



New Zealand Gazette

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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1999 AND THE
ELECTRICITY (INFORMATION DISCLOSURE)
AMENDMENT REGULATIONS 2000 AND 2001



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REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2002

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 2002. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

Directors' responsibilities

The Electricity (Information Disclosure) Regulations 1999 require the Directors to prepare financial statements that give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2002, and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

Section 15 of the Public Audit Act 2001 and Regulation 31 of the Electricity (Information Disclosure) Regulations 1999 require the Auditor-General to audit the financial statements. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Jim Chin of PricewaterhouseCoopers to undertake the audit.

Basis of opinion

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

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

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.



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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by Transpower New Zealand Limited Lines Business as far as appears from our examination of those records; and
- the financial statements referred to above:
 - (a) comply with generally accepted accounting practice in New Zealand; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2002 and the results of its operations and cash flows for the year ended on that date; and
 - (c) comply with the Electricity (Information Disclosure) Regulations 1999.

Our audit was completed on 15 November 2002 and our unqualified opinion is expressed as at that date.

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

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

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

PricewaterhouseCoopers



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

We have examined the attached information, being:

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

that were prepared by Transpower New Zealand Limited Lines Business and dated 15 November 2002 for the purposes of regulation 15 of the Electricity (Information Disclosure) Regulations 1999.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1999.

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

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
15 November 2002

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

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

We have examined the valuation report of Transpower New Zealand Limited Lines Business and dated 26 November 2002, which report contains valuations of system fixed assets as at 30 June 2002.

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 \$1,995,000,000, have been made in accordance with the ODV Handbook.

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

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
26 November 2002

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

PricewaterhouseCoopers

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2002

	Notes	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Operating revenue	2	470,273	441,403
Operating expenses	3	291,446	264,293
		178,827	177,110
Net finance costs	5	81,536	85,256
Surplus from operations before tax and revaluation		97,291	91,854
Transfer from asset revaluation reserve	13	64,288	(59,116)
Surplus from operations before tax		161,579	32,738
Tax expense	6	24,150	20,897
Operating surplus after tax		137,429	11,841
Net surplus attributable to shareholders		137,429	11,841

STATEMENTS OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2002

	Notes	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Equity at the beginning of the year		911,678	944,101
Net surplus attributable to shareholders		137,429	11,841
Total recognised revenue and expenses for the year		137,429	11,841
Dividends paid	15	(76,329)	(44,264)
Equity at the end of the year		972,778	911,678

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2002

		LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
	Notes		
ASSETS EMPLOYED			
Current assets	7	83,853	142,898
Fixed assets	8	2,135,845	2,089,099
Total Assets Employed		<u>2,219,698</u>	<u>2,231,997</u>
FUNDS EMPLOYED			
Liabilities			
Current liabilities	9	441,084	455,282
Long term lease liabilities	10	-	-
Long term debt	11	805,836	865,037
Total Liabilities		<u>1,246,920</u>	<u>1,320,319</u>
Equity			
Capital	12	1,200,000	1,200,000
Reserves	13	-	-
Accumulated deficit	14	(227,222)	(288,322)
Total Equity		<u>972,778</u>	<u>911,678</u>
Total Funds Employed		<u>2,219,698</u>	<u>2,231,997</u>

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

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 15 November 2002.

For, and on behalf of, the Board



Sir Colin Maiden
Chairman

15 November 2002



David Sadler
Deputy Chairman

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2002

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	517,327	454,653
Interest received	6,055	7,907
Cash was applied to:		
Payments to suppliers and employees	(197,471)	(145,829)
Tax payments	3,191	(47,452)
Interest paid	(95,158)	(99,076)
Net cash inflows from operations	233,944	170,203
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	1,422	3,261
Short term investments	708,999	511,930
Cash was applied to:		
Purchase of fixed assets	(84,116)	(63,554)
Short term investments	(718,886)	(511,930)
Net cash outflows from investments	(92,581)	(60,293)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	1,060,931	1,004,495
Cash was applied to:		
Dividends paid	(76,329)	(86,637)
Repayment of loans	(1,126,167)	(1,027,594)
Net cash outflows from financing	(141,565)	(109,736)
Net increase (decrease) in cash held	(202)	174
Opening balance brought forward	(1,517)	(1,691)
Closing net cash carried forward	(1,719)	(1,517)
Closing net cash carried forward comprises:		
Bank overdraft	(1,738)	(1,546)
Cash and bank	19	29
	(1,719)	(1,517)

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENTS OF CASH FLOWS *continued*
FOR THE YEAR ENDED 30 JUNE 2002

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

	LINES BUSINESS	LINES BUSINESS
	2002	2001
	\$000	\$000
Operating surplus after tax	137,429	11,841
Add/(deduct) non-cash items:		
Depreciation	83,619	85,471
Infrastructure asset service potential adjustment	12,689	16,039
Transfer from asset revaluation reserve	(64,288)	59,116
Capitalised interest	(3,424)	(2,034)
Movements in working capital items:		
Decrease (increase) in trade and other receivables	46,502	(10,125)
Decrease (increase) in prepayments	(960)	405
Decrease (increase) in stocks of materials	(3,961)	(65)
(Decrease) increase in trade and other liabilities, interest payable and deferred income	(1,763)	6,576
(Decrease) increase in taxation payable	27,341	(26,555)
(Decrease) increase in provisions	(6,592)	23,705
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	7,352	5,829
Net Cash Flow from Operations	233,944	170,203

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 2002

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These financial statements are for the reporting entity of Transpower New Zealand Limited's 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) Regulations 1999 as amended by the Electricity (Information Disclosure) Amendment Regulations 2000 and 2001.

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 2002. 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 Statements of Financial Performance comprises the amounts received and receivable by the Transpower Lines Business for transmission services. Interest income from investments are included within net finance costs.

(c) Goods and Services Tax (GST)

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2002**(d) Current Assets**

Receivables are stated at their estimated net realisable value.

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

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

(e) Investments

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

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

Fixed assets are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out each year by, or under the guidance of, independent experts using the optimised deprival valuation (ODV) methodology.

Under modified historical cost, an asset revaluation, which reflects the difference between the net carrying value of the assets and the ODV value, is recorded in the asset revaluation reserve. The net carrying value is determined after writing any accumulated depreciation or infrastructure asset service potential adjustment back against the asset value.

Upon the disposal or write-off of a non-infrastructure asset the revaluation increment or decrement relevant to that asset is transferred from the revaluation reserve to retained earnings.

The physical disposal or write off of individual component assets that form the infrastructure asset is only recognised in the financial statements where the operating capability of the infrastructure asset has decreased.

Infrastructure Asset - Transmission Lines

The infrastructure accounting methodology is applied to the infrastructure asset. The infrastructure asset consists of the individual asset components that form the network of transmission lines comprising the National Grid. These individual components are regarded together as a single asset. All other assets are classified as non infrastructure assets.

It is the Transpower Lines Business's intention to maintain the operating capability of the transmission line network into the foreseeable future.

Operating capability refers to the output of service of the infrastructure asset at a point in time and is determined by reference to attributes such as physical output capacity, associated operating costs and quality of output.

Transpower's asset management practices result in the infrastructure asset having an extremely long life. Having regard to the life and residual value of the infrastructure asset, the Directors consider that the depreciation of the asset is immaterial. Accordingly, no depreciation is charged on the infrastructure asset.

Expenditure incurred to maintain the operating capability of the infrastructure asset is treated as an expense in the Statements of Financial Performance. Expenditure on the infrastructure asset that enhances or develops the operating capability of the asset is capitalised.

Service potential refers to the ability of the asset to provide a satisfactory level of operating capability into the future. If, in any year, the level of expenditure required to maintain the operating capability of the infrastructure asset is insufficient to preserve the service potential of the asset, the net book value of the infrastructure asset is reduced and the Statements of Financial Performance is charged with this shortfall. This is called the "Infrastructure asset service potential adjustment". Expenditure in subsequent periods to redress this shortfall and bring the infrastructure asset back to the requisite level of service potential increases the net book value of the infrastructure asset.

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.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2002*(f) Fixed Assets (continued)*

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 non infrastructure 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:

Freehold buildings	20-25 years
Substations	25-55 years
HVDC link	30 years
HVDC leased assets	30 years
Communications	10-25 years
Administration assets	3-10 years

(h) Leased Assets

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

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

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

(i) Statements of Cash Flows

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

- (i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- (ii) Operations comprise the transmission of bulk electricity, and the related support, maintenance, administration and interest costs.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2002*(i) Statements of Cash Flows (continued)*

- (iii) Investments comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- (iv) Financing include changes in equity, borrowings and dividends paid on equity. Cash flows arising from short term loans are disclosed as a net cash movement due to the volume of transactions involved.

(j) Taxation

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

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

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

Timing differences that are not recognised in the Statements 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 Statements 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 2002**(l) Financial Instruments**

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

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

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

Additional information about financial instruments to which the Transpower Lines Business is a party is provided in Note 20.

(m) Reclassifications

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

Changes in Accounting Policies

There have been no changes in accounting policies and all policies have been applied on a basis consistent with those used in previous periods with the following exception:

Transpower has adopted the requirements of the recently introduced Financial Reporting Standard No. 3 *Accounting for Property, Plant and Equipment* except for the requirements in respect to Infrastructure Accounting.

Financial Reporting Standard No. 3 *Property, Plant and Equipment* permits continuance of the Infrastructure Accounting methodology until financial periods ending on or after 31 March 2004.

The principal change is that assets must now be valued at their highest and best use, whereas previously these assets were valued based on existing use.

There has been no significant effect on the amounts recognised in these financial statements from adopting this standard.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

2. OPERATING REVENUE

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Transmission services revenue	468,335	437,420
Other revenue	1,938	3,983
Total operating revenue	470,273	441,403

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	87	241
AC rental rebates	1,965	2,490

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

3. OPERATING EXPENSES

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Administration and general costs	62,305	51,227
Asset operation and maintenance costs	106,599	101,514
Charges in respect of assets:		
Depreciation - Buildings	1,432	1,885
Depreciation - Substations	38,730	39,704
Depreciation - HVDC Link	10,140	11,193
Depreciation - HVDC leased assets	12,796	13,391
Depreciation - Communication assets	9,498	10,050
Depreciation - Administration assets	11,023	9,248
Infrastructure asset service potential adjustment	12,689	16,039
Stock and asset write-offs	7,500	7,125
Charges in respect of receivables:		
Bad debts written off	32	16
Movement in the provision for doubtful debts	-	-
Provision for industry related costs	15,000	-
Directors' fees	331	266
Study grants and Donations	825	349
Lease and rental costs	2,546	2,286
Total operating expenses	291,446	264,293
 Net loss on the disposal of assets included in stock and asset write-offs:		
Net loss on the disposal of assets	7,350	5,528
	<u>7,350</u>	<u>5,528</u>
 Electricity regulations additional disclosures:		
Employee salaries and redundancies	27,602	22,622
Human resource expenses	2,794	2,502
Marketing / advertising expenses	494	653
Legal and consultancy expenses (including industry reform)	13,373	10,603
Corporate and administration expenses	11,103	7,172
Other	6,939	7,675
Total administration and general expenditure	<u>62,305</u>	<u>51,227</u>
 Transfer payments from "Other Transpower Businesses"		
Payment for metering data	870	900
Payment for insurance	5,205	2,935
Total transfer payments from "Other Transpower Businesses"	<u>6,075</u>	<u>3,835</u>
 Local authority rates expense	<u>1,244</u>	<u>1,096</u>
 Consumer billing and information system expense	<u>767</u>	<u>458</u>
 Depreciation of system assets	71,735	74,210
Depreciation of other assets	11,884	11,261
Total depreciation	<u>83,619</u>	<u>85,471</u>
 Bad debts written off	32	16
Movement in the provision for doubtful debts	-	-
Total cost of offering credit	<u>32</u>	<u>16</u>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2002

4. REMUNERATION OF AUDITORS	LINES BUSINESS	
	2002	2001
Fees paid or payable to PricewaterhouseCoopers	\$000	\$000
As auditor of Transpower and Transpower Group subsidiaries	187	165
For other services		
Reporting Engagements other than the annual report	111	91
Assistance to Internal Audit function	273	172
Other Assurance-oriented engagements	822	193
Other	260	32
	<u>1,653</u>	<u>653</u>
5. NET FINANCE COSTS	LINES BUSINESS	
	2002	2001
Finance costs	91,015	95,197
Capitalised interest	(3,424)	(2,034)
Interest received	(6,055)	(7,907)
Net finance costs	<u>81,536</u>	<u>85,256</u>
Total operating expenses	291,446	264,293
Net finance costs	81,536	85,256
Total expenses including net financing costs	<u>372,982</u>	<u>349,549</u>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

6. TAXATION

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Operating surplus before tax	161,579	32,738
Prima facie tax at 33%	53,321	10,804
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(6,780)	(10,087)
- current period revaluation adjustment	(21,215)	19,508
Permanent differences	(52)	(212)
Income tax charge in respect of the current year	25,274	20,013
Under (over) provision in prior years	(1,124)	884
Tax expense	24,150	20,897
 Tax expense is represented by:		
Tax payable in the current year	24,660	20,883
Increase in deferred tax asset	(510)	(870)
Balance at the end of the year	24,150	20,013
 Deferred tax asset		
Balance at the beginning of the year	1,155	285
Increase in deferred tax asset	510	870
Balance at the end of the year	1,665	1,155
 Deferred tax liability memorandum account		
Balance at the beginning of the year	123,315	132,736
Increase (reduction) in deferred tax liability	27,995	(9,421)
Balance at the end of the year	151,310	123,315
These timing differences predominantly relate to depreciation and infrastructure asset service potential adjustments in respect of fixed assets, and are not recognised in the financial statements.		
 Imputation credit memorandum account		
Balance at the beginning of the year	86,904	80,894
Net tax payments/transfers made/refunds received	(384)	48,682
Imputation credits attached to dividends paid to shareholders	(40,836)	(42,672)
Balance at the end of the year	45,684	86,904

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2002

7. CURRENT ASSETS

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Cash and bank	19	29
Short term investments	9,887	-
Trade receivables	40,625	87,127
Provision for current tax	1,892	29,743
Deferred tax	1,665	1,155
Other receivables	-	-
Stocks of materials	28,456	24,495
Prepayments	1,309	349
Total current assets	83,853	142,898
Reconciliation of provision for current tax:		
Balance at the beginning of the year	(29,743)	(4,343)
Tax payable in the current year (refer Note 6)	24,660	22,052
Provisional tax (payments) refunds made during the year	3,191	(47,452)
Balance at the end of the year	(1,892)	(29,743)

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

8. FIXED ASSETS

	LINES BUSINESS Valuation 2002 \$000	LINES BUSINESS Valuation 2001 \$000
Infrastructure asset		
Transmission lines	814,689	800,614
Non infrastructure assets		
Freehold land	49,942	45,403
Freehold buildings	41,476	35,364
Substations	755,485	779,642
HVDC link	65,024	47,356
HVDC leased assets	243,318	240,105
Communications	41,728	45,491
Administration assets	24,798	16,866
Capital work in progress	99,385	78,258
Total non infrastructure assets	1,321,156	1,288,485
Total fixed assets	2,135,845	2,089,099

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

Capital work in progress comprises the following asset classes:

Transmission lines	5,392	2,820
Freehold land	677	243
Freehold buildings	3,412	2,997
Substations	67,962	44,029
HVDC link	304	641
HVDC leased assets	501	1,056
Communications	9,381	8,930
Administration assets	11,756	17,542
	99,385	78,258

During the year the following borrowing costs were capitalised:

Transmission lines	264	178
Freehold land	20	3
Freehold buildings	111	103
Substations	1,850	977
HVDC link	7	13
HVDC leased assets	12	21
Communications	421	220
Administration assets	739	519
	3,424	2,034

Assets that have been withdrawn from use or are not in current use are assigned a nil carrying value.

The fixed assets of the Lines Business were valued at 30 June 2002 in accordance with the ODV methodology. The valuation was completed by Transpower, and independently reviewed by PricewaterhouseCoopers.

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

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

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

Replacement costs for HVDC assets are based on:

- international costs for HVDC equipment obtained from Teshmont Consultants Inc
- easement costs capitalised in accordance with the Handbook
- exchange rates are historical rates over the period April 1999 to June 2002, with the average USD exchange rate over that period being 0.4596

Interest during construction used in establishing replacement costs has been calculated at 4.0% of replacement cost for AC transmission lines, 4.8% for AC substation assets, and 5.8% for HVDC assets.

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

Electricity demand is forecast to increase at a compound annual growth rate of 2.3%.

Electricity regulations additional disclosures:

Motor vehicles	877	850
Office equipment	248	254
Customer billing and information assets	489	113

Transpower lines business system fixed assets have been valued at \$1,995 million (2001: \$1,979 million).

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

9. CURRENT LIABILITIES

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Bank overdrafts	1,738	1,546
Trade creditors	31,689	30,753
Interest payable	10,136	14,279
Employee entitlements	5,957	5,065
Other creditors and provisions	21,800	28,392
Short term debt	98,126	90,204
Current portion of long term debt	253,462	267,419
Current portion of lease liabilities	-	-
Deferred income	18,176	17,624
Total current liabilities	441,084	455,282

10. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

One to two years	-	-
Two to five years	-	-
Later than five years	-	-
	-	-

The Transpower Lines Business has two cross border leases.

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

11. LONG TERM DEBT

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Between one to two years	256,485	253,462
Between two to five years	336,863	498,339
Greater than five years	229,229	102,180
Long term debt	822,577	853,981
Less debt allocated to non-lines business*	(16,741)	11,056
Total Long Term Debt	805,836	865,037

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

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

Bonds	480,409	380,450
Euro medium term notes	342,168	473,531
	822,577	853,981

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

Bonds

Bonds are issued under a Trust Deed dated 6 April 1995 between Transpower, the Initial Guaranteeing Subsidiaries (including Transpower Finance Limited) and The New Zealand Guardian Trust Company Limited. The Trust Deed has been amended on 30 June 1997 and 26 June 1998 in accordance with the Supplemental Trust Deeds. Pursuant to the Trust Deed, Transpower, Transpower Finance Limited and Transpower Finance Limited's fellow subsidiaries excluding Risk Reinsurance 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.

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\$2,034,588,000) as at 30 June 2002, US\$1,000,000,000 (NZ\$2,469,135,000) as at 30 June 2001 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.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

12. SHARE CAPITAL

Transpower's share capital consists of 1,200,000,000 (2001: 1,200,000,000) issued and fully paid ordinary shares, which confers on the holders the right to vote at any annual general meeting of Transpower. All ordinary shares rank equally.

13. RESERVES

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Fixed Asset revaluation reserve		
Balance at the beginning of the year	-	-
Revaluation (devaluation) of fixed assets*	64,288	(59,116)
Transfer to (from) statement of financial performance	(64,288)	59,116
Balance at the end of the year	-	-
Total reserves	-	-

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

14. ACCUMULATED DEFICIT

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Balance at the beginning of the year	(288,322)	(255,899)
Operating surplus after tax	137,429	11,841
Accumulated deficit before dividends paid and payable	(150,893)	(244,058)
Dividends paid	(76,329)	(44,264)
Balance at the end of the year	(227,222)	(288,322)

15. DIVIDENDS TO THE SHAREHOLDER

Final dividend for 2001 financial year	8,954	-
Interim dividend paid	67,375	44,264
	76,329	44,264

Subsequent to balance date, the directors have declared a final dividend payable of \$12,852,000 for the Transpower Group. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$5,766,000.

16. CAPITAL COMMITMENTS

Capital commitments in respect of
contracts for capital expenditure:

Within one year	16,665	21,017
One to two years	4,704	355
Two to five years	617	360
Total capital commitments	21,986	21,732

17. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable
operating leases payable:

Within one year	1,921	1,847
One to two years	2,993	1,696
Two to five years	7,835	1,015
Later than five years	17,690	547
Total operating lease commitments	30,439	5,105

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

18. CONTINGENCIES

(i) Guarantees

Cross Border Lease

Transpower has entered into two cross border leases in respect of certain HVDC converter stations and the submarine cables. 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 and a limited guarantee dated 31 May 1996 in respect of the submarine cables.

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

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

Todd Energy Limited and Kiwi Co-operative Dairies Limited have commenced a claim against both Transpower and Powerco Limited alleging breaches of the Commerce Act. The damages claimed total \$20 million. Transpower has filed a statement of defence and believes that it has not breached the Commerce Act in any respect. Kiwi Co-operative Dairies Limited has since withdrawn from the proceedings.

(iii) Network Tasman

Network Tasman Limited has commenced a claim against Transpower alleging misrepresentation, breach of good faith, breach of collateral contract, estoppel, breach of the Fair Trading Act and breach of implied term. The damages claimed total \$7 million. Transpower has filed a statement of defence and believes that the claims against it are without merit.

(iv) Economic Gain (Loss) Account

Transpower operates its pricing methodology within an EVA 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 may be passed on to customers over time. This transfer to customers will occur after consideration by Directors of the balance of this account and its likely future movement in order to preserve stability and predictability of prices. The EVA financial statements disclose that at 30 June 2002 there is \$126,376,000 to the credit of the customer account.

The electricity industry is undergoing significant change including the proposed establishment of an EGB (Electricity Governance Board). This EGB will be required to endorse Transpower's pricing methodology and may make changes accordingly.

(v) Provision for Industry Related Costs

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

There are no other material contingencies for The Transpower Lines Business as at balance date.

19. SEGMENTAL INFORMATION

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS

(a) Financial risks

The Transpower Lines business is subject to a number of financial risks which arise as a result of its debt portfolio which is denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

(b) Risk management policies

The key risk management policies are as follows:

Interest rate risk management policy

Transpower's policy is that floating rate debt is not to exceed 50 per cent of total debt and no more than 40 per cent of fixed rate debt is to re-price in any 12 month period. This policy ensures that Transpower's cost of funds will be reasonably predictable from year to year. Transpower defines floating rate debt to include debt for which the next interest rate reset is due within 12 months.

Currency risk management policy

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

Credit risk management policy

Transpower's credit policy is to establish credit limits to a maximum of 20 per cent of the Transpower Group shareholders funds with counterparties that are either a bank or financial institution or special purpose derivatives product counterparty and have a minimum long term credit rating of A or above by Standard and Poor's, or Moody's equivalent, or a New Zealand corporate with a short term credit rating of A-1 or above, for which the credit limit is capped at NZ \$40 million. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising Transpower's customer base. It is the Company's policy to perform credit evaluations on customers requiring credit and the Company may in some circumstances require collateral. No collateral is held at 30 June 2002 (2001: nil).

Liquidity risk policy

To ensure Transpower has adequate funding facilities in place to support future operations, Transpower's liquidity policy requires the Company to have access to committed debt facilities (i.e. guaranteed funds) that exceed the peak of the total monthly cumulative cash flows, excluding debt, over the next six months by 20 per cent. To smooth Transpower's refinancing requirements in future periods, debt maturing in any 12 month period is not to exceed 25 per cent of total debt.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

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

The Transpower Board of Directors has 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**

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

In the event Transpower is unable to utilise these facilities the Company has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks of which NZ\$125,000,000 is underwritten and which was unutilised as at 30 June 2002 and 30 June 2001. The second facility is a Standby Facility for US\$75,000,000 (NZ\$152,594,000) of which the total amount was unutilised at 30 June 2002. At June 2001 this facility was US\$150,000,000 (NZ\$370,370,000) and was also unutilised.

Term investments

Transpower 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 Transpower. 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 Transpower'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 2002

20. FINANCIAL INSTRUMENTS continued

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

	LINES BUSINESS 2002 \$000	LINES BUSINESS 2001 \$000
Interest rate swaps	2,615,780	2,342,899

Cross currency interest rate swaps

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

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

Cross currency interest rate swaps		
Principal receivable	921,286	948,170
Principal payable	(916,138)	(889,380)

Forward rate agreements

Forward rate agreements are used to fix interest rates on Transpower's underlying debt for periods commencing in the future. In the normal course of business Transpower enters into forward rate agreements to fix interest rates on floating rate debt for intervals of three months, which is indicated by a positive figure. A negative figure indicates that overall Transpower is a net investor of forward rate agreements rather than a net borrower. This indicates an attempt to float part of the debt rather than fix with a view towards a downward trend in interest rates.

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

Forward rate agreements	10,000	40,000
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Interest rate options

Transpower enters into interest rate options to manage interest rate repricing risk. Transpower 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 Transpower's interest rate risk management, the sale of interest rate options is restricted by the requirement to simultaneously purchase an interest rate option.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

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

	LINES BUSINESS	LINES BUSINESS
	2002	2001
	\$000	\$000
Interest rate options	85,000	251,800

Foreign exchange forward contracts

Transpower uses foreign exchange forward contracts to fix the New Zealand dollar cost of foreign denominated capital equipment and stock purchases and to eliminate foreign currency risk on debt issued in foreign currency.

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

Forward foreign exchange contracts	-	53,165
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Foreign currency options

Transpower enters into foreign currency options to manage the effect of exchange rate fluctuations on foreign currency purchases. Transpower purchases foreign currency options to reduce the impact of unfavourable movements in exchange rates during the period between commitment to purchase capital equipment and stocks items and the contracted payment date.

The notional contract amount of foreign currency options
outstanding at balance date are:

Foreign currency options	-	-
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

(d) Maximum credit risk exposure

The maximum credit exposure by counterparty to which Transpower is subject is measured by the market value of cross currency interest rate swaps, foreign exchange forward contracts, interest rate swaps, interest rate options, foreign currency options and forward rate agreements.

Where the current market value by counterparty is negative or represents a loss, Transpower is not subject to credit risk on these instruments at balance date.

	LINES BUSINESS	LINES BUSINESS
	2002	2001
	\$000	\$000
<i>Current market value</i>		
Cross currency interest rate swaps	70,801	162,515
Foreign exchange forward contracts	-	51
Interest rate swaps	3,979	6,501
Interest rate options	-	-
Foreign currency options	-	-
Forward rate agreements	2	-

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

(e) Carrying value and fair value

Carrying value

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

Fair value

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

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

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

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

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 2002 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$24,732,000 (NZ\$27,988,000 as at 30 June 2001).

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 200220. FINANCIAL INSTRUMENTS *continued*

	Carrying Value 2002 \$000	Fair Value 2002 \$000	Carrying Value 2001 \$000	Fair Value 2001 \$000
LINES BUSINESS				
<i>On Balance Sheet</i>				
Short term investments	9,887	9,887	-	-
Debt	(1,157,424)	(1,183,032)	(1,222,660)	(1,254,232)
<i>Off Balance Sheet</i>				
Cross currency interest rate swaps	2,548	13,926	5,321	20,377
Foreign exchange forward contracts hedging foreign currency debt	-	-	-	(202)
Foreign exchange forward contracts hedging foreign currency purchases	-	-	-	(47)
Interest rate swaps	(1,767)	(9,764)	(4,065)	(12,737)
Forward rate agreements	-	2	-	(61)
Interest rate options	-	(2,507)	-	(2,611)
Foreign exchange 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 re-priced and the current weighted average interest rate of each instrument. Transpower will transact further interest rate hedging in advance of the re-pricing date to fix interest rates on the Company debt portfolio within the policy parameters adopted by the Board.

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

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

LINES BUSINESS 2002

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Later than five years \$000	Total \$000
Assets						
Cash at Bank	2.00%	19	-	-	-	19
Short term investments	5.95%	9,887	-	-	-	9,887
		9,906	-	-	-	9,906
Liabilities						
Bank overdraft	9.20%	(1,738)	-	-	-	(1,738)
Debt	6.84%	(637,973)	(137,602)	(251,683)	(130,174)	(1,157,432)
		(639,711)	(137,602)	(251,683)	(130,174)	(1,159,170)
Off Balance Sheet						
Interest rate swaps		208,080	7,300	(35,380)	(180,000)	-
Interest rate options		(25,000)	50,000	5,000	(30,000)	-
		183,080	57,300	(30,380)	(210,000)	-
Repricing Profile						
		(446,725)	(80,302)	(282,063)	(340,174)	(1,149,264)

The interest rate on debt as amended by interest rate swaps is 7.73%

LINES BUSINESS 2001

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Later than five years \$000	Total \$000
Assets						
Cash at Bank	3.00%	29	-	-	-	29
Short term investments	6.95%	-	-	-	-	-
		29	-	-	-	29
Liabilities						
Bank overdraft	9.85%	(1,546)	-	-	-	(1,546)
Debt	7.06%	(692,585)	(100,000)	(333,940)	(96,135)	(1,222,660)
		(694,131)	(100,000)	(333,940)	(96,135)	(1,224,206)
Off Balance Sheet						
Interest rate swaps		249,780	(78,700)	33,920	(205,000)	-
Interest rate options		56,800	(15,000)	25,000	(66,800)	-
		306,580	(93,700)	58,920	(271,800)	-
Repricing Profile						
		(387,522)	(193,700)	(275,020)	(367,935)	(1,224,177)

The interest rate on debt as amended by interest rate swaps is 7.86%

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

21. SUBSIDIARIES AND JOINT VENTURES OF THE TRANSPOWER GROUP

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

Subsidiaries	Holding	Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
Transpower Land Holdings Limited (non-trading)	100%	100%
Transisland Grid Assets Limited (non-trading)	100%	100%

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

d-cypha 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.

The principal activity of the trading subsidiaries (excluding d-cypha and Risk Reinsurance) is financing.

d-cypha 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.

Joint Ventures		
OPTIMAL Limited	50%	50%

OPTIMAL Limited has a balance date of 31 March and is incorporated in New Zealand.

OPTIMAL Limited is a joint venture offering consulting services based upon Transpower's experience in outsourcing and maintenance standards.

22. RELATED PARTY TRANSACTIONS

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

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

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

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

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2002

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

	2002 \$000	2001 \$000
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	2,219,698	2,231,997
Equity		
Capital notes	0	0

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2002

	LINES BUSINESS 2002	LINES BUSINESS 2001	LINES BUSINESS 2000	LINES BUSINESS 1999
Financial Measures				
Return on Equity	8.6%	8.3%	11.8%	13.4%
Return on Funds	8.5%	8.4%	10.7%	11.2%
Return on Investment	9.3%	3.2%	10.1%	7.3%

Efficiency Measures

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

$\frac{a}{b}$	106,599,000	101,514,000	89,839,000	85,580,584
	17,145	*17,288	17,542	17,640
<i>a</i> is direct expenditure (in dollars): and	\$6,217	\$5,872	\$5,121	\$4,852
<i>b</i> is system length (in kilometres);				

Direct line costs per kilometre

* 2000/01 figures updated with revised data.

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

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial statements	178,827				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	178,827				
Interest on cash, bank balances, and short-term investments (ISTI)	6,055				
OSBIT minus ISTI	172,772	a	172,772		172,772
Net surplus after tax from financial statements	73,141				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	73,141	a		73,141	
Amortisation of goodwill and amortisation of other intangibles	0	g	add	0	add
Subvention payment	0	s	add	0	add
Depreciation of SFA at BV (x)	71,735				
Depreciation of SFA at ODV (y)	71,735				
ODV depreciation adjustment	0	d	add	0	add
Subvention payment tax adjustment	0	s*t		deduct	0
Interest tax shield	28,037	q			deduct
Revaluations	64,288	r			add
Income tax	24,150	p			deduct
Numerator			172,772	73,141	184,873
			$OSBIT^{Adj} = a + g + s + d$	$NSAT^{Adj} = a + g + s - s*t + d$	$OSBIT^{Adj} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,089,099				
Fixed assets at end of current financial year (FA ₁)	2,135,845				
Adjusted net working capital at end of previous financial year (ANWC ₀)	17,013				
Adjusted net working capital at end of current financial year (ANWC ₁)	-15,703				
Average total funds employed (ATFE)	2,113,127 (or regulation 33 time-weighted average)	e	2,113,127		2,113,127
Total equity at end of previous financial year (TE ₀)	911,678				
Total equity at end of current financial year (TE ₁)	972,778				
Average total equity	942,228 (or regulation 33 time-weighted average)	k		942,228	
WUC at end of previous financial year (WUC ₀)	78,258				
WUC at end of current financial year (WUC ₁)	99,385				
Average total works under construction	88,822 (or regulation 33 time-weighted average)	c	deduct	88,822	deduct
Revaluations	64,288	r			
Half of revaluations	32,144	r/2			deduct
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 (or regulation 33 time-weighted average)	m		add	0
Subvention payment at end of previous financial year (S ₀)	0				
Subvention payment at end of current financial year (S ₁)	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v		add	0
System fixed assets at end of previous financial year at book value (SFA _{bov0})	1,979,000				
System fixed assets at end of current financial year at book value (SFA _{bov1})	1,995,000				
Average value of system fixed assets at book value	1,987,000 (or regulation 33 time-weighted average)	f	deduct	1,987,000	deduct
System Fixed assets at year beginning at ODV value (SFA _{odv0})	1,979,000				
System Fixed assets at end of current financial year at ODV value (SFA _{odv1})	1,995,000				
Average value of system fixed assets at ODV value	1,987,000 (or regulation 33 time-weighted average)	h	add	1,987,000	add
Denominator			2,024,305	853,407	1,992,161
			$ATFE^{Adj} = e - c - f + h$	$Ave TE^{Adj} = k - c - m + v - f + h$	$ATFE^{Adj} = e - c - 1/2r - f + h$
Financial Performance Measure:			8.5	8.6	9.3
			$ROF = OSBIT^{Adj}/ATFE^{Adj} \times 100$	$ROE = NSAT^{Adj}/ATE^{Adj} \times 100$	$ROI = OSBIT^{Adj}/ATFE^{Adj} \times 100$

I = maximum statutory income tax rate applying to corporate entities bv = book value ave = average odv = optimised deprival valuations subscript '0' = end of the previous 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

ANNUAL VALUATION RECONCILIATION REPORT
FOR THE YEAR ENDED 30 JUNE 2002

	\$ million
System fixed assets at ODV at 30 June 2001	1,979
Add revaluation arising from Commerce Commission Audit Process	13
Revised system fixed assets at ODV at 30 June 2001	<u>1,992</u>
 Add system fixed assets acquired during the year at ODV	 73
Less system fixed assets disposed of during the year at ODV	5
Less depreciation on system fixed assets at ODV*	116
Add revaluations of system fixed assets	51
 Equals system fixed assets at ODV at 30 June 2002	 <u><u>1,995</u></u>

*Depreciation on system fixed assets at ODV includes the Long Run Average Cost of maintaining the transmission lines.

Reconciliation of the Transpower Lines Business's depreciation to the "depreciation on the system fixed assets at ODV".

Depreciation on system fixed assets as per the Transpower Lines Business's financial statements	72
Plus Long Run Average cost**	44
Depreciation on system fixed assets at ODV	<u><u>116</u></u>

**Long Run Average Cost (LRAC) is the cost for a year to maintain the current service potential of transmission line.
Therefore by its nature it is a proxy for the depreciation charge for the year.

Long Run Average Cost	44
Less Service Potential Adjustment	13
Life Extending Maintenance Expenditure	<u><u>31</u></u>

The \$31 million Life Extending Maintenance is included in the "system fixed assets acquired during the year at ODV".

ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999
REGULATION 32(3)

**CERTIFICATE BY DIRECTORS OF FINANCIAL STATEMENTS,
PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY
TRANSPOWER NEW ZEALAND LIMITED**

We, Sir Colin Maiden and David Sadler, 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 Electricity (Information Disclosure) Regulations 1999, give a fair view of the matters to which they relate and comply with the requirements of those regulations; and
- (b) The attached information, being the financial performance measures, efficiency performance measures, energy delivery efficiency measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of regulations 15, 16, 16A, 21, and 22 of the Electricity (Information Disclosure) Regulations 1999, comply with the requirements of the Electricity (Information Disclosure) Regulations 1999.

The valuations on which those financial performance measures are based are as at 30 June 2002.



Sir Colin Maiden.

15 November 2002



David Sadler.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

ENERGY DELIVERY EFFICIENCY AND RELIABILITY
PERFORMANCE MEASURES AND STATISTICS

FOR THE YEAR ENDED 30 JUNE 2002

Part 4					
Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Regulation 21)		2001/02	2000/01	1999/00	1998/99
1. Energy delivery efficiency performance measures					
(a) Load factor	%	67.09	68.67	69.08	68.78
<i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year[@]</i>					
(b) Loss ratio	%	2.90	4.65	3.97	3.83
<i>Transmission losses as percentage of energy entering the system[@]</i>					
(c) Capacity utilisation	%	70.71	71.00	63.48	65.11
<i>Maximum demand as percentage of total transformer capacity[#]</i>					
2. Statistics					
(a) System length, broken down by voltage					
Total, [@]	km	17,145	17,288	17,542	17,640
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	8,357	8,357	8,365	8,365
110 kV (HVAC)	km	6,108	6,134	6,212	6,270
66/50/33/11 kV	km	1,428	1,545	1,712	1,752
(b) Circuit length of overhead electric lines, broken down by voltage. [@]					
Total	km	17,060	17,203	17,457	17,555
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	8,357	8,357	8,365	8,365
110 kV (HVAC)	km	6,103	6,129	6,207	6,265
66/50/33/11 kV	km	1,428	1,545	1,712	1,752
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)* [#]					
	kVA	8.59x10 ⁶	8.53x10 ⁶	8.43x10 ⁶	8.23x10 ⁶
(e) Maximum demand (kilowatts) * [@]					
	kW	6.07x10 ⁶	6.05x10 ⁶	5.83x10 ⁶	5.67x10 ⁶
(f) Total electricity supplied from the system (kilowatt hours) * [@]					
	kWh	34.66x10 ⁹	34.72x10 ⁹	33.88x10 ⁹	32.86x10 ⁹
(g) Total electricity conveyed through the system (kilowatt hours) * [@]					
	kWh	35.70x10 ⁹	36.42x10 ⁹	35.28x10 ⁹	34.17x10 ⁹
(h) Total connected customers					
		49	50	54	55

* to 2 decimal places only, higher accuracy used in calculations

Installed transformer capacity based on ONAN ratings. Earlier years data updated on same basis.

[@] 2000/01 figures updated with revised data.

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Regulation 22)		2001/02	2000/01	1999/00	1998/99
1. Total number of unplanned interruptions*		112	102	62	110
<i>Resulting from 77 loss of supply incidents in 2001/02</i>					
2. Electricity customer interruptions in system minutes** @		8.0	12.7	4.9	9.7
	Planned	3.2	0.9	2.8	2.7
	Unplanned	4.8	11.8	2.1	7.1
3. Underlying electricity customer interruptions in system minutes **		8.0	4.0	4.9	7.3
<i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>					
	Planned	3.2	0.9	2.8	1.7
	Unplanned	4.8	3.1	2.1	5.6
4. Average supply reliability %		99.9977	99.9963	99.9986	99.9972
<i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied</i>					
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 %		81.8	89.5	100	94.4
9. Unplanned interruption response %		100	100	100	100

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

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

* 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.

@ 2000/01 figures updated with revised data.