



New Zealand Gazette

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TRANSPower NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO
SECTION 57T OF THE COMMERCE ACT 1986



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

REPORT OF THE AUDITORS

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2005

We have audited the financial statements of Transpower New Zealand Limited Lines Business. The financial statements provide information about the past financial performance of Transpower New Zealand Limited Lines Business and its financial position as at 30 June 2005. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

Directors' responsibilities

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 57T of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2005, and results of operations and cash flows for the year then ended.

Auditors' responsibilities

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

Basis of opinion

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

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

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by Transpower New Zealand Limited Lines Business as far as appears from our examination of those records; and
- the financial statements of Transpower New Zealand Limited Lines Business:
 - (a) comply with generally accepted accounting practice; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2005 and the results of its operations and cash flows for the year ended on that date; and
 - (c) comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 28 November 2005 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a horizontal line.

PricewaterhouseCoopers



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

We have examined the attached information, being:

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

that were prepared by Transpower New Zealand Limited Lines Business and dated 28 November 2005 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'. The signature is written in a cursive, flowing style, with the 'P' and 'C' being particularly large and stylized.

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AUDITORS OPINION ON THE VALUATION REPORT OF TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

We have examined the valuation report of Transpower New Zealand Limited Lines Business and dated November 2005, which report contains valuations of system fixed assets as at 30 June 2005.

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

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'. The signature is written in a cursive, flowing style, with the 'P' being particularly large and stylized.

PricewaterhouseCoopers

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

		LINES BUSINESS LINES BUSINESS	
		2005	2004
	Notes	\$000	\$000
Operating revenue	2	510,681	456,646
Operating expenses	3	310,091	295,381
		<u>200,590</u>	<u>161,265</u>
Net finance costs	5	65,841	67,049
Surplus from operations before tax and revaluation		<u>134,749</u>	<u>94,216</u>
Transfer from asset revaluation reserve	14	-	(5,477)
Surplus from operations before tax		<u>134,749</u>	<u>88,739</u>
Tax expense	6	43,990	27,430
Operating surplus after tax		<u>90,759</u>	<u>61,309</u>
Net surplus attributable to shareholders		<u>90,759</u>	<u>61,309</u>

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2005

		2005	2004
	Notes	\$000	\$000
Equity at the beginning of the year		1,008,027	963,461
Net surplus attributable to shareholders		<u>90,759</u>	<u>61,309</u>
Total recognised revenue and expenses for the year		<u>90,759</u>	<u>61,309</u>
Dividends paid	16	(37,927)	(16,743)
Equity at the end of the year		<u>1,060,859</u>	<u>1,008,027</u>

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

		LINES BUSINESS LINES BUSINESS	
		2005	2004
	Notes	\$000	\$000
ASSETS EMPLOYED			
Current assets	7	71,340	77,582
Fixed assets	8	2,071,103	2,086,819
Other long term assets	9	541,710	532,700
Total Assets Employed		2,684,153	2,697,101
FUNDS EMPLOYED			
Liabilities			
Current liabilities	10	202,070	499,589
Long term lease liabilities	11	-	-
Long term debt	12	1,421,224	1,189,485
Total Liabilities		1,623,294	1,689,074
Equity			
Capital	13	1,200,000	1,200,000
Reserves	14	-	-
Accumulated deficit	15	(139,141)	(191,973)
Total Equity		1,060,859	1,008,027
Total Funds Employed		2,684,153	2,697,101

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

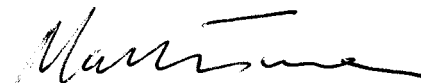
The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 28 November 2005.

For, and on behalf of, the Board



David Gascoigne
Chairman

28 November 2005



Mark Tume
Director

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	517,487	431,586
Interest received	33,933	39,238
Cash was applied to:		
Payments to suppliers and employees	(190,482)	(172,963)
Tax payments	(49,676)	(18,820)
Interest paid	(104,668)	(112,108)
Net cash inflows from operations	206,594	166,933
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	191	453
Short term investments	710,079	569,646
Cash was applied to:		
Purchase of fixed assets	(99,876)	(96,596)
Short term investments	(710,069)	(569,138)
Net cash outflows from investments	(99,675)	(95,635)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	747,796	958,970
Cash was applied to:		
Dividends paid	(37,927)	(16,743)
Repayment of loans	(816,426)	(1,012,051)
Net cash outflows from financing	(106,557)	(69,824)
Net increase/(decrease) in cash held	362	1,474
Opening balance brought forward	722	(752)
Closing net cash carried forward	1,084	722
Closing net cash carried forward comprises:		
Cash and bank	1,084	722
Bank overdraft	-	-
	1,084	722

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

	2005 \$000	2004 \$000
Operating surplus after tax	90,759	61,309
Add/(deduct) non-cash items:		
Depreciation	114,401	114,409
Transfer from asset revaluation reserve	-	5,477
Capitalised interest	(3,262)	(2,956)
Movements in working capital items:		
Decrease(increase) in trade and other receivables	8,322	(22,976)
Decrease(increase) in prepayments	(74)	(625)
Decrease(increase) in stocks of materials	4,032	223
(Decrease)increase in trade and other liabilities, interest payable and deferred income	(2,043)	(15,715)
(Decrease)increase in taxation payable	(5,686)	8,610
Increase(decrease) in provisions	(5,716)	4,166
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	5,861	15,011
Net Cash Flow from Operations	206,594	166,933

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**1. STATEMENT OF ACCOUNTING POLICIES*****Reporting Entity***

These financial statements are for the lines business of Transpower New Zealand Limited Line Business (The Transpower Lines Business).

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986, the Financial Reporting Act 1993 and the Electricity Information Disclosure Requirements 2004.

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

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

Measurement Base

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

Accounting Policies

The following accounting policies are applied:

(a) Principles of Consolidation

The Transpower Lines Business financial statements are prepared from the financial statements of Transpower and its subsidiaries which undertake lines business activities, as at 30 June 2005. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

(b) Revenue

Revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by the Transpower Lines Business for transmission services. Dividends received and interest income from investments are included within net finance costs.

(c) Goods and Services Tax (GST)

The Statement of Financial Performance and the Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST with the exception of receivables and payables which include GST invoiced.

(d) Current Assets

Receivables are stated at their estimated net realisable value.

Short term investments are recorded at their original cost which is adjusted for the amortisation of premiums and accrual of discounts to maturity.

Stocks of materials are valued at the lower of cost, calculated on the weighted average cost basis and estimated net realisable value.

(e) Investments

Investments are recorded at the lower of cost and net realisable value.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005**(f) Fixed Assets****Historical Cost Measurement**

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

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

Capital Work in Progress

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the fixed assets to their location and condition. Finance costs incurred during the period of time that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost for capital work in progress.

The finance costs capitalised are based on the actual costs directly attributable to the construction of the asset. Where this is not clearly identifiable, Transpower's weighted average cost of capital is used.

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

(g) Depreciation

Depreciation of fixed assets is calculated using the straight line method to allocate the cost or valuation of the fixed assets over their expected useful lives, after due allowance for their expected residual value. The estimated economic lives are as follows:

Transmission lines	35-70 years
Freehold buildings	20-25 years
Substations	25-55 years
HVDC	30 years
Communications	10-25 years
Administration assets	3-10 years

(h) Leased Assets

The Transpower Lines Business leases certain plant, equipment, land and buildings.

Finance leases effectively transfer substantially all of the risks and benefits incidental to the ownership of the leased item to the entity. Assets acquired by means of a finance lease are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments. Leased assets are depreciated over their economic lives. A corresponding liability is also established at the inception of each lease and each lease payment is allocated between the liability and finance costs.

Under operating leases all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the Statement of Financial Performance as expenses, in the period in which they are incurred.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005**(i) Statement of Cash Flows**

The following are the definitions of the terms used in the Statement of Cash Flows:

- (i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- (ii) Operations comprise the transmission of bulk electricity, and the related support, maintenance, administration and interest costs.
- (iii) Investments comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- (iv) Financing include changes in equity, borrowings and dividends paid on equity. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

(j) Taxation

The Transpower Lines Business follows the liability method of accounting for deferred tax applied on a partial basis.

The tax expense charged against the surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences plus any adjustments arising from prior years.

The partial basis considers the cumulative income tax effect of all timing differences. The income tax effect of timing differences is only recognised as deferred tax for those timing differences that can be expected to reverse in the foreseeable future.

Timing differences that are not recognised in the Statement of Financial Position are disclosed in the Deferred tax liability memorandum account in Note 6.

Future tax benefits attributable to losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the losses will be utilised.

(k) Foreign Currencies

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Monetary assets and liabilities at balance date are translated at exchange rates current at balance date. Where transactions are hedged they are translated at the hedge rate.

Gains and losses due to currency fluctuations on foreign currency receivables and payables are included in the Statement of Financial Performance.

Exchange differences and associated costs on hedging transactions undertaken to establish the price of a particular purchase are deferred and are included in the measurement of the purchase transaction as at the transaction date.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2005**(l) Financial Instruments**

Derivative financial instruments including foreign exchange contracts, forward rate agreements, foreign exchange options, cross currency interest rate swaps, interest rate swaps and interest rate options which are entered into for the purpose of reducing exposure to fluctuations in interest rates and foreign exchange rates. While these financial instruments are subject to the risk that market rates will change subsequent to acquisition, such changes would generally be offset by an opposite effect on the items being hedged.

For interest rate swaps, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest and expensed over the life of the swap. Premiums paid on interest rate options are amortised over the period to maturity. The settlement cash flows on the maturity of forward rate agreements are amortised over the period of the underlying asset or liability that the financial instrument is hedging.

Foreign exchange contracts and cross currency interest rate swaps entered into as hedges of foreign currency assets and liabilities are valued at exchange rates prevailing at balance date. Any unrealised gains and losses are offset against foreign currency gains or losses on the related asset or liability.

Additional information about financial instruments to which the Transpower Lines Business is a party is provided in Note 21.

(m) Reclassifications

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

In the current year the Lines Business has recorded a funding arrangement entered into in 2002 on a gross basis rather than the net basis presented in prior years, refer Note 12 for further details.

Changes in Accounting Policies

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

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

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

Transpower has elected to adopt NZ IFRS for the financial year beginning 1 July 2007 with comparatives required to be restated on initial adoption.

Transpower has established a project, monitored by a steering committee to achieve transition to NZ IFRS reporting. The implementation project consists of three phases:

- (i) **Assessment and Planning**
The assessment and planning phase aims to produce a high level overview on the impacts of conversion to NZ IFRS with respect to existing accounting and reporting policies, procedures, systems and processes, business structures and staff.
- (ii) **Design Phase**
The design phase aims to formulate the changes identified from the assessment and planning phase, specifically:
 - * Formulating revised accounting policies and procedures
 - * Formulating revised accounting and business processes
 - * Developing NZ IFRS disclosures
 - * Identifying and planning required changes to financial reporting and business source systems
 - * Developing training programs for staff
- (iii) **Implementation Phase**
The implementation phase aims to implement the changes identified in the design phase.

Transpower is currently in the Assessment and Planning phase. Initial significant impacts are currently being identified. No reliable estimates are available yet.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

2. OPERATING REVENUE

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Transmission services revenue	509,417	455,416
Other revenue	1,264	1,230
Total operating revenue	510,681	456,646

Transmission services revenue consists of charges for the transmission of electricity from the point of generation to the point of supply.

Electricity regulations additional disclosures:

Revenue provided to Lines Business from Other Transpower Businesses	75	71
Revenue - AC loss rental rebates	58,690	55,240
Expense - AC loss rental rebates	(58,690)	(55,240)
AC loss rental rebates not passed through to customers	-	-

3. OPERATING EXPENSES

	2005 \$000	2004 \$000
Business support costs	39,026	39,531
Asset operation and maintenance costs	155,981	134,120
Charges in respect of assets:		
Depreciation - Buildings	2,540	2,737
Depreciation - Substations	36,107	35,491
Depreciation - HVDC	24,379	23,853
Depreciation - Communication assets	7,853	7,741
Depreciation - Administration assets	11,345	13,282
Depreciation - Transmission lines	32,177	31,305
Stock and asset write-offs	5,861	16,266
Charges in respect of receivables:		
Bad debts written off	-	-
Movement in the provision for doubtful debts	-	(8,251)
Provision for industry related costs	(10,000)	(5,000)
Directors' fees	306	297
Study grants and donations	840	940
Lease and rental costs	3,676	3,069
Total operating expenses	310,091	295,381

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

Net loss on the disposal of assets	5,861	15,011
	5,861	15,011

Electricity regulations additional disclosures:

Employee salaries and redundancies	36,878	30,413
Human resource expenses	5,692	3,150
Marketing / advertising expenses	556	571
Legal and consultancy expenses (including industry reform)	7,574	9,357
Corporate and administration expenses	19,326	22,815

Transfer payments to "Other Transpower Businesses"

Payment for metering data	1,333	1,242
Payment for insurance	10,595	11,314
Total transfer payments to "Other Transpower Businesses"	11,928	12,556

Local authority rates expense

	1,864	1,385
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Consumer billing and information system expense

	1,132	734
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Depreciation of system assets

Depreciation of other assets	101,026	97,799
Total depreciation	114,401	114,409

Bad debts written off

Movement in the provision for doubtful debts	-	-
Total cost of offering credit	-	(8,251)

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

4. REMUNERATION OF AUDITORS

LINES BUSINESS LINES BUSINESS

	2005	2004
Fees paid or payable to the auditors	\$000	\$000
As auditor of Transpower and Transpower subsidiaries	183	265
For other services		
Reporting engagements other than the annual report	146	216
Assistance to internal audit function	157	329
Other assurance-oriented assignments	268	254
Other	250	216
	<u>1,004</u>	<u>1,280</u>

Fees paid or payable to the auditors relates to both Ernst & Young and PricewaterhouseCoopers. The Office of the Auditor General appointed SRL O'Connor from Ernst & Young, effective from 28 January 2005, to undertake the audit of Transpower. The amounts paid or payable to PricewaterhouseCoopers relate to work that PricewaterhouseCoopers carried out up to 28 January 2005.

Fees paid or payable to Ernst & Young

As auditor of Transpower and Transpower subsidiaries	183	-
For other services		
Reporting engagements other than the annual report	-	-
Assistance to internal audit function	-	-
Other assurance-oriented assignments	-	-
Other	-	-
	<u>183</u>	<u>-</u>

Fees paid or payable to PricewaterhouseCoopers

As auditor of Transpower and Transpower subsidiaries	-	265
For other services		
Reporting Engagements other than the annual report	146	216
Assistance to Internal Audit function	157	329
Other Assurance-oriented assignments	268	254
Other	250	216
	<u>821</u>	<u>1,280</u>

5. NET FINANCE COSTS

Finance costs	103,036	109,243
Capitalised interest	(3,262)	(2,956)
Interest received	(33,933)	(39,238)
Net finance costs	<u>65,841</u>	<u>67,049</u>

Total operating expenses	310,091	295,381
Net finance costs	<u>65,841</u>	<u>67,049</u>
Total expenses including net financing costs	<u>375,932</u>	<u>362,430</u>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

6. TAXATION

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Operating surplus before tax	134,749	88,739
Prima facie tax at 33%	44,467	29,284
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(3,078)	(5,154)
- current period revaluation adjustment	-	1,807
Permanent differences	-	(440)
Income tax charge in respect of the current year	41,389	25,497
Under / (over) provision in prior years	2,601	1,933
Tax expense	43,990	27,430
 The income tax charge is represented by:		
Tax payable in the current year	42,652	26,897
Deferred tax	1,338	533
	43,990	27,430
 Deferred tax asset		
Balance at the beginning of the year	1,338	1,871
Increase in deferred tax asset	(1,338)	(533)
Balance at the end of the year	-	1,338
 Deferred tax liability memorandum account		
Balance at the beginning of the year	151,394	148,047
Increase (reduction) in deferred tax liability	3,078	3,347
Balance at the end of the year	154,472	151,394
 These timing differences predominantly relate to depreciation and are not recognised in the financial statements.		
 Imputation credit memorandum account		
Balance at the beginning of the year	78,635	54,419
Tax payments made	52,990	32,354
Imputation credits attached to dividends paid to shareholders	(18,680)	(8,138)
Balance at the end of the year	112,945	78,635

7. CURRENT ASSETS

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Cash and bank	1,084	722
Short term investments	-	10
Trade receivables	52,341	59,012
Provision for current tax	7,465	441
Deferred tax	-	1,338
Other receivables	1,181	2,832
Stocks of materials	6,838	10,870
Prepayments	2,431	2,357
Total current assets	71,340	77,582
 Reconciliation of provision for current tax:		
Balance at the beginning of the year	(441)	(8,518)
Tax payable in the current year (refer Note 6)	42,652	26,897
Provisional tax (payments) refunds made during the year	(49,676)	(18,820)
Balance at the end of the year	(7,465)	(441)

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

8. FIXED ASSETS	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	2005	2005	2005	2004
	\$000	\$000	\$000	\$000
Transmission lines	826,612	63,328	763,284	778,547
Freehold land	54,008	-	54,008	52,997
Freehold buildings	46,484	5,227	41,257	42,127
Substations	859,529	61,549	797,980	786,320
HVDC	282,440	48,223	234,217	258,707
Communications	51,219	7,713	43,506	47,010
Administration assets	39,504	18,603	20,901	23,241
Capital work in progress	115,950	-	115,950	97,870
Total fixed assets	2,275,746	204,643	2,071,103	2,086,819

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

Capital work in progress comprises the following asset classes:

	LINES BUSINESS	LINES BUSINESS
Transmission lines	38,243	21,130
Freehold land	4,095	4,117
Freehold buildings	1,117	1,374
Substations	53,617	53,778
HVDC	3,336	1,884
Communications	4,496	5,568
Administration assets	11,046	10,019
	115,950	97,870

During the year the following borrowing costs were capitalised:

Transmission lines	1,076	624
Freehold land	115	20
Freehold buildings	31	10
Substations	1,508	1,655
HVDC	94	46
Communications	126	100
Administration assets	322	491
	3,272	2,946

Electricity regulations additional disclosures:

Motor vehicles	739	752
Office equipment	1,469	822
Customer billing and information assets	-	-

Transpower lines business system fixed assets have a value in these financial statements of \$1,899 million (2004: \$1,919 million).

9. OTHER LONG TERM ASSETS

	2005	2004
	\$000	\$000
Structured financing transaction assets	532,700	532,700
Trade receivables greater than one year	9,010	-
	541,710	532,700

The structured financing transaction assets are discussed in Note 12.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

10. CURRENT LIABILITIES

	LINES BUSINESS LINES BUSINESS	
	2005	2004
	\$000	\$000
Bank overdrafts	-	-
Trade creditors	15,279	14,475
Interest payable	9,754	11,386
Employee entitlements	7,418	7,092
Other creditors and provisions	26,542	32,258
Short term debt	34,720	12,432
Current portion of long term debt	95,392	407,440
Current portion of lease liabilities	-	-
Deferred income	12,965	14,506
Total current liabilities	202,070	499,589

11. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

One to two years	-	-
Two to five years	-	-
Later than five years	-	-
	<u>-</u>	<u>-</u>

The HVDC converter plants at the Haywards and Benmore substations were previously leased to a subsidiary company Haywards Limited, by ECNZ. The equipment was then sub-leased by Haywards Limited to Transpower. The head lease arrangement was renegotiated in the year ended 30 June 1997 with a third party and became subject to a cross border lease.

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

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

The Transpower Lines Business does not recognise a lease liability with respect to these cross border leases as all obligations have been prepaid to the respective lessors for all rental payments in respect of the primary period.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

12. LONG TERM DEBT

LINES BUSINESS	LINES BUSINESS
2005	2004
\$000	\$000

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

Bonds	400,000	435,000
Euro Medium Term Notes	183,903	183,905
US Private Placement	164,474	-
Structured financing transaction liability	732,700	732,700
Other	1,502	222,439
	<u>1,482,579</u>	<u>1,574,044</u>
Less unamortised discount	(2,323)	(2,870)
	<u>1,480,256</u>	<u>1,571,174</u>
Less current portion of long term debt	(95,392)	(407,440)
	<u>1,384,864</u>	<u>1,163,734</u>
Between one to two years	105,694	95,393
Between two to five years	768,302	872,315
Greater than five years	510,868	196,026
Long term debt	<u>1,384,864</u>	<u>1,163,734</u>

Add debt allocated (to) from non-lines businesses*

	36,360	25,751
Total Long Term Debt	<u>1,421,224</u>	<u>1,189,485</u>

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

The nature of security provided against amounts borrowed is as follows:

Bonds

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

Pursuant to the trust deed, Transpower and its fellow subsidiaries excluding Risk Reinsurance Limited, Benmore Finance and Bunnythorpe Holdings (the "Guaranteeing Group") have given a negative pledge that while any of the stock issued under the trust deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets.

Each member of the Guaranteeing Group has guaranteed all amounts payable on redemption or repayment of the Bonds and the payment of interest during the term of the Bonds.

Euro Medium Term Notes

Under the Euro Medium Term Note programme Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$1,000,000,000 (NZ\$1,427,348,000) as at June 2005, US\$1,000,000,000 (NZ\$1,584,786,000) as at 30 June 2004 or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance Limited have given a negative pledge and guarantee payment of all principal and interest amounts.

Australian Medium Term Notes

Under the Australian Medium Term Note programme, Transpower Finance Limited may issue notes guaranteed by Transpower New Zealand Limited. The aggregate principal amount of the notes outstanding may not exceed AU\$750,000,000 (NZ\$817,389,000). There were no Australian Medium Term notes outstanding as at 30 June 2005 (2004: nil).

US Private Placement

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

12. LONG TERM DEBT continued

Structured Financing Transaction

In 2002, Transpower entered into a transaction which raised gross funds of \$732,700,000 of which \$532,700,000 was on-lent to financial institutions. In prior years, the transaction was recorded in the Transpower Group and in the Lines Business on a net basis. In the current year, the auditor recently appointed by the Auditor-General has reviewed the accounting treatment of this transaction and has concluded that it should be shown gross for the purposes of the Transpower Group financial statements. That treatment is reflected in these financial statements. Prior year comparatives have, in consequence, been changed to conform to the current year presentation. Related additional interest expense and interest income of \$33,616,000 have been recorded in the Statement of Financial Performance and the Statement of Cash Flows. It is important to note that these adjustments do not in any way change the economic substance of the transaction, which is that there is a net obligation of \$200,000,000. In addition, the previously reported total equity and the net surplus both remain unchanged.

13. CAPITAL

Transpower's share capital consists of 1,200,000,000 (2004: 1,200,000,000) issued and fully paid ordinary shares which confer on the holders the right to vote at any annual general meeting of Transpower. All ordinary shares rank equally.

14. RESERVES

	LINES BUSINESS	LINES BUSINESS
	2005	2004
	\$000	\$000

Asset revaluation reserve

Balance at the beginning of the year	-	-
Revaluation (devaluation) of fixed assets*	-	(5,477)
Transfer to retained earnings	-	-
Transfer to statement of financial performance	-	5,477
Balance at the end of the year	-	-
Total reserves	-	-

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

15. ACCUMULATED DEFICIT

Balance at the beginning of the year	(191,973)	(236,539)
Operating surplus after tax	90,759	61,309
Accumulated deficit before dividends paid	(101,214)	(175,230)
Dividends paid	(37,927)	(16,743)
Balance at the end of the year	(139,141)	(191,973)

16. DIVIDENDS TO THE SHAREHOLDER

Final dividend paid	37,927	16,743
Interim dividend paid	-	-
	37,927	16,743

Subsequent to balance date, the directors have declared a final dividend payable of \$10,000,000 for the Transpower Group. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$6,414,000.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

17. CAPITAL COMMITMENTS

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Capital commitments in respect of contracts for capital expenditure:		
Within one year	13,589	4,166
One to two years	2,412	614
Two to five years	-	-
Total capital commitments	16,001	4,780

18. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable operating leases payable:		
Within one year	3,196	2,673
One to two years	3,104	2,488
Two to five years	8,784	7,308
Later than five years	12,852	14,585
Total operating lease commitments	27,936	27,054

19. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

Transpower has entered into three cross border leases in respect of certain HVDC converter stations, the submarine cables and the majority of the AC transmission assets in the South Island. The nature of these transactions is described in Note 11.

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

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

Debt

Transpower has provided guarantees in respect of loan arrangements for the Bonds, Euro medium term notes and Australian medium term notes as described in Note 12.

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

Bonds	397,681	439,134
Euro Medium Term Notes	183,178	125,401
Australian Medium Term Notes	-	-
US Private Placement	164,474	-

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

(ii) Todd Energy and Kiwi Co-operative Dairies Claim

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

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

(iii) Various other lawsuits, claims and investigations

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

19. CONTINGENT LIABILITIES continued

(iv) Economic Gain (Loss) Account

In the current regulatory environment, Transpower operates its revenue setting methodology within an Economic Value ("EV") framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers ("the EV balance") has been, at Directors' discretion, passed on to customers over time. Any such transfer to customers would occur after consideration by Directors of the balance of this account.

Under the new regulatory regime the Electricity Commission will be required to determine transmission pricing. Also, the Commerce Commission sets revenue thresholds for Transpower. The balance of the EV account at 30 June 2005 was \$98,740,000 to the credit of the customer.

(v) Industry Related Costs

There is a possibility that Transpower will incur future liabilities in relation to certain industry related costs. Directors believe that further disclosure of the details of these costs could adversely influence Transpower's position in its negotiations with third parties. As a result, disclosure is limited in accordance with section 11.13 of FRS-15.

20. SEGMENTAL INFORMATION

The Transpower Lines Business operates predominantly in one industry, the transmission of high voltage electricity. Transpower's operations are carried out in New Zealand and are therefore within one geographical segment for reporting purposes.

21. FINANCIAL INSTRUMENTS

(a) Financial risks

The Transpower Group is subject to a number of financial risks which arise as a result of having a debt portfolio of \$1,551,336,000 as at 30 June 2005 (2004: \$1,609,357,000) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

To manage and limit the effect of these financial risks the Transpower Board of Directors has approved policy guidelines and authorised the use of various financial instruments. The policy adopted by the Board prohibits the use of financial instruments for speculative purposes. All off balance sheet financial instruments must be directly related to underlying physical debt or firm capital commitments on Board approved projects.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

21. FINANCIAL INSTRUMENTS continued

(b) Risk management policies

The key risk management policies are as follows:

Interest rate risk management policy

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

Currency risk management policy

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

Credit risk management policy

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

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

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising the Group's customer base. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 2005 (30 June 2004: nil).

Liquidity risk policy

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

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

The Directors have authorised the use of the following financial instruments to manage currency risk, interest rate risk and liquidity risk:

On Balance Sheet financial assets and liabilities**Term debt**

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

In the event the Transpower Group is unable to use these facilities the Group has established a Standby Facility for NZ\$250,000,000 which was not in use at 30 June 2005 or 30 June 2004.

Term investments

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

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

Interest rate swaps are used to change the interest rate structure on physical debt issued by the Group. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into an interest rate swap. In the normal course of the Group's hedging activities interest rate swaps are entered into for periods of up to ten years.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

21. FINANCIAL INSTRUMENTS continued

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

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Interest rate swaps	1,877,500	3,650,380

Cross currency interest rate swaps

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

The principal amounts of cross currency interest rate swaps outstanding at balance date are:

Cross currency interest rate swaps		
Principal receivable	369,194	251,253
Principal payable	(438,773)	(281,414)

Forward rate agreements

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

The notional contract amounts of forward rate agreements outstanding at balance date are:

Forward rate agreements	-	-
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Interest rate options

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

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

Interest rate options	-	-
-----------------------	---	---

Foreign exchange forward contracts

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

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

Forward foreign exchange contracts	7,073	5,000
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

21. FINANCIAL INSTRUMENTS continued

(d) Maximum credit risk exposure

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

	LINES BUSINESS 2005 \$000	LINES BUSINESS 2004 \$000
Interest rate swaps	179	4,333
Cross currency interest rate swaps	3,754	4,395
Foreign exchange forward contracts	170	-

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions of the documentation and the application of applicable law. The Group further manages this risk by only entering into transactions with counterparties that fall within the Group's credit risk management policy as outlined in section (b) Risk management policies, of this note.

(e) Carrying value and fair value

Carrying value

For off balance sheet financial instruments the carrying value in the Carrying/Fair Value table below is taken from the other receivables and other liabilities categories in the Statement of Financial Position as appropriate. The carrying values represent the results of accounting for these instruments, as described in the Statement of Accounting Policies. The unrealised foreign currency gains and losses on cross currency interest rate swaps are included in the carrying value of debt.

Fair value

Fair value represents the amount which would, in the course of the normal operation of the financial markets, extinguish all current and future contractual obligations arising in respect of a particular financial instrument.

The fair value for short term investments, debt, cross currency interest rate swaps, foreign exchange forward contracts, interest rate swaps, forward rate agreements, interest rate options and foreign currency options is determined using the current market rates at balance date. For those debt instruments where there is no quoted market rate at balance date the fair value is based on the current market rate of a financial instrument with a similar maturity.

For cash and bank, trade receivables/creditors, other receivables, other liabilities, investments and investments in shares the fair value is equivalent to their carrying value and has been excluded from the Carrying/Fair Value table.

The difference between the carrying value and the fair value represents an unrealised cost or benefit to the Company. This arises as a result of variations between the historical contract rate and the current market rate at balance date.

The unrealised loss arising from movements in interest rates since the acquisition date of debt carried at 30 June 2005 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$31,492,000 (2004: NZ\$17,676,000). This comprises the difference between the carrying values and fair values of debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

Transpower anticipates that the financial instruments will be held to maturity and it is unlikely that settlement at the reported fair values will occur and the resulting loss realised.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

21. FINANCIAL INSTRUMENTS continued

Carrying value/fair value	Carrying Value 2005 \$000	Fair Value 2005 \$000	Carrying Value 2004 \$000	Fair Value 2004 \$000
LINES BUSINESS				
On Balance Sheet				
Cash (bank overdraft)	1,084	1,084	722	722
Short term investments	-	-	10	10
Long term assets	541,710	541,765	532,700	532,755
Debt	(1,551,336)	(1,567,534)	(1,609,357)	(1,617,879)
Off Balance Sheet				
Cross currency interest rate swaps	2,263	1,127	600	(82)
Foreign exchange forward contracts	-	171	(223)	(223)
Interest rate swaps	1,197	(13,187)	457	(8,070)
Forward rate agreements	-	-	-	-
Interest rate options	-	-	-	-

(f) Interest rate repricing analysis

The following table covers Transpower's total debt portfolio, including the effect of off balance sheet financial instruments, when interest rates will be repriced and the current weighted average interest rate of each maturity. Transpower will transact further interest rate hedging in advance of the repricing date to fix interest rates on the Company debt portfolio within the policy parameters adopted by the Board.

Trade receivables/creditors, other receivables and other liabilities have not been included in the table below as they are not interest rate sensitive.

Forward rate agreements are also excluded from the repricing analysis as these contracts mature within one year. For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

LINES BUSINESS 2005

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

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

LINES BUSINESS 2004

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash	4.00%	722	-	-	-	722
Short term investments	4.22%	10	-	-	-	10
Long term investments	6.30%	-	-	532,700	-	532,700
		732	-	532,700	-	533,432
Liabilities						
Debt	6.60%	(419,872)	(95,393)	(872,315)	(221,777)	(1,609,357)
		(419,872)	(95,393)	(872,315)	(221,777)	(1,609,357)
Off balance sheet						
Interest rate swaps		302,000	(28,000)	61,000	(335,000)	-
Interest rate options		-	-	-	-	-
		302,000	(28,000)	61,000	(335,000)	-
Repricing Profile		(117,140)	(123,393)	(278,615)	(556,777)	(1,075,925)

The interest rate on debt as amended by interest rate swaps is 6.85%

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2005

22. SUBSIDIARY AND JOINT VENTURES OF TRANSPOWER GROUP

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

	2005	2004
Subsidiaries	Holding	Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
TB and T Limited	100%	100%
Aratiatia Holdings Limited	100%	100%
Benmore Finance	100%	100%
Bunnythorpe Holdings	100%	100%
Benmore Trust	100%	100%
Halfway Bush Finance Limited	100%	100%

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

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

All subsidiary entities have a balance date of 30 June.

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

All subsidiaries are direct subsidiaries of Transpower except for;

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

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

EMS was established in 1998 as a separate legal entity to provide reconciliation and metering services for both MARIA and NZEM parties.

Risk Reinsurance was established in 2001 to provide insurance services to the Transpower Group.

23. RELATED PARTY TRANSACTIONS

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

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

The subsidiaries identified in Note 22 are related parties of Transpower.

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

All of these transactions are conducted on a commercial basis. No related party debts have been written off or forgiven during the year.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 200524. OTHER ITEMS REQUIRING SPECIFIC DISCLOSURE UNDER THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1999

	2005	2004
Transfer Payments by Line businesses to "Other Transpower Businesses" for:		
Asset maintenance services	0	0
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Avoided transmission charges on account of own generation	0	0
Expense to non-related entities for:		
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Operating Expenditure		
Transmission charges	0	0
Amortised goodwill	0	0
Amortisation of other intangibles	0	0
Merger and acquisition expenses	0	0
Takeover defence expenses	0	0
Research and development expenses	0	0
Rebates to consumers due to ownership interests	0	0
Subvention payments	0	0
Other goods and services provided to Transpower lines business	0	0
Unusual expenses	0	0
Assets		
Goodwill	0	0
Total intangible assets	0	0
Total tangible assets	2,684,153	2,697,101
Equity		
Capital notes	0	0

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

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial	200,907				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	200,907				
Interest on cash, bank balances, and short-term investments (ISTI)	317				
OSBIT minus ISTI	200,590	a	200,590		200,590
Net surplus after tax from financial statements	90,759				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	90,759	n		90,759	
Amortisation of goodwill and amortisation of other intangibles	0	g	add 0	add 0	add 0
Subvention payment	0	s	add 0	add 0	add 0
Depreciation of SFA at BV (x)	101,026				
Depreciation of SFA at ODV (y)	109,000				
ODV depreciation adjustment	-7,974	d	add -7,974	add -7,974	add -7,974
Subvention payment tax adjustment	0	s*t		deduct 0	deduct 0
Interest tax shield	22,909	q			deduct 22,909
Revaluations	0	r			add 0
Income tax	43,990	p			deduct 43,990
Numerator			192,616	82,785	125,717
			$OSBIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s*t + d$	$OSBIT^{ADJ} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,086,819				
Fixed assets at end of current financial year (FA ₁)	2,071,103				
Adjusted net working capital at end of previous financial year (ANWC ₀)	-4,647				
Adjusted net working capital at end of current financial year (ANWC ₁)	-9,167				
Average total funds employed (ATFE)	2,072,054	c	2,072,054		2,072,054
(or regulation 33 time-weighted average)					
Total equity at end of previous financial year (TE ₀)	1,008,027				
Total equity at end of current financial year (TE ₁)	1,060,859				
Average total equity	1,034,443	k		1,034,443	
(or regulation 33 time-weighted average)					
WUC at end of previous financial year (WUC ₀)	97,870				
WUC at end of current financial year (WUC ₁)	115,950				
Average total works under construction	106,910	e	deduct 106,910	deduct 106,910	deduct 106,910
(or regulation 33 time-weighted average)					
Revaluations	0	r			
Half of revaluations	0	r/2			deduct 0
Intangible assets at end of previous financial year (IA ₀)	0				
Intangible assets at end of current financial year (IA ₁)	0				
Average total intangible asset	0	m		add 0	
(or regulation 33 time-weighted average)					
Subvention payment at end of previous financial year (S ₀)	0				
Subvention payment at end of current financial year (S ₁)	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v		add 0	
System fixed assets at end of previous financial year at book value	1,919,000				
System fixed assets at end of current financial year at book value	1,899,000				
Average value of system fixed assets at book value	1,909,000	f	deduct 1,909,000	deduct 1,909,000	deduct 1,909,000
(or regulation 33 time-weighted average)					
System Fixed assets at year beginning at ODV value (SFA _{odv0})	2,026,000				
System Fixed assets at end of current financial year at ODV value	1,979,000				
Average value of system fixed assets at ODV value	2,002,500	h	add 2,002,500	add 2,002,500	add 2,002,500
(or regulation 33 time-weighted average)					
Denominator			2,058,644	1,021,033	2,058,644
			$ATFE^{ADJ} = c - e - f + h$	$Ave TE^{ADJ} = k - e - m + v - f + h$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f + h$
Financial Performance Measure:			9.4	8.1	6.1
			$ROF = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$	$ROE = NSAT^{ADJ} / ATE^{ADJ} \times 100$	$ROI = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2005

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

Efficiency Measures

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

$\frac{a}{b}$	155,981,000	134,120,000	147,249,000	134,087,000
	17,045	17,041	17,134	17,145
a is direct expenditure* (in dollars); and	\$9,151	\$7,870	\$8,594	\$7,821
b is system length (in kilometres);				

*2002, 2003 and 2004 direct expenditure amounts restated

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS**ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2005**

	\$ million
System fixed assets at ODV at 30 June 2004	<u>2,026</u>
<i>Add</i> system fixed assets acquired during the year at ODV	73
<i>Less</i> system fixed assets disposed of during the year at ODV	(5)
<i>Less</i> depreciation on system fixed assets at ODV	(109)
<i>Add</i> revaluations of system fixed assets	(6)
Equals system fixed assets at ODV at 30 June 2005	<u><u>1,979</u></u>

The Electricity Information Disclosure Requirements 2004

(For 12 months ending 30 June 2005, 30 June 2004, 30 June 2003, 30 June 2002)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Requirement 20)	2004/05	2003/04	2002/03	2001/02
1. Energy delivery efficiency performance measures				
(a) Load factor % <i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>	69.70	71.05	70.50	67.09
(b) Loss ratio % <i>Transmission losses as percentage of energy entering the system</i>	3.76	3.82	4.36	2.90
(c) Capacity utilisation % <i>Maximum demand as percentage of total transformer capacity</i>				
<i>Based on ONAN ratings[#]</i>	70.89	69.49	69.86	70.71
<i>Based on Maximum Continuous Ratings</i>	49.72	48.17	50.81	51.87
2. Statistics				
(a) System length, broken down by voltage				
Total ^{&} km	17,045	17,041	17,134	17,145
350 kV (HVDC) km	611	611	611	611
270 kV (HVDC) km	611	611	611	611
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,380	8,376	8,357	8,357
110 kV (HVAC) km	6,073	6,073	6,076	6,108
66/50/33/11 kV (HVAC) ^{&} km	1,339	1,339	1,449	1,428
(b) Circuit length of overhead electric lines, broken down by voltage.				
Total ^{&} km	16,960	16,956	17,049	17,060
350 kV (HVDC) km	571	571	571	571
270 kV (HVDC) km	571	571	571	571
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,380	8,376	8,357	8,357
110 kV (HVAC) km	6,068	6,068	6,071	6,103
66/50/33/11 kV (HVAC) ^{&} km	1,339	1,339	1,449	1,428
NB: HVDC link submarine power cables measure approximately 80km. Broken down by voltage				
350 kV (HVDC) km	40	40	40	40
270 kV (HVDC) km	40	40	40	40
(c) Total circuit length of underground electric lines (110 kV HVAC) km	5	5	5	5
(d) Transformer capacity (kilovolt amperes)				
ONAN Ratings [#] kVA	8.94x10 ⁶	8.77x10 ⁶	8.64x10 ⁶	8.59x10 ⁶
Maximum Continuous Ratings kVA	12.75x10 ⁶	12.65x10 ⁶	11.87x10 ⁶	
(e) Maximum demand (kilowatts) ^{*\$} kW	6.34 x10 ⁶	6.09x10 ⁶	6.04x10 ⁶	6.07x10 ⁶
(f) Total electricity entering the system (before losses of electricity), in kilowatt hours: ^{*\$} kWh	38.71x10 ⁹	38.02x10 ⁹	37.28x10 ⁹	35.70x10 ⁹
(g) Total amount of electricity (in kilowatt hours) supplied from the system (after losses of electricity) during the financial year on behalf of each person that is an electricity generator or an electricity retailer, or both: ^{*\$@} kWh	37.25x10 ⁹	36.57x10 ⁹	35.65x10 ⁹	34.66x10 ⁹
(h) Total connected customers	48	48	48	49

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

ONAN = Oil natural, air natural ratings.

@ Including sales to direct connected customers.

& 2003/04, 2004/05 data excludes circuits leased from others and operated by Transpower. 34km owned by Transpower but operated by others not included above.

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

The Electricity Information Disclosure Requirements 2004

(For 12 months ending 30 June 2005, 30 June 2004, 30 June 2003, 30 June 2002)

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Requirement 21)	2004/05	2003/04	2002/03	2001/02
1. Total number of unplanned interruptions* <i>Resulting from 53 loss of supply incidents in 2004/05</i>	67	75	72	113
2. Electricity customer interruptions in system minutes**	6.7	5.3	6.3	8.1
Planned	3.4	1.7	3.6	3.2
Unplanned	3.3	3.6	2.6	4.9
3. Underlying electricity customer interruptions in system minutes ** <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	5.7	5.3	6.3	8.1
Planned	3.4	1.7	3.6	3.2
Unplanned	2.3	3.6	2.6	4.9
4. Average supply reliability <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>	99.9981	99.9985	99.9982	99.9976
5. Uneconomic generation due to planned and unplanned transmission system unavailability % <i>Uneconomic generation relates to the amount of electricity generated from any source other than the most economic source.</i>	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability %	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability %	-	-	-	-
8. Planned interruption restoration performance %	71.9	71.0	81.3	81.8
9. Unplanned interruption response %	100	98.7	100	100

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

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

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

* Where two supply voltages, or two customers, at the same station are both interrupted this is counted as two interruptions.

** Any minor differences between the total and the sum of planned and unplanned are due to rounding. System minutes of interruptions are not counted if energy is made up by backfeed from another point of supply or by embedded generation within a customer's network.

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

We, David Gascoigne and Mark Tume, Directors of Transpower New Zealand Limited ("Transpower") certify that, having made all reasonable enquiry, to the best of our knowledge;

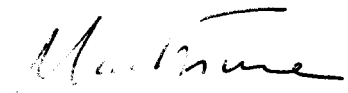
- (a) The attached audited financial statements of Transpower, prepared for the purposes of regulation 5 of the Commerce Commission's Electricity Information Disclosure Requirements 2004, comply with those Requirements; and
- (b) The attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of requirements 14, 15, 20, and 21 of the Electricity Information Disclosure Requirements 2004, comply with those Requirements

The valuations on which those financial performance measures are based are as at 30 June 2005.



David Gascoigne

28 November 2005



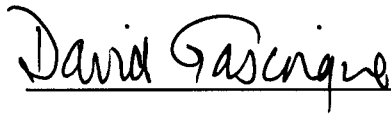
Mark Tume

Form 6**ELECTRICITY INFORMATION DISCLOSURE REQUIREMENTS 2004
REQUIREMENT 31(5)****CERTIFICATION OF VALUATION REPORT OF DISCLOSING ENTITIES**

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

- (a) The attached valuation report of Transpower New Zealand Limited, prepared for the purposes of requirement 19 of the Commerce Commission's Electricity Information Disclosure Requirements 2004 complies with those requirements; and
- (b) The replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$5,497,000; and
- (c) The depreciated replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$2,282,000; and
- (d) The optimised depreciated replacement cost of the lines business system fixed assets of Transpower New Zealand Limited is \$1,980,000; and
- (e) The optimised deprival valuation of the lines business system fixed assets of Transpower New Zealand Limited is \$1,979,000; and
- (f) The values in paragraphs (b) through to (e) have been prepared in accordance with the ODV Handbook (as defined in the Electricity Information Disclosure requirements 2004). These valuations are as at 30 June 2005.

Signed:



David Gascoigne



Mark Tume

Date: 28 November 2005

Form 7**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999
REGULATION 37****STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND
INFORMATION SUPPLIED TO COMMERCE COMMISSION**

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

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957. Declared at this day of 28 November 2005.

David Gascoigne



ELIN WILLIAM THORPE
Solicitor of the High Court
of New Zealand
WELLINGTON