.0	(22.8)	(63.4)	26.1
Interest rate swaps	10.2	54.6	(72.2)	(144.8)	(152.2)
Basis swaps	-	1.0	-	-	1.0
	16.5	161.6	(95.0)	(208.2)	(125.1)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	0.2	-	(35.7)	(6.1)	(41.6)
Commitment on fair value hedges	35.7	6.1	-	-	41.8
Total derivatives and hedge commitment	52.4	167.7	(130.7)	(214.3)	(124.9)
Commitment on fair value hedges (above)	35.7	6.1	-	-	41.8
Total derivatives	16.7	161.6	(130.7)	(214.3)	(166.7)

Derivatives are used to manage financial risk. The gain or loss on derivatives represents the unrealised gain or loss at balance date. The Transpower Lines Business anticipates that the derivatives will be held until maturity, and it is unlikely that settlement at the reported fair values will occur.

Debt and purchasing related derivatives

The nature of the debt and purchasing related derivatives is discussed in Note 17 Debt, financial instruments and risk management.

Commitment on fair value hedges

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of foreign exchange forward contracts (FEC's). The hedge commitment represents the non derivative fair value movement, attributable to foreign exchange movements, on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (FEC) is shown separately (in the same note).

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

11. Inventories

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Substations	9.5	7.5
Transmission lines	1.0	3.6
Communications	0.5	0.6
Other	0.3	-
Total inventories	11.3	11.7
Inventories expensed during the period	3.8	0.3

All inventory is classified as finished goods i.e. no further processing is carried out.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

12. Other financial assets

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Non current		
Property loan assets	3.9	-
Fonterra shares	3.8	3.9
Total non current financial assets	7.7	3.9

Property loan assets

The Transpower Lines Business has a property portfolio as a result of the North Island Grid Upgrade (NIGU) project. Properties were purchased between Whakamaru and South Auckland for the purposes of establishing easements and then on-selling. As part of the selling programme, The Transpower Lines Business has two vendor finance loan assets. These loan assets are carried at amortised cost. No impairment is expected.

Fonterra shares

As a result of the NIGU property portfolio, the Transpower Lines Business holds Fonterra shares. When dairy farms are purchased, Fonterra shares are often purchased to enable the continued operation of the dairy farm. These shares are classified as available for sale because they do not fall into the other three categories of financial instruments, i.e. they have no "maturity" date, they are not traded on an active market, there are no fixed payments associated with holding the shares and they are not held for short term profit making.

13. Non current assets

This note includes property, plant and equipment, intangible assets and non current assets held for sale.

LINES BUSINESS

	HVAC transmission lines \$M	HVDC Transmission lines \$M	HVDC Substations \$M	HVDC substations and submarine cables \$M	Communications \$M	Administration assets \$M	Total property, plant and equipment \$M	Easements and right to access \$M	Software \$M	Total intangible assets \$M	Capital work in progress \$M
At 30 June 2011											
Cost	1,269.6	77.7	1,578.8	335.2	190.4	93.3	3,545.0	240.1	63.0	303.1	735.2
Accumulated depreciation / amortisation	(272.4)	(29.7)	(329.9)	(177.7)	(74.3)	(55.3)	(939.3)	(0.1)	(43.8)	(43.9)	-
Net book value / carrying value	997.2	48.0	1,248.9	157.5	116.1	38.0	2,605.7	240.0	19.2	259.2	735.2
30 June 2011 reconciliation											
Opening net book value / carrying value (1 July 2010)	973.0	47.3	1,177.0	164.1	80.6	32.6	2,474.6	107.1	13.8	120.9	474.6
Additions / transfers	105.5	4.5	130.4	10.2	50.4	14.5	315.5	133.0	14.3	147.3	736.9
Disposals / transfers	(18.5)	-	(5.4)	(0.1)	(0.2)	-	(24.2)	-	-	-	(476.3)
Impairment	(14.3)	-	-	-	-	-	(14.3)	-	-	-	-
Depreciation / amortisation	(48.5)	(3.8)	(53.1)	(16.7)	(14.7)	(9.1)	(145.9)	(0.1)	(8.9)	(9.0)	-
Closing net book value / carrying value	997.2	48.0	1,248.9	157.5	116.1	38.0	2,605.7	240.0	19.2	259.2	735.2
Non current assets held for sale balances											
NIGUP property held for sale balance pre 2011 impairment	32.1	-	-	-	-	-	32.1	-	-	-	-
less 2011 impairment on NIGUP property held for sale	(5.4)	-	-	-	-	-	(5.4)	-	-	-	-
Low voltage assets balance	3.5	-	7.3	-	-	-	10.8	-	-	-	-
Total non current assets held for sale	30.2	-	7.3	-	-	-	37.5	-	-	-	-
Total non current assets, including held for sale assets	1,027.4	48.0	1,256.2	157.5	116.1	38.0	2,643.2	240.0	19.2	259.2	735.2
At 30 June 2012											
Cost	1,262.3	111.5	1,734.4	358.1	217.7	99.5	3,783.5	251.4	82.2	333.6	1,287.2
Accumulated depreciation / amortisation	(311.4)	(31.3)	(379.9)	(193.6)	(90.2)	(63.3)	(1,069.7)	(0.7)	(49.0)	(49.7)	-
Net book value / carrying value	950.9	80.2	1,354.5	164.5	127.5	36.2	2,713.8	250.7	33.2	283.9	1,287.2
30 June 2012 reconciliation											
Opening net book value / carrying value (1 July 2011)	997.2	48.0	1,248.9	157.5	116.1	38.0	2,605.7	240.0	19.2	259.2	735.2
Additions / transfers	28.6	36.0	174.1	23.0	29.9	5.9	297.5	11.3	21.5	32.8	915.6
Disposals / transfers	(29.9)	(1.2)	(6.9)	-	(0.1)	-	(38.1)	-	-	-	(363.6)
Impairment	(2.5)	-	-	-	-	-	(2.5)	-	-	-	-
Depreciation / amortisation	(42.5)	(2.6)	(61.6)	(16.0)	(18.4)	(7.7)	(148.8)	(0.6)	(7.5)	(8.1)	-
Closing net book value / carrying value	950.9	80.2	1,354.5	164.5	127.5	36.2	2,713.8	250.7	33.2	283.9	1,287.2
Non current assets held for sale balances											
NIGUP property held for sale balance pre 2012 impairment	58.7	-	-	-	-	-	58.7	-	-	-	-
less 2012 impairment on NIGUP property held for sale	(1.4)	-	-	-	-	-	(1.4)	-	-	-	-
Low voltage assets balance	1.8	-	8.0	-	-	-	9.8	-	-	-	-
Total non current assets held for sale	59.1	-	8.0	-	-	-	67.1	-	-	-	-
Total non current assets, including held for sale assets	1,010.0	80.2	1,362.5	164.5	127.5	36.2	2,780.9	250.7	33.2	283.9	1,287.2

Capital work in progress can be split into the following classes:

LINES BUSINESS	
	2012 \$M
HVAC transmission lines	705.5
HVDC transmission lines	1.9
HVDC substations	172.8
HVDC substations and submarine cables	371.4
Communications	19.6
Administration assets	3.3
Software intangible assets	9.5
Other intangible assets	3.2
	1,287.2
	735.2

During the year the following borrowing costs were capitalised:

HVAC transmission lines	15.1
HVDC transmission lines	0.4
HVDC substations	11.9
HVDC substations and submarine cables	19.9
Communications	1.4
Administration assets	0.5
Software intangible assets	0.1
Other intangible assets	2.1
	72.4
	37.7

These costs were capitalised at the weighted average cost of debt of 7.62% (2011: 7.57%).

Electricity regulations additional disclosures:

Motor vehicles	3.9
Office equipment	0.1
Customer billing and information assets	-

Property, plant and equipment

Administration assets include computer hardware, plant, equipment, furniture and motor vehicles. Land and buildings are contained within the above classes and have a net book value of \$210.3 million (2011: \$232.7 million).

Impairment expense

The impairment expense is made up of:

GROUP and PARENT	
	2012 \$M
Held for sale	
NIGU line project property	1.4
Total	1.4
Property, plant and equipment	
NIGU line project property	-
Other property	2.5
Total	2.5
Total impairment expense	3.9

The North Island Grid Upgrade (NIGU) project property relates to land and buildings purchased for the NIGU project. The property impairment held at balance date is \$35.3 million (2011: \$42.3 million).

As at 30 June 2012, the Transpower Lines Business holds 52 properties along the route of the line being constructed between Whakamaru and South Auckland relating to NIGU (2011: 72 properties). The line was approved by the Electricity Commission on 5 July 2007, with designation and resource consenting being granted by the Board of Inquiry on 18 September 2009. 20 properties were sold in the period (2011: 20 properties) and no properties were purchased (2011: 6 properties).

For the NIGU properties sold to 30 June:

LINES BUSINESS	
	2012
	\$M
Net book value of properties sold	16.6
Sales amount	24.2
Gain (loss) on property sales	1.3
Previously recognised impairment	0.9
Total gain (loss) on property sales	6.7
	(7.1)
	(5.8)

For regulatory purposes, the Transpower Lines Business does not charge customers for losses (or rebate any gains) from movements in property values, where the property was purchased for the purposes of obtaining an easement and then re-selling. Only easements and related costs from these properties are charged to customers.

Held for sale assets

The held for sale assets comprise NIGU properties and low voltage assets.

NIGU assets - these relate to properties on the North Island Grid Upgrade (NIGU) route between Whakamaru and south Auckland purchased for the purposes of establishing easements and then on-selling. Some of these properties are classified as held for sale. Where the Transpower Lines Business classifies these properties as held for sale, they are expected to be sold within 12 months. The above section on impairment has information on past sales and gains/losses on sale.

Low voltage assets - relate to substations and lines which are 110kV or less. Where these substations and lines are not integral to Transpower's transmission network, these assets are sold to the local lines company. Where the Transpower Lines Business classifies these properties as held for sale, they are expected to be sold within 12 months. The above section on impairment has information on past sales and gains/losses on sale.

For the low voltage assets sold to 30 June:

LINES BUSINESS	
	2012
	\$M
Net book value of low voltage sold	9.7
Sales amount	9.7
Gain (loss) on low voltage asset sales including impairment	0.7
Gain (loss) on low voltage asset sales excluding impairment	-

Intangible assets

Easements

Easements are deemed to have an indefinite useful life because:

- There is no "expiry" date to the easement agreements
- Transpower is expected to use the easements indefinitely, based on past experience.

Easements also include injurious affection payments and related costs such as resource consents.

There was no impairment on easements during the year (2011: none). The cost of easements are expected to be fully recovered from transmission customers.

Right to access assets

The most significant right to access asset relates to the 2011 purchase of access rights to the Vector Tunnel in Auckland for \$50 million. The Vector Tunnel right to access asset is being amortised over the contract life, 90 years.

Software

The amortisation of software occurs over 5-8 years.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

14. Trade and other payables

	LINES BUSINESS	
	2012	2011
	\$M	\$M
Trade creditors	171.6	143.7
Employee entitlements	9.5	8.3
Current portion of external finance leases	0.1	0.2
Total trade and other payables	181.2	152.2

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

15. Provisions

	LINES BUSINESS			Total
	Employee benefits	Restructuring	Dismantling	
	\$M	\$M	\$M	\$M
Balance at 1 July 2011	6.5	1.2	13.6	21.3
Provisions made during the period	7.2	0.2	-	7.4
Provisions used during the period	(8.1)	(1.2)	(2.9)	(12.2)
Provisions reversed during the period	-	-	-	-
Balance at 30 June 2012	5.6	0.2	10.7	16.5
Current portion of provisions	5.6	0.2	1.6	7.4
Non current portion of provisions	-	-	9.1	9.1
Balance at 30 June 2012	5.6	0.2	10.7	16.5

Employee benefits

The Transpower Lines Business, for accounting purposes, has a constructive obligation with regard to certain employee benefits. This provision is expected to be used within one year.

Restructuring

Staff redundancy provision. This provision is expected to be used within one year.

Dismantling

In September 2007, the Transpower Lines Business removed from service the HVDC Pole 1 (Pole 1) due to the low probability, high consequence risks posed by continuing operation of the aging technology. Following additional risk mitigation measures including decommissioning one half of Pole 1, the remaining half was made available for limited operation from September 2009.

The Transpower Lines Business recognises site restoration and rehabilitation liabilities where the Transpower Lines Business believes an obligation exists. Pole 1 contains mercury and the Transpower Lines Business has estimated the decommissioning cost based on engineering advice. Decommissioning of the remaining half of Pole 1 is planned to be completed by June 2015. Actual decommissioning costs may vary from the figures indicated.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

16. Non current finance lease liability

	LINES BUSINESS	
	2012	2011
	\$M	\$M
One to five years	0.4	0.5
Greater than five years	0.3	0.5
	0.7	1.0
Reconciliation to lease payments:		
Total future minimum lease payments	1.8	2.3
Interest expense	(1.0)	(1.1)
Total lease liability recognised	0.8	1.2
This is represented by:		
Current lease liability	0.1	0.2
Non current lease liability	0.7	1.0
	0.8	1.2

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

17. Debt, financial instruments and risk management

The following items are discussed elsewhere in the financial statements

Item	Note
Derivative balances split between short term and long term assets and liabilities	10
Debt security and guarantees	23

(a) Summary

Debt is issued by the Group in both New Zealand dollars (NZD) and foreign currencies. Derivatives are used to manage currency risk and interest rate risk by converting foreign borrowings to NZD and by converting floating interest rates to fixed interest rates. The use of derivatives means that Transpower effectively has borrowings denominated in NZD, predominantly at fixed interest rates.

The Group also uses derivatives in its purchase of goods and services.

The Group is subject to a number of financial risks which arise as a result of its business activities, including having a debt portfolio which is denominated in both NZD and foreign currencies, and from purchases of goods and services denominated in a foreign currency.

The financial risks are those that are financing related; being liquidity, interest rate, currency, and credit; and those that are operating related risks, being currency, commodity, customer credit, insurance and regulatory.

Financial risk management is carried out by a central Treasury function which operates under policies approved by the board of directors.

(b) Fair value and classifications

Transpower values the majority of financial instruments at fair value in the statement of financial position. For cash and cash equivalents, accounts payable and receivables, fair values are materially similar to their cost due to the short term nature of these items.

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 Group uses discounted cash flow techniques to calculate the fair value of its investments, debt and derivative instruments. The interest rate used for discounting is based on the applicable market swap curve, for example, for USD debt the USD swap curve for similar rated entities would be used as the basis for discounting the expected cash flows. The swap curve is adjusted for estimated credit spreads above the swap curve that exist for debt issues. This is the tier 2 category as described by NZ IFRS 7.

Transpower has certain debt issues listed on the New Zealand debt exchange (NZDX). The volume of trades is considered insufficient to use quoted market prices for valuation purposes.

(c) Financial risks - financing related**i. Liquidity risk**

Liquidity risk is the risk of the Group being unable to access sufficient funds to meet its financial obligations in an orderly manner. This might result from the Group not maintaining adequate funding facilities or being unable to replace existing debt maturities.

To smooth the Group's refinancing requirements in future periods, committed funding facilities maturing in any 12 month period are not to exceed NZD \$750 million. No more than 50% of debt can mature within the next three years and at least 30% of debt must mature after five years.

Term debt

The Group has six debt facilities. The aggregate principal amount of the debt outstanding may not exceed the following:

	Currency	Foreign currency equivalent	NZD
		\$M	\$M
- Domestic medium term note programme	NZD	-	1,500
- European commercial paper programme	USD	500	629
- European medium term note programme	USD	1,000	1,259
- Australian medium term note programme	AUD	750	954
- Domestic multi-option facility	NZD	-	500
- Revolving cash advance facility	NZD	-	200

The Group uses these facilities to issue debt securities into different markets. The Group can issue in various currencies up to the equivalent value shown in the table above.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

In addition to the above, the Group's liquidity policy requires the Group to have access to committed funding facilities, to cover the sum of all debt which matures over the next six months plus peak cumulative anticipated operating cash flow requirements over the next six months. To meet this policy requirement Transpower has:

- a three year Standby Facility for NZD \$250 million, effective 21 December 2010. This was undrawn at 30 June 2012 and 30 June 2011; and
- a three year Standby Facility for NZD \$250 million, effective 26 May 2010. This was undrawn at 30 June 2012 and 30 June 2011.

ii. Interest rate risk

Interest rate risk is the risk of an adverse impact on the present and future finance costs of the Group arising from an increase in interest rates. Transpower uses various financial instruments to fix interest rates to mitigate interest rate risk.

The Group's policy sets annual minimum and maximum hedging parameters expressed as a percentage of forecast debt. This policy ensures that the Group's costs of funds will be reasonably predictable from year to year. Interest rate swaps and options are used to change the interest rate structure on existing and forecast debt and cross currency interest rate swaps entered into.

Under a new policy, the transition to which is being considered by the board, interest rate swaps would be placed so as to mirror, to the extent practicable, the interest rate used by the Commerce Commission in determining our regulated rate of return at the start of each regulatory period.

iii. Currency risk - debt

Currency risk on debt is the risk of adverse impact of exchange rate movements, which determine the NZD cost of debt (principal and interest) issued in foreign currencies.

Foreign currency borrowings are converted into a NZD denominated exposure at the time of commitment to drawdown. Currency risk on foreign currency dominated borrowings is managed using cross currency interest rate swaps and basis swaps.

Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by the Group into NZD denominated debt. Cross currency interest rate swaps eliminate foreign currency risk on the underlying debt by determining the NZD equivalent of the interest payments and final principal exchange at the time of entering into the swap.

Basis swaps are used to eliminate currency risk when the Group issues bonds in a foreign currency. In a basis swap, the Group receives the offshore currency floating interest rate and pays the NZD floating interest rate.

iv. Credit risk

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

The Group's policy is to establish credit limits with counterparties that are either a bank, a financial institution, special purpose derivative products company or a New Zealand corporate. These net credit limits are not to exceed the greater of 20 per cent of Group shareholders' funds or 15 per cent of the shareholders' funds of the counterparty as shown in the most current audited annual report. In addition, if the counterparty is a New Zealand corporate, the credit limit for investments is not to exceed \$40 million.

Counterparties must have a minimum long term credit rating of A or above by Standard and Poor's or Moody's/ Fitch equivalent.

Credit exposures versus these limits are monitored on a daily basis.

For those counterparties with whom the Group has a Collateral Support Agreement (CSA), the counterparty credit limit for derivatives is defined as the maximum exposure threshold dictated by the CSA. Any collateral that is posted is included in Note 14 Trade and Other Payables (2012 and 2011: none). Any collateral posted by Transpower would be included in Note 8 Trade and Other Receivables. (2012 and 2011: none).

The maximum credit exposure in respect of non-derivative assets is best represented by their carrying value.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions contained in the Group's International Swap Dealer Agreements (ISDAs). Under these agreements, transactions are net settled therefore the maximum credit exposure is best represented by the net mark to market valuation by counterparty where the valuation is positive, as follows:

	2012	2011
	\$M	\$M
Cross currency interest rate swaps	103.0	85.9
Interest rate swaps	-	-
Basis swaps	-	1.4
Interest rate options	-	-
Foreign exchange forward contracts	-	-
Total	103.0	87.3

Credit spreads

Credit Spreads are an estimate of the additional premium over the relevant yield curve that would be required by market participants to compensate them for the perceived risk inherent in the counterparty and transaction. For derivative transactions, the impact of credit spreads is substantially lower than for debt and investment transactions due to the offsetting nature of the cash flows.

The following table shows the impact of credit spread movements on debt, derivatives and investments on fair value

	2012	2011
	\$M	\$M
Fair value Profit / (loss) impact	159.4	(8.8)
Statement of financial position impact - (increase)/decrease in liabilities	215.5	55.6
Statement of financial position impact - (increase)/decrease in assets	0.9	0.4

v. **Sensitivity analysis***Currency risk - debt*

All foreign currency debt is converted back to NZD denominated exposure, therefore no sensitivity analysis has been performed for foreign currency debt.

Fair value risk

The Group's net debt is designated as "fair value through profit or loss". As such, the Group is subject to fair value gains or losses. The extent of the gains or losses is based on the Group's cash flow profile compared to the corresponding movement in the yield curve and market perceptions on credit risk. For debt, derivatives and investments the relevant yield curve is effectively adjusted for the credit margin (or spread).

A parallel shift in the yield curve by 1% (100 basis points) would create the following fair value movements based on Group net debt held at 30 June 2012.

	2012	2012	2011	2011
	+100bp	-100bp	+100bp	-100bp
	\$M	\$M	\$M	\$M
Yield curve impact on pre-tax profit / (loss) / equity	155.9	(168.5)	131.4	(142.1)

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

(d) Financial risks - operating related**i. Currency risk - foreign purchases**

Currency risk is the risk of the adverse impact of exchange rate movements, which determine the NZD cost of foreign denominated purchases. It is the Group's policy to hedge all committed foreign currency denominated payments greater than NZD 1 million (NZD equivalent) by using forward foreign exchange forward contracts to fix or offset the NZD cost.

The majority of foreign currency payments greater than NZD 1 million (NZD equivalent) are hedge accounted.

The notional gross contract amounts of foreign exchange forward contracts outstanding at balance date, by maturity banding, are:

	2012 \$M	2011 \$M
Within one year	171.8	266.2
One to two years	18.7	38.3
Two to five years	-	16.6
Greater than five years	-	-
Total foreign exchange forward contracts	190.5	321.1

ii. Commodity risk

Commodity risk is the risk of an adverse impact in commodity prices such as prices for aluminium and copper. These are some of the raw materials used in the construction of the electricity transmission network. Generally, Transpower has used contracts in which commodity risk is borne by the supplier.

iii. Customer credit risk

Transpower's customers comprise predominantly electricity generators, electricity distribution companies and some large industrial users. There is a high concentration of credit risk with respect to trade receivables due to the small number of significant customers which the majority of revenue is received from. 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 2012 (2011: none).

Significant receivables balances at balance date were:

	LINES BUSINESS	
	2011 \$M	2010 \$M
Vector Limited	12.1	12.0
Meridian Energy Limited	5.8	5.9

iv. Insurance risk

Transpower insures its grid assets up to a cap of \$350 million under a material damage policy. Transmission lines are not insured because the premium cost exceeds the probability of significant loss. Submarine cables are separately insured to a cap of \$90 million.

Transpower operates a captive insurance company through its subsidiary Risk Re-insurance Ltd (RRL). Under the material damage policy RRL is liable for the first \$9 million of insurance cost for grid assets and up to \$23.75 million for cables. A \$1million excess applies under the material damage policy, no excess applies to the submarine cables.

RRL maintains an investment portfolio to meet any insurance claims.

v. Regulatory risk

Transpower is a natural monopoly and is regulated by the Commerce Commission (the CC). The CC determines what rate of return applies to Transpower's assets. It also determines the level of operating expenditure and capital expenditure that can be recovered from customers.

There is a risk that Transpower's rate of return may be set at too low a level to compensate Transpower for undertaking investments in grid assets. There is also the risk that Transpower overspends against its operating expenditure and capital expenditure thresholds and thus cannot recover these costs.

[illegible]

[illegible]

18. Deferred tax**LINES BUSINESS**

	Balance 1 July 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 June 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 June 2012
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Property, plant and equipment temporary differences	212.7	22.6	-	235.3	29.0	-	264.3
Fair value of net debt and derivatives	(35.5)	(19.7)	-	(55.2)	(34.2)	-	(89.4)
Revenue deferral	(3.9)	(0.1)	-	(4.0)	0.5	-	(3.5)
Dismantling provision	(4.6)	0.8	-	(3.8)	0.7	-	(3.1)
Impairment	(11.6)	(2.5)	-	(14.1)	4.2	-	(9.9)
Other	(2.7)	(1.4)	-	(4.1)	2.3	-	(1.8)
Total deferred tax	154.4	(0.3)	-	154.1	2.5	-	156.6

There are no unrecognised deferred tax balances (2011: nil).

Deferred tax is shown net as the balance relates to companies included in the Transpower Consolidated Tax Group and relate to the same jurisdiction, being the New Zealand Inland Revenue Department.

Property, plant and equipment temporary differences relate to the difference between tax and accounting book values.

Fair value of net debt and derivatives relates to deferred tax on the differences between tax and accounting values.

Revenue deferral relates to deferred tax on customer investment contracts and transmission line realignment. Note 3 Deferred Income contains information on these transactions.

Dismantling provision relates to the HVDC Pole 1, refer to Note 15 Provisions for background.

Impairment relates to the NIGUP property, refer to Note 13 Non current assets for background.

Dividend Withholding Payments

There were no dividend withholding payments during the year (2011: none).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

19. Equity

Capital

Transpower has 1,200,000,000 issued and fully paid \$1 ordinary shares. Transpower's authorised capital is \$1,200,000,000 (2011: \$1,200,000,000). The shares confer on the holders the right to vote at any annual general meeting of Transpower. The shares have no par value and rank equally. Transpower does not have any externally imposed capital requirements.

Dividends

The following dividends were declared and/or paid relating to the 2012 financial year.

Declared	Paid	Amount \$M	Cents per share
28/02/2012	9/03/2012	110	9
16/08/2012	18/09/2012	205	17

There were no dividends paid or declared relating to the 2011 financial year.

Imputation credits

	2012 \$M
Balance at 1 July 2011	349.3
Net tax payments/transfers made/refunds received	25.2
Imputation credits attached to dividends paid to shareholders	(42.8)
Balance at 30 June 2012	331.7
Terminal tax accrued at 30 June 2012 (to pay July 2012)	9.5
	341.2

Management of capital

Transpower's capital structure and dividend policy was reviewed during 2011. As a result of this review, Transpower resumed dividend payments during the 2011/12 financial year and now funds a greater proportion of its capital programme with debt.

Available for sale reserve

This reserve comprises the cumulative net change in the fair value of available for sale financial assets until the investment is derecognised. The available for sale assets are the Fonterra shares that Transpower holds. During 2012, the assets were fully impaired meaning the reserve balance was recycled to profit or loss. Refer to Note 6 Change in fair value of financial instruments for details.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

20. Segment reporting

The Transpower Lines Business operates predominantly in one segment, being the transmission of high voltage electricity in New Zealand.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

21. Operating lease commitments

	LINES BUSINESS	
	2012	2011
Commitments in respect of non-cancellable operating leases payable:	\$M	\$M
Within one year	15.7	11.6
One to two years	15.2	12.0
Two to five years	37.5	30.7
Later than five years	124.6	111.0
Total operating lease commitments	193.0	165.3

The lease commitments primarily relate to the leasing of fibre optic cables for Transpower's communications network.

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22. Capital commitments

	LINES BUSINESS	
	2012	2011
Capital commitments in respect of contracts for property, plant and equipment:	\$M	\$M
Within one year	444.9	724.5
One to two years	31.0	48.8
Two to three years	-	27.7
Three to four years	5.5	-
Four to five years	-	-
Greater than five years	2.1	7.5
	483.5	808.5
Capital commitments in respect of contracts for intangible assets:		
Easements and right to access assets	0.1	25.1
Software	-	0.1
	0.1	25.2
Total capital commitments	483.6	833.7

23. Contingencies

(i) Regulation and Capital Projects

Transpower is allowed to recover the costs from projects set out in Grid Upgrade Plans (GUPs) approved previously by the Electricity Commission (EC) and since 2010 approved by the Commerce Commission (CC). If project expenditure exceeds the amount initially approved, Transpower must apply to the CC for approval to recover the additional amount from transmission customers.

At 30 June 2012, there are four completed grid reinforcement projects for which the final expenditure was in excess of their approved amounts by a cumulative total of \$15 million. Consistent with the regulatory process, Transpower is seeking CC approval for the additional expenditure. To the extent that the CC did not approve the additional spend on any project, that additional expenditure could not be recovered from customers.

Expenditure on the NIGU project (NIGUP) is forecast to exceed, by up to \$70 million, the amount of \$824 million approved by the EC in July 2007. The project is due to be completed in late calendar 2012. Transpower will seek approval for the additional expenditure from the CC in due course. Under regulations introduced in January 2012, approval amounts may be adjusted for the CPI and foreign exchange movements. If applied retrospectively, this would reduce the approved amount for NIGUP. Transpower has received a number of claims from two contractors on the NIGUP. In the event that all of the claims received were accepted, the project cost would increase by approximately \$50 million. Transpower's view, supported by external legal advice, is that there is little merit to the majority of the claims received.

(ii) Guarantees

NZPCL

In November 2009, the Group partially terminated the 2003 cross border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has consolidated a special purpose vehicle, NZPCL. NZPCL has a deposit with a financial institution and a loan from another financial institution. The cash flows from the deposit and loan offset. No consideration was transferred. The loan to NZPCL is guaranteed by Transpower.

The substance of the transaction is such that Transpower rather than the non controlling interest would be responsible for any shortfall between the value of the asset and the liability.

Debt

Transpower, and in some cases certain subsidiaries, have provided guarantees in respect of the Group's bonds, euro medium term notes (EMTN), Australian medium term notes, the US private placement, its bank facilities and its domestic multi-option facility.

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

Note 19 Debt, financial instruments and risk management includes the outstanding amounts issued at balance date.

Bonds - issued by Transpower Finance Limited

Bonds are issued under a trust deed dated 6 April 1995 between Transpower, the Initial Guaranteeing Subsidiaries (including Transpower Finance) and The New Zealand Guardian Trust Company Limited. The Trust Deed has been amended on various occasions to incorporate (and remove) new subsidiaries into (and from) the Guaranteeing Group.

Pursuant to the Trust Deed, Transpower and its subsidiaries excluding RRL and d-cyphaTrade Limited (the "Guaranteeing Group") have given a negative pledge that, while any of the stock issued under the Trust Deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. Each member of the Guaranteeing Group has guaranteed all amounts payable on redemption or repayment of the bonds and the payment of interest during the term of the bonds.

Bonds - issued by Transpower New Zealand Limited

Transpower has issued bonds which remain outstanding under a master trust deed dated 18 March 2011 between Transpower and The New Zealand Guardian Trust Company Limited, as amended from time to time (Master Trust Deed), and a supplemental trust deed (no. 1) dated 17 November 2011 between Transpower and The New Zealand Guardian Trust Limited.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

Pursuant to the Master Trust Deed, Transpower has given a negative pledge that while any unsubordinated notes are outstanding it will not (and its subsidiaries will not), subject to certain exceptions, create or permit to subsist any charge or lien any of their respective assets to secure payment of debt securities.

Euro medium term notes

Under the euro medium term note (EMTN) programme, Transpower Finance has previously issued notes guaranteed by Transpower. Transpower New Zealand rather than Transpower Finance, now issues notes under this program. Transpower New Zealand Limited has given a negative pledge covenant that while any of the notes issued under the EMTN programme remain outstanding it will not (and its subsidiaries will not), subject to certain exceptions, create or permit to exist any charge or lien over any of its respective assets to secure payment of certain indebtedness.

Australian medium term notes

Under the Australian medium term note programme, Transpower Finance may issue notes guaranteed by Transpower. There were no notes issued at balance date (2011: none).

US private placement - issued by Transpower Finance Limited

Bonds are issued by Transpower Finance under a note and guarantee agreement dated 27 September 2004. The Bonds are guaranteed by Transpower (the "Guarantor"), 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.

US private placement - issued by Transpower New Zealand Limited

Notes ("Transpower USPP Notes") have been issued by Transpower under a note purchase agreement dated 13 October 2011. The Transpower USPP Notes are guaranteed by Transpower Finance, Halfway Bush and TB and T (together, "Subsidiary Guarantors"). Each Subsidiary Guarantor has unconditionally guaranteed payment of the principal, interest and other amounts owing under the note purchase agreement for the Transpower USPP Notes.

(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 to or claimed from customers over time.

The net balance of the EV account at 30 June 2012 was \$20.9 million to the credit of customers (2011: \$24.3 million to the credit of Transpower). The AC balance of \$88.7 million is to be returned to customers, and the HVDC balance of \$109.6 million is to be recovered from customers over two regulatory control periods ending 30 June 2020.

(iv) Regulated rate of return

On 23 December 2010 the Commerce Commission (CC) announced the new regulatory framework that applies to Transpower and which has been brought into effect by the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 and the Commerce Act (Transpower Input Methodologies) Determination 2010. Under this framework the CC has determined a regulated rate of return for Transpower of 7.19%, which is materially below a level that the directors and their specialist advisors consider appropriate.

The process leading to this decision has been subject to judicial review. The High Court released its judgment on this review on 21 December 2011. The Court found that the CC had erred in that part of the process that related to the leverage rate used to calculate Transpower's regulated rate of return. The Court ordered that the CC reconsult on its leverage assumptions. Transpower has also appealed the merits of the rate of return decision itself. The appeal is likely to be heard in late 2012. As a result of these actions it is possible (but by no means certain) that the regulated rate of return may be changed retrospectively. An increase in the regulated rate of return of 10 basis points approximates to revenue of \$4m per annum.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

(v) Kapiti high voltage coalition

The Kapiti High Voltage Coalition (KHVC), a group of Kapiti landowners, sued Transpower in the High Court in relation to reconductoring works carried out on the Mangahoa Paekakariki A and B lines before and during 2003. KHVC sought:

- judicial review and quashing of the Kapiti Coast District Council's decisions to grant various Resource Management Act 1991 (RMA) approvals for the works; and
- declarations that Transpower trespassed onto KHVC members' properties when the works were carried out, on the basis that the works were not authorised by s23(3) of the Electricity Act 1992.

The case was heard in February 2012. A judgement has not yet been delivered.

Transpower has agreed to surrender some of the challenged RMA approvals and, after the judgement, will take steps to secure whatever new RMA approvals are necessary. If the trespass claims are successful, Transpower may not be able to access the works (or at least part of them) without obtaining easements, and damages claims might be brought, including by non-KHVC members. It is considered unlikely that any material liability will result from this action.

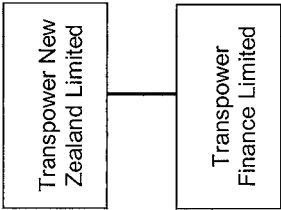
(vi) Various other lawsuits, claims and investigations

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

24. Lines business entities

All subsidiaries are wholly owned, are incorporated in New Zealand (except where mentioned otherwise) and have a balance date of 30 June 2012.

As at balance date the group entities are as follows:



Transpower Finance Limited - Used for financing

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

25. Related parties**Transactions with key personnel**

The Transpower Lines Business did not conduct any business with key personnel.

Key personnel compensation

Key personnel received the following compensation for their services to The Transpower Lines Business.

	2012	2011
	\$M	\$M
Directors' fees	0.5	0.5
Key management personnel	4.8	4.3
Defined contribution schemes	0.2	0.2

There were termination payments made to key management personnel in 2012 of \$0.4 million (2011: none).

Government-related transactions

Transpower, being a State-Owned Enterprise, transacts with other government-related entities.

The most significant transactions and balances are as follows:

	2012	2011
	\$M	\$M
Meridian Energy Limited - revenue	101.3	95.5

Meridian Energy Limited (Meridian), is a State-Owned Enterprise which is an electricity generator and retailer. Meridian pays Transpower primarily for the transportation of electricity across the national electricity grid.

Transpower also settles its income and indirect tax obligations with the Inland Revenue Department.

Some directors of the company may be directors or officers of other companies or organisations with which Transpower may transact. Such transactions are carried out at on an "arm's length" and independent commercial basis.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

26. Other items requiring specific disclosure under the Electricity (Information Disclosure) Regulations 2004

	LINES BUSINESS	
	2012	2011
Assets	\$M	\$M
Goodwill	-	-
Total intangible assets	283.9	259.2
Total tangible assets	4,001.0	3,340.9

27. Significant judgements / estimates

Regulation and the NIGU project

The NIGU project is forecast to exceed its initial approved amount by approximately \$70 million. The board have made the judgement that no impairment is required in the 2012 financial statements. Note 23, Contingencies contains further details on this item.

Valuation of property

A valuation and subsequent impairment of \$3.9 million was made on Transpower's property assets. The impairment was based on a desktop valuation by Crighton Anderson, registered valuers. Some of these properties relate to those on the North Island Grid Upgrade (NIGU) route between Whakamaru and south Auckland purchased for the purposes of establishing easements and then on-selling. Some of these properties are classified as held for sale based on Transpower's judgement that they expect a sale within 12 months. Refer to Note 13 Non current assets for more information.

Dismantling provision

An estimate and assumption made regarding future events was in relation to a dismantling provision. This provision has a balance at 30 June 2012 of \$10.8 million (30 June 2011: \$13.6 million). The nature and uncertainty of this provision is discussed in Note 15 Provisions.

Fair values of debt, derivatives and deposits.

A key estimate is in relation to the fair values of debt, derivatives and deposits. Fair values are determined upon discounting cash flows based upon the relevant yield curve. The yield curve is adjusted to reflect the credit spread of the counterparty to the transaction. These valuations are considered level two in the NZ IFRS three level valuation hierarchy.

Non current assets

Transpower has exercised judgement, with assistance from independent engineers, in determining the useful life of property, plant and equipment and finite life intangible assets.

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28. Subsequent events

The Directors approved the payment of a year end dividend on 16 August 2012 of \$205 million. The dividend was fully imputed and was paid on 16 September 2012.

The Directors are not aware of any other matter or circumstance since the end of the financial year that has significantly or may significantly affect the operations of the Lines Business.

TRANSPOWER NEW ZEALAND LIMITED LINE'S BUSINESS

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					
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	288.1				
Interest on cash, bank balances, and short-term investments (ISTI)	288.1				
OSBIT minus ISTI	0.0				
Net surplus after tax from financial statements	288.1	a	288.1		288.1
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	57.2				
Amortisation of goodwill and amortisation of other intangibles	57.2	n		57.2	
Subvention payment	0.0	q	add 0.0	add 8.1	add 0.0
Depreciation of SFA at BV (x)	0.0	s	add 0.0	add 0.0	add 0.0
Depreciation of SFA at ODV (y)	0.0				
ODV depreciation adjustment	0.0	d	add 0.0	add 0.0	add 0.0
Subvention payment tax adjustment	0.0	s*t		deduct 0.0	deduct 0.0
Interest tax shield	42.6	q			deduct 42.6
Revaluations	0.0	r			add 0.0
Income tax	22.9	p			deduct 22.9
Numerator			288.1	65.3	222.5
			$OSBIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s*t + d$	$OSBIT^{ADJ} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	3,600.1				
Fixed assets at end of current financial year (FA ₁)	4,284.9				
Adjusted net working capital at end of previous financial year (ANWC ₀)	-73.1				
Adjusted net working capital at end of current financial year (ANWC ₁)	-83.8				
Average total funds employed (ATFE) (or regulation 33 time-weighted average)	3,864.1	c	3,864.1		3,864.1
Total equity at end of previous financial year (TE ₀)	1,391.7				
Total equity at end of current financial year (TE ₁)	1,339.8				
Average total equity (or regulation 33 time-weighted average)	1,365.8	k		1,365.8	
WUC at end of previous financial year (WUC ₀)	735.2				
WUC at end of current financial year (WUC ₁)	1,287.2				
Average total works under construction (or regulation 33 time-weighted average)	1,011.2	e	deduct 1,011.2	deduct 1,011.2	deduct 1,011.2
Revaluations	0.0	r			
Half of revaluations	0.0	t/2			deduct 0.0
Intangible assets at end of previous financial year (IA ₀)	259.2				
Intangible assets at end of current financial year (IA ₁)	283.9				
Average total intangible asset (or regulation 33 time-weighted average)	271.6	m		deduct 271.6	
Subvention payment at end of previous financial year (S ₀)	0.0				
Subvention payment at end of current financial year (S ₁)	0.0				
Subvention payment tax adjustment at end of previous financial year	0.0				
Subvention payment tax adjustment at end of current financial year	0.0				
Average subvention payment & related tax adjustment	0.0	v		add 0.0	
System fixed assets at end of previous financial year at book value (SFA _{bv0})	0.0				
System fixed assets at end of current financial year at book value (SFA _{bv1})	0.0				
Average value of system fixed assets at book value (or regulation 33 time-weighted average)	0.0	f	deduct 0.0	deduct 0.0	deduct 0.0
System Fixed assets at year beginning at ODV value (SFA _{odv0})	0.0				
System Fixed assets at end of current financial year at ODV value (SFA _{odv1})	0.0				
Average value of system fixed assets at ODV value (or regulation 33 time-weighted average)	0.0	h	add 0.0	add 0.0	add 0.0
Denominator			2,852.9	83.0	2,852.9
			$ATFE^{ADJ} = c - e - f + h$	$Ave TE^{ADJ} = k - e - m + v - f +$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f + h$
Financial Performance Measure:			10.1	78.7	7.8
			$ROF = OSBIT^{ADJ}/ATFE^{ADJ} \times 100$	$ROE = NSAT^{ADJ}/ATE^{ADJ} \times 100$	$ROI = OSBIT^{ADJ}/ATFE^{ADJ} \times 100$

t = maximum statutory income tax rate applying to corporate entities bv = book value ave = average odv = optimised deprival valuation (Transpower does not perform an ODV) subscript '0' = end of financial year subscript '1' = end of the current financial year ROF = return on funds

Transpower has included intangible assets with fixed assets in the calculation of adjusted net working capital reflecting the nature of the intangible assets.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2012

	LINES BUSINESS 2012	LINES BUSINESS 2011	LINES BUSINESS 2010	LINES BUSINESS 2009	LINES BUSINESS 2008
Financial Measures					
Return on Equity *	78.7%	8.5%	3.8%	9.0%	8.8%
Return on Funds	10.1%	9.3%	11.6%	10.5%	10.6%
Return on Investment	7.8%	7.1%	9.2%	8.6%	7.6%

Efficiency Measures

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

	\$M	\$M	\$M	\$M	\$M
$\frac{a}{b}$	\$154,700,000	\$157,500,000	\$144,000,000	143,542,000	133,583,000
	17,094	17,198	17,343	17,341	17,334
a** is direct expenditure (in dollars); and	\$9,050	\$9,158	\$8,303	\$8,278	\$7,706
b is system length (in kilometres);					

* The 2012 Return on Equity (ROE) figure set out above is calculated as prescribed by the regulations, as set out in Schedule 1 part 7 of this report. Directors consider that the ROE figure, calculated in accordance with those prescribed regulations, to be misleading. The ROE as calculated is significantly higher than in prior years and than Transpower's regulated rate of return.

** all years restated to exclude HVDC share of reserves

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

ANNUAL DEPRECIATED HISTORIC COST RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2012

	2012 \$M	2011 \$M
System fixed assets opening book value 1 July	2,920	2,651
<i>Add</i> system fixed assets acquired during the year at DHC	333	443
<i>Less</i> system fixed assets disposed of during the year at DHC	(48)	(31)
<i>Less</i> depreciation and amortisation on system fixed assets at DHC	(148)	(143)
Equals system fixed assets closing book value 30 June	3,057	2,920
Excluded from the above are impairments of \$35.3m (2011: 42.3m)		

1 The Electricity Information Disclosure Requirements¹

(For 12 months ending 30 June 2012, 2011, 2010 and 2009)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Requirement 20)	2011/12	2010/11	2009/10	2008/09
1. Energy delivery efficiency performance measures				
(a) Load factor (%)				
Electrical energy entering the transmission system as percentage of maximum demand times hours per year	65.51	69.47	68.49	67.02
(b) Loss ratio (%)				
Transmission losses as percentage of energy entering the system	3.76	3.79	3.72	4.02
(c) Capacity utilisation (%)				
Maximum demand as percentage of total transformer capacity	47.34	45.28	46.27	46.93
2. Statistics				
(a) System length, broken down by voltage (km)				
Total ^a	17,094	17,198	17,348	17,340
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)	8,639	8,642	8,642	8,632
110 kV (HVAC)	6,157	6,152	6,302	6,304
66/50/33/11 kV (HVAC) ^a	1,045	1,151	1,151	1,151
(b) Circuit length of overhead electric lines, broken down by voltage (km).				
Total ^a	17,003	17,108	17,256	17,255
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)	8,639	8,642	8,642	8,632
110 kV (HVAC)	6,146	6,142	6,290	6,299
66/50/33/11 kV (HVAC) ^a	1,045	1,151	1,151	1,151
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
(c) Total circuit length of underground electric lines (km)				
(110 kV HVAC)	11	11	11	4
(66 kV HVAC) ^e	1	1	1	1
(d) Transformer capacity (kVA)	14.61x10 ⁶	14.51x10 ⁶	14.26x10 ⁶	14.09x10 ⁶
(e) Maximum demand (kilowatts) ^{bc} (kW)	6.92x10 ⁶	6.57x10 ⁶	6.60x10 ⁶	6.61x10 ⁶
(f) Total electricity entering the system (before losses) ^{bc} (kWh)	39.70x10 ⁹	39.98x10 ⁹	39.58x10 ⁹	38.82x10 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: ^{bcd} (kWh)	38.21x10 ⁹	38.47x10 ⁹	38.10x10 ⁹	37.26x10 ⁹
(h) Total connected customers	53	53	53	51

Notes

- a Excludes 61km of circuits leased from others and operated by Transpower.
- b To 2 decimal places only, higher accuracy used in calculations.
- c 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.
- d Including sales to direct connected customers
- e Minor corrections to previously disclosed 2010/11 data.

¹ Electricity Information Disclosure Requirements issued 31 March 2004 as amended by the Electricity Information Disclosure Amendment Requirements 2004, 2006, 2007, 2008, 2008 (No2), and 2008 (No3).

The Electricity Information Disclosure Requirements

(For 12 months ending 30 June 2012, 2011, 2010, and 2009)

Part 6

Reliability Performance Measures to be Disclosed by Transpower ^a	2011/12	2010/11	2009/10	2008/09
(Disclosure Under Requirement 21)				
1. Total number of unplanned interruptions ^b	198	89	106	112
Resulting from 63 loss of supply events in 2011/12				
2. Electricity customer interruptions in system minutes ^c	14.5	15.2	23.5	18.1
Planned	2.4	3.6	1.2	2.0
Unplanned	12.0	11.6	22.2	16.1
3. Underlying electricity customer interruptions in system minutes ^c				
Underlying interruptions are those interruptions of one system minute or less duration	5.2	4.0	5.3	5.9
Planned	1.4	1.1	1.2	0.9
Unplanned	3.9	2.9	4.0	4.9
4. Average supply reliability (%)				
Measured by the energy supplied divided by the sum of the energy supplied and not supplied	99.9956	99.9957	99.9932	99.9946
5. Uneconomic generation due to planned and unplanned transmission system unavailability (%) ^d	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability (%) ^d	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability (%) ^d	-	-	-	-
8. Planned interruption restoration performance (%)	91.3	68.6	77.5	76.7
9. Unplanned interruption response (%)	99.5	100.0	99.1	100.0

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.
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.
- d 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.

**TRANSPOWER**

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**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, *Don Huse* and *Ion Fraser* 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 2012.

15 November 2012

Don Huse
Ion Fraser

**TRANSPOWER**

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

I, Don Huse of Auckland 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 made 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 15th November 2012.

Don Huse

[Signature]
Solicitor of the High Court of
New Zealand

**ERNST & YOUNG**

Chartered Accountants

Independent Auditor's Report

To the readers of the financial statements of Transpower New Zealand Limited Lines Business ("the Business") for the year ended 30 June 2012.

We have audited the financial statements of the Business on pages 1 to 46, which comprise the statement of financial position of the Business as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Business for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibilities for the Financial Statements

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 54W of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the Business as at 30 June 2012, and results of its operations and cash flows for the year then ended, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the Business' preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

In addition to the review, we act as auditor on behalf of the Auditor-General and have carried out other assurance assignments, which are compatible with the independence requirements of the Auditor-General. Other than these assignments we have no relationship with, or interest in Transpower New Zealand Limited or its subsidiaries.

Opinion

In our opinion, the financial statements on pages 1 to 46:

- ▶ comply with generally accepted accounting practice; and
- ▶ give a true and fair view of the financial position of the Business as at 30 June 2012 and the results of its operations and cash flows for the year then ended; and
- ▶ comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 15 November 2012 and our opinion is expressed as at that date.

Ernst & Young
Wellington

**ERNST & YOUNG**

Auditor's Opinion on the performance measures of Transpower New Zealand Limited Lines Business

We have examined the attached information, being:

- ▶ a derivation table;
- ▶ an annual ODV reconciliation report;
- ▶ financial performance measures; and
- ▶ financial components of the efficiency performance measures,

that were prepared by Transpower New Zealand Limited Lines Business and dated 30 June 2012 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.

Wellington