



# New Zealand Gazette

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## TRANSPower NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO  
SECTION 54W OF THE COMMERCE ACT 1986

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2010**

		<b>LINES BUSINESS</b>	
	<b>Notes</b>	<b>2010 \$000</b>	<b>2009 \$000</b>
Transmission revenue	2	653,394	629,880
Insurance claim revenue	2	3,250	-
Finance revenue	5	1,538	5,579
Operating expenditure	4	381,651	402,795
<b>Earnings before interest, impairment, tax, amortisation and changes in the fair value of financial statements</b>		<b>276,531</b>	<b>232,664</b>
Finance costs	5	77,290	72,277
Impairment on property, plant and equipment	14	24,821	-
Impairment on property held for sale	9	5,222	-
<b>Earnings before changes in the fair value of financial instruments and tax</b>		<b>169,198</b>	<b>160,387</b>
Gain (loss) in the fair value of financial instruments	6	(112,298)	(61,245)
<b>Earnings before tax</b>		<b>56,900</b>	<b>99,142</b>
Income tax expense (credit)	7	27,155	18,307
<b>NET PROFIT (LOSS)</b>		<b>29,745</b>	<b>80,835</b>
<i>Total net profit (loss) for the period is attributable to:</i>			
Owners of the parent		29,745	80,835
<b>Other comprehensive income</b>			
Net fair value gains (losses) on available for sale financial assets		-	(826)
Income tax expense (credit) on other comprehensive income		-	(281)
Transferred to other revenue/expenditure		-	75
<b>Other comprehensive income for the period net of tax</b>		-	(470)
<b>Total comprehensive income for the period</b>		<b>29,745</b>	<b>80,365</b>
<i>Total comprehensive income for the period is attributable to:</i>			
Owners of the parent		29,745	80,365

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

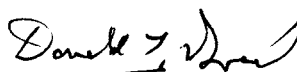
**BALANCE SHEET  
AS AT 30 JUNE 2010**

		LINES BUSINESS	
	Notes	2010 \$000	2009 \$000
<b>ASSETS EMPLOYED</b>			
<b>Current assets</b>			
Cash and cash equivalents		20,389	36,402
Trade and other receivables	8	61,663	57,798
Current tax asset		5,202	-
Investments	11	680	23,572
Derivatives in gain	11	-	1,660
Other financial assets	11	29,515	-
Non current assets held for sale	9	33,844	-
Inventories	12	10,688	6,763
		161,981	126,195
<b>Non current assets</b>			
Trade and other receivables		9,410	656
Other financial assets	13	3,944	3,609
Derivatives in gain	13	107,129	119,923
Capital work in progress	14	474,561	439,816
Property, plant and equipment	14	2,474,609	2,220,103
Intangibles	15	120,904	46,535
		3,190,557	2,830,642
<b>TOTAL ASSETS EMPLOYED</b>		3,352,538	2,956,837
<b>FUNDS EMPLOYED</b>			
<b>Current liabilities</b>			
Trade and other payables	16	88,150	76,656
Current tax liability		-	13,788
Current debt	17	151,101	165,535
Derivatives in loss	17	76,782	3,265
Other financial liabilities	17	-	269
Deferred income	3	34,389	32,863
Provisions	18	9,974	10,417
		360,396	302,793
<b>Non current liabilities</b>			
Non current payables		2,485	2,723
Finance lease liabilities	19	1,169	1,419
Derivatives in loss	17	59,559	13,153
Non current debt	20	1,421,288	1,153,119
Deferred tax	21	154,353	158,727
Provisions	18	10,162	11,522
		1,649,016	1,340,663
<b>Total liabilities</b>		2,009,412	1,643,456
<b>Equity</b>			
Capital	22	1,200,000	1,200,000
Available for sale financial assets reserve	22	(851)	(851)
Accumulated surplus (deficit)	22	143,977	114,232
Non controlling interest		-	-
<b>Total equity</b>		1,343,126	1,313,381
<b>TOTAL FUNDS EMPLOYED</b>		3,352,538	2,956,837

The Board of Directors of Transpower New Zealand Limited authorised these Financial Statements for issue on 19 November 2010. For, and on behalf of, the Board



**Ian Donald**  
DIRECTOR



**Dr Don Brash**  
DIRECTOR

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2010**

<b>2009/10</b>	<b>Notes</b>	<b>Ordinary Shares \$000</b>	<b>Available for Sale Reserve \$000</b>	<b>Retained Earnings \$000</b>	<b>Owners of the Parent \$000</b>
Equity at 1 July 2009		1,200,000	(851)	114,232	1,313,381
Profit for the period		-	-	29,745	29,745
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income		-	-	29,745	29,745
Transactions with Owners	22	-	-	-	-
Total equity at 30 June 2010		<b>1,200,000</b>	<b>(851)</b>	<b>143,977</b>	<b>1,343,126</b>

<b>2008/09</b>	<b>Notes</b>	<b>Ordinary Shares \$000</b>	<b>Available for Sale Reserve \$000</b>	<b>Retained Earnings \$000</b>	<b>Owners of the Parent \$000</b>
Equity at 1 July 2008		1,200,000	(381)	33,397	1,233,016
Profit for the period		-	-	80,835	80,835
Other Comprehensive Income		-	(470)	-	(470)
Total Comprehensive Income		-	(470)	80,835	80,365
Transactions with Owners	22	-	-	-	-
Total equity at 30 June 2009		<b>1,200,000</b>	<b>(851)</b>	<b>114,232</b>	<b>1,313,381</b>

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2010**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CASH FLOW FROM OPERATIONS :</b>		
Cash was provided from:		
Receipts from customers	636,736	595,889
Dividends received from subsidiaries	-	-
Interest received	1,538	5,579
Cash was applied to:		
Payments to suppliers and employees	(229,330)	(257,628)
Tax payments	(35,621)	(14,121)
Interest paid	(104,304)	(87,402)
<b>Net cash inflows (outflows) from operations</b>	<b>269,019</b>	<b>242,317</b>
<b>CASH FLOW FROM INVESTMENTS :</b>		
Cash was provided from:		
Sale of property, plant and equipment	5,265	4,794
Short term investments	500,154	1,045,730
Cash was applied to:		
Purchase of property, plant and equipment	(552,406)	(316,674)
Short term investments	(477,262)	(969,733)
<b>Net cash inflows (outflows) from investments</b>	<b>(524,249)</b>	<b>(235,883)</b>
<b>CASH FLOW FROM FINANCING:</b>		
Cash was provided from:		
Increase in loans	1,022,028	474,528
Cash was applied to:		
Increase in long term investments	-	-
Dividends paid	-	-
Repayment of loans	(782,811)	(447,471)
<b>Net cash inflows (outflows) from financing</b>	<b>239,217</b>	<b>27,057</b>
Net increase (decrease) in cash held	(16,013)	33,492
Opening balance brought forward	36,402	2,910
<b>Closing net cash carried forward</b>	<b>20,389</b>	<b>36,402</b>
<b>Closing net cash carried forward comprises:</b>		
Cash and bank	20,389	36,402

**Reconciliation of net profit (loss) with net cash flow from operations**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Net profit (loss)</b>	<b>29,745</b>	<b>80,835</b>
<b>Add (deduct) non-cash items:</b>		
Change in fair value of financial instruments	112,298	61,245
Unpaid insurance claim revenue	(3,250)	-
Depreciation and amortisation	133,622	130,971
Deferred tax	(4,374)	(17,006)
Impairment	30,043	1
Imputed interest	2,634	2,549
<b>Movements in working capital items:</b>		
(Increase) in trade and other receivables	1,322	(26,417)
Decrease (increase) in prepayments	1,551	(2,618)
(Increase) in stocks of materials	(3,925)	(3,219)
(Decrease) increase in trade and other payables, interest payable and deferred income	13,020	5,394
(Decrease) increase in taxation payable	(18,990)	21,473
(Decrease) in provisions	(443)	(2,957)
<b>Add (deduct) items classified as investing activities:</b>		
Property, plant and equipment write-offs and loss on sale	5,414	7,191
Capitalised interest	(29,648)	(15,125)
<b>Net cash flow from operations</b>	<b>269,019</b>	<b>242,317</b>

## 1. Statement of Accounting Policies

### Reporting Entity and Statutory Base

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

### Nature of Operations

Transpower is the owner and operator of New Zealand's national electricity grid. Transpower is not a public benefit entity for the purposes of NZ IAS 1 "Presentation of Financial Statements".

### Basis of Preparation

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986, the Financial Reporting Act 1993 and the Electricity Information Disclosure Requirements 2004. The Financial Reporting Act 1993 requires compliance with generally accepted accounting practice (GAAP) in New Zealand.

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards. The financial statements comply with International Financial Reporting Standards (IFRS).

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

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

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

### Measurement Basis

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

### Specific Accounting Policies

#### a) Basis of Consolidation

The Transpower Lines Business financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2010. Subsidiaries are those entities controlled, directly or indirectly, by the Parent. All significant intercompany accounts and transactions are eliminated on consolidation.

#### b) Goodwill

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

#### c) Revenue

The Transpower Lines Business recognises revenue as it provides services or delivers products to customers. A significant stream of revenue that is received up-front but is deferred over the service period is certain "new investment agreements".

New investment agreements are agreements between The Transpower Lines Business and customers regarding the building of certain customer required grid connection assets. New investment agreement revenue is recognised over the contract period.

Due to the service periods in relation to the above items being greater than one year, revenue is shown on a yield to maturity basis grossed up for an imputed interest expense.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

## d) Goods and Services Tax (GST)

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

## e) Accounts Receivable

Accounts receivable are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for doubtful debts.

## f) Inventories

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

## g) Investments

Regular Way Financial Asset Purchases

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

Fair Value Through Profit or Loss

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

Fair values of quoted investments are based on prices current at balance date. If the market for a financial asset is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments, discounted cash flow analysis and option pricing models. Where the fair value of equity instruments cannot be reliably determined, the investments are recorded at historical cost. The Transpower Lines Business had no external equity investments during the period.

## h) Other Financial Assets at Fair Value through Profit or Loss

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

## i) Loans and Receivables

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

## j) Trade and Other Payables

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

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

## k) Available for Sale Financial Assets

Available for sale financial assets are non-derivatives that are either designated as available for sale by management or not designated in any of the other categories. These investments are carried at fair value with any unrealised gains and losses arising from changes in fair value recognised directly in other comprehensive income. On sale or on impairment, the accumulated fair value adjustments are included in profit or loss.

## l) Property, Plant and Equipment

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

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

## m) Capital Work in Progress

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

## n) Depreciation

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

The estimated useful lives are as follows:

Transmission Lines	20-75 years
Freehold Buildings	30-55 years
Substation Assets	8-55 years
HVDC Assets	3-30 years
Communication Assets	3-25 years
Administration Assets	3-10 years

## o) Non Current Assets Held for Sale

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

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

## p) Investment Property

Investment property is property held primarily to earn rentals and/or capital gain rather than used for operational purposes. Measurement is at fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. The Transpower Lines Business had no investment property in the period.

## q) Leased Assets

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

Finance leases effectively transfer all of the risks and benefits incidental to ownership to the lessee, being The Transpower Lines Business. Leased assets are depreciated over their useful lives. A corresponding liability is also established at the inception of each lease, and each lease payment is allocated between the liability and finance costs.

Under operating leases, all the risks and benefits of ownership remain with the lessor. Operating lease payments/receipts are recognised in profit or loss in accordance with the pattern of benefits derived/received.

## r) Intangibles

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

Software	3-5 years
Easements	Indefinite

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

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

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

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

s) Impairment of Assets

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

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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

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

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

t) Debt

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

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

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

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

## u) Employee Benefits

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

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

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

Defined Contribution Plans

Contributions to defined contribution plans are expensed when incurred.

## v) Taxation

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

Current Tax

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

Deferred Tax

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to use the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## w) Foreign Currency Transactions

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

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

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

## x) Derivative Financial Instruments

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

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

## y) Cash Flow Statement

For the purposes of the cash flow statement, cash is considered to be cash held in bank accounts (net of bank overdrafts) plus highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. Cash flows from certain items are disclosed net, due to the short term maturities and volume of transactions involved.

**Comparatives**

Certain comparative figures have been changed to agree to current year classification.

**New Standards Not Yet Adopted**

The Transpower Lines Business has elected not to early adopt the following standards (or revisions to standards), considered to be relevant to the financial statements, which have been issued but are not yet effective. The adoption of these standards is not expected to have a material impact on the recognition and measurement of The Transpower Lines Business assets, liabilities, income and expenses.

NZ IFRS 9 Financial Instruments – effective for annual reporting periods beginning on or after 1 January 2013.

**New Standards Adopted During the Period**

The Transpower Lines Business adopted new standards during the period, the most significant are as follows:

## NZ IAS 1 (R) Presentation of Financial Statements

Has resulted in new disclosure and presentation in the Statement of Comprehensive Income and Statement of Changes in Equity.

## NZ IFRS 7 Financial Instruments: Disclosures

The Transpower Lines Business has disclosed where its valuations of Financial Instruments fall within the three level fair value hierarchy.

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**2. Operating Revenue**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Transmission revenue</b>		
HVAC interconnection	440,402	416,694
HVAC connection	132,220	131,171
HVDC	72,694	74,322
EV (rebate) charge - HVAC	(31,870)	(31,115)
EV (rebate) charge - HVDC	7,267	7,405
New investment agreements	24,950	23,367
Other	7,731	8,036
<b>Total transmission revenue</b>	<b>653,394</b>	<b>629,880</b>
<b>Non transmission revenue</b>		
Insurance claim revenue	3,250	-
<b>Total Operating Revenue</b>	<b>656,644</b>	<b>629,880</b>

**Transmission Revenue**

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

The Lines Business operates its revenue setting methodology within an Economic Value ("EV") framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers ("the EV balance") is passed on to or claimed from customers over time as EV (rebates) or charges.

New investment agreements are contracts entered into with customers to build grid connection assets. These agreements are also known as customer investment contracts.

**Insurance Claim Revenue**

During the year, Transpower made an insurance claim of \$3.25 million. Risk Reinsurance Limited (a wholly owned subsidiary of Transpower) is expected to pay the claim in the 2011 financial year. The claim relates to an event at the Haywards substation.

**Electricity regulations additional disclosures:**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Revenue provided to Lines Business from Other Transpower Businesses	-	-
Revenue - Electricity loss rental rebates	82,241	169,388
Expense - Electricity loss rental rebates	(82,241)	(169,388)
Electricity loss rental rebates not passed through to customers	-	-
	<b>-</b>	<b>-</b>

### 3. Deferred Income

	LINES BUSINESS	
	2010	2009
	\$000	\$000
New investment agreements	13,314	14,306
Transmission realignment	19,465	18,075
Other	1,610	482
<b>Total deferred income</b>	<b>34,389</b>	<b>32,863</b>

#### New Investment Agreements

New investment agreements are contracts entered into with customers to build grid connection assets. Where the customer pays the cost to build the asset upfront, the revenue is recognised over the contract period. Related imputed interest expense is based on the Group's WACC in the year the payment was received.

#### Transmission Realignment

The Transpower Lines Business has carried out some work on transmission line assets consisting of undergrounding and realignment in respect of a property development. The revenue received is recognised over the life of the specific transmission assets.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**4. Expenditure on Activities**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Transmission charges	-	-
<b>Transfer payments to "Other Transpower Businesses"</b>		
Asset maintenance:	-	-
Disconnection/reconnection services	-	-
Metering data	2,295	2,961
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Avoided transmission charges on account of own generation	-	-
Other - IT support	-	-
Other - insurance	9,254	9,226
<b>Total</b>	<b>11,549</b>	<b>12,187</b>
<b>Expenses to entities that are not related parties for:</b>		
Asset maintenance:	130,844	128,961
Disconnection/reconnection services	-	-
Information technology costs	13,198	16,104
Metering data	-	-
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
<b>Total</b>	<b>144,042</b>	<b>145,065</b>
Employee salaries and redundancies	37,102	36,929
Consumer billing and information system expense	47	285
<b>Depreciation</b>		
Depreciation of system assets	119,784	117,334
Depreciation of other assets	6,792	7,447
<b>Total</b>	<b>126,576</b>	<b>124,781</b>
<b>Amortisation of:</b>		
Other intangibles	7,046	6,190
<b>Total</b>	<b>7,046</b>	<b>6,190</b>
Corporate and administration expenses	13,314	12,926
Human resource expenses	5,778	5,375
Marketing / advertising expenses	380	335
Merger and acquisition expenses	-	-
Takeover defence expenses	-	-
Research and development expenses	-	-
Legal and consultancy expenses	9,327	10,827
Study grants and donations	1,253	1,361
Directors' fees	506	556
<b>Audit fees</b>		
Audit fees paid to principal auditors	333	315
Audit fees paid to other auditors	-	-
Fees paid for other services provided by principal and other auditors	161	60
<b>Total</b>	<b>494</b>	<b>375</b>
<b>Cost of offering credit</b>		
Bad debts written off	1	1
Increase in estimated doubtful debts	-	-
<b>Total</b>	<b>1</b>	<b>1</b>
Local authority rates expense	3,136	2,927
AC loss-rental rebates (distributed to retailers/customers) expense	-	-
Rebates to consumers due to ownership interests	-	-
HVDC share of reserves	7,226	27,452
Subvention payments	-	-
Unusual expenses	-	-
Other expenses not listed - Industry related expenses	8,460	8,032
Other expenses not listed - Stock and asset write-offs	5,414	7,191
<b>Total operating expenses</b>	<b>381,651</b>	<b>402,795</b>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

## 5. Net Finance Costs

	LINES BUSINESS	
	2010	2009
	\$000	\$000
<b>Finance Revenue</b>		
Interest received	(1,538)	(5,579)
<b>Finance costs</b>		
Interest paid and associated fees	104,304	84,853
Capitalised interest	(29,648)	(15,125)
Imputed interest	2,634	2,549
Dividends received	-	-
	<u>77,290</u>	<u>72,277</u>
<b>Total net finance costs</b>	<u>75,752</u>	<u>66,698</u>

### Interest Paid and Associated Fees

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

### Imputed Interest

Imputed interest is on new investment agreements and transmission realignment and certain other prepaid transactions. Refer to Note 3 Deferred Income for more information.

## 6. Change in fair value of financial instruments

	LINES BUSINESS	
	2010	2009
	\$000	\$000
<b>Accounting hedges</b>		
Fair value movement forward exchange contracts - hedge accounted	(29,516)	204
Fair value movement hedge commitment	29,784	(440)
	<u>268</u>	<u>(236)</u>
<b>Other</b>		
Fair value movement foreign debt	31,300	(105,146)
Fair value movement cross currency interest rate swaps	(13,260)	128,381
Fair value movement foreign interest rate swaps	4,615	15,325
Fair value movement basis swaps	(240)	240
Fair value movement interest rate options	362	(250)
Fair value movement NZD interest rate swaps	(99,311)	(104,279)
Fair value movement forward exchange contracts - not hedge accounted	1,789	(3,037)
Fair value movement investments	-	470
Fair value movement NZD debt	(37,821)	7,287
	<u>(112,566)</u>	<u>(61,009)</u>
<b>Total fair value gain (loss)</b>	<u><u>(112,298)</u></u>	<u><u>(61,245)</u></u>

The above fair value movements are as a result of the Lines Business designating these instruments at fair value through profit or loss or as fair value hedges. Refer to Note 10 Financial Instrument Categorisation for further information.

### Credit Spread Impact

The profit or loss impact of credit risk on fair value was a \$6m loss in 2010 (2009: \$70m gain). The cumulative (balance sheet) impact was a \$64m gain in 2010 (2009: \$70m gain). The credit spread was calculated by comparing the swap curve with the applicable rating yield curve.

### Foreign Purchases

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The "hedge commitment" represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. Note that, although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

### Debt and Investments

Refer to Note 24 Financial Instruments for information on the use of debt, investments and derivatives.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**7. Income tax expense**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current tax expense</b>		
Current period	32,101	34,940
Adjustment for prior periods	(572)	373
	<u>31,529</u>	<u>35,313</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(14,455)	(17,006)
Removal of depreciation on buildings	22,349	-
Change in future tax rate	(12,268)	-
	<u>(4,374)</u>	<u>(17,006)</u>
<b>Total income tax expense (credit)</b>	<u>27,155</u>	<u>18,307</u>
<b>Amounts charged or credited to other comprehensive income</b>		
Unrealised gain on available for sale investments	-	(281)
<b>Income tax expense (credit) reported in other comprehensive income</b>	<u>-</u>	<u>(281)</u>
<b>Reconciliation of effective tax</b>		
Operating surplus before tax	56,900	99,142
Income tax at 30c	17,070	29,743
Tax effect of:		
Change in future tax rate	(12,268)	-
Removal of depreciation on buildings	22,349	-
Non deductible expenses	114	-
Tax exempt income	-	-
Under/(over) provided in prior periods	(110)	(11,436)
<b>Total income tax expense (credit)</b>	<u>27,155</u>	<u>18,307</u>

As a result of the 20 May 2010 budget tax changes, The Transpower Lines Business has reduced its deferred tax liability by \$12 million for the reduction in the company tax rate effective 1 July 2011. Also, the Lines Business has increased its deferred tax liability by \$22 million for the changes in building depreciation rules.

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**8. Trade and other receivables**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Trade and other receivables	57,260	51,827
Impairment of other receivables	(17)	-
Prepayments	4,420	5,971
<b>Total trade and other receivables</b>	<b>61,663</b>	<b>57,798</b>

Impairment of other receivables is calculated on an individual customer basis and recognised in cases where the Lines Business believes it is highly probable that the debt will not be paid by the customer.

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## 9. Non current assets held for sale

	LINES BUSINESS	
	2010	2009
	\$000	\$000
NIGUP property held for sale	25,864	-
Low voltage assets held for sale	7,980	-
<b>Total non current assets held for sale</b>	<b>33,844</b>	-
<b>Gain (loss) on revaluation to net estimated sale price</b>	<b>(5,222)</b>	-

This gain (loss) relates to NIGUP properties only.

### Reconciliation of NIGUP property

Purchase price of NIGUP property	203,274	-
less easements and related costs transferred to intangible assets	(33,538)	-
less Fonterra shares transferred to available for sale financial assets	(4,102)	-
less depreciation	(894)	-
<b>NIGUP property, plant and equipment gross value</b>	<b>164,740</b>	-
Estimated market value of property net of estimated selling fees	135,573	-
<b>Net gain (loss)</b>	<b>(29,167)</b>	-

The gross value of property can be broken down into:

Property held for sale	25,864	-
Property, plant and equipment	109,709	-
	<b>135,573</b>	-

The net gain (loss) can be broken into:

Property held for sale gain (loss)	(5,222)	-
Property, plant and equipment impairment gain (loss)	(23,945)	-
	<b>(29,167)</b>	-

Note that the NIGUP property, plant and equipment impairment loss in Note 14 Property, Plant and Equipment is \$24.8 million. The difference of \$0.9 million to the \$23.9 million figure above is due to Note 14 including losses on property sold during the year.

### Low voltage assets held for sale

Certain low voltage transmission assets are held for sale. The sales are expected to be finalised within the next 12 months.

### NIGUP property

The Transpower Lines Business holds 86 properties along the route of the line being constructed between Whakamaru and South Auckland as at 30 June 2010 relating to the North Island Grid Upgrade Project (NIGUP). The line was approved by the Electricity Commission on 5 July 2007, with designation and resource consenting being granted by the Board of Inquiry on 18 September 2009. Five properties were sold in the period.

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

The Transpower Lines Business has determined that each property is an individual Cash Generating Unit. Given the general downturn in the property market The Transpower Lines Business has estimated an impairment charge of \$24.8 million for the expected gross loss on its properties when it eventually sells the properties. At 30 June 2009 there was no impairment on these properties. In addition to the impairment on properties not yet being marketed for sale certain properties are classified as held for sale and a loss of \$5.2 million has been recognised on those properties. In 2009 there were no properties deemed as held for sale.

The properties are deemed part of the Lines Business because the properties were purchased for the purposes of carrying out specified services.

**10. Financial Instrument Categorisation**

	Designated fair value through profit or loss (accounting mismatch)	Fair value through profit or loss (held for trading)	Hedge accounting (fair value method)	Available for sale	Loans and Receivables	Other Liabilities
<b>Current assets</b>						
Cash and cash equivalents						
Trade and other receivables						
Investments						
Hedge commitments						
Intercompany investment						
<b>Non current assets</b>						
Other financial assets (Fonterra shares)						
<b>Current liabilities</b>						
Trade and other payables						
Current debt						
Current portion of non current debt						
<b>Non current liabilities</b>						
Bonds						
Term Borrowing						
Euro Medium Term Notes						
US Private Placement						
Other						
<b>Derivatives</b>						
Interest rate swaps						
Interest rate options						
Basis swaps						
Cross currency interest rate swaps						
Forward exchange contracts - not hedge accounted						
Forward exchange contracts - hedge accounted						

**Fair Value Through Profit or Loss (Accounting Mismatch)**

The Transpower Lines Business uses the provisions in NZ IAS 39 that allow for the use of fair value through profit or loss on the basis of preventing an accounting mismatch or recognition inconsistency. The Transpower Lines Business has applied these provisions as net debt and derivatives are managed as one integrated portfolio.

**Hedge Commitments**

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The "hedge commitment" represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (forward exchange contract) is shown separately. Note that, although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

**Fonterra Shares**

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

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**11. Other current financial assets**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Investments</b>		
Other investments	680	23,572
	<u>680</u>	<u>23,572</u>
<b>Derivatives in gain</b>		
Basis swaps	-	240
Interest rate swaps	-	1,420
	<u>-</u>	<u>1,660</u>
<b>Other financial assets</b>		
Hedge commitments	29,515	-
	<u>29,515</u>	<u>-</u>
<b>Total other current financial assets</b>	<u><u>30,195</u></u>	<u><u>24,992</u></u>

**Financial Instrument Categorisation**

Refer to Note 10 Financial Instrument Categorisation for the category of the above instruments.

**Investments**

Investments are made in financial instruments in accordance with levels set out in note 24(b) Financial Instruments. The Lines Business does not hold any equity investments.

**Derivatives in Gain**

Derivatives are used to manage financial risk, refer to Note 24 Financial Instruments for further information. The gain on derivatives represents the unrealised gain at balance date. The Transpower Lines Business anticipates that the derivatives will be held until maturity, and it is unlikely that settlement at the reported fair values will occur. Refer Note 17 Other Financial Liabilities for derivatives that are in loss.

**Hedge Commitments**

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The "hedge commitment" represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (forward exchange contract) is shown separately in Note 17 Other Financial Liabilities. Although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

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**12. Inventories**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Substations	7,431	6,021
Transmission lines	2,276	427
Communications	816	184
HVDC	-	19
Other	165	112
<b>Total inventories</b>	<b>10,688</b>	<b>6,763</b>
Inventories expensed during the period	2,222	3,756

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

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**13. Other non current financial assets**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Other financial assets</b>		
Fonterra shares	3,944	3,609
	<u>3,944</u>	<u>3,609</u>
<b>Derivatives in gain</b>		
Cross currency interest rate swaps	107,129	119,923
	<u>107,129</u>	<u>119,923</u>
<b>Total non current financial assets</b>	<u>111,073</u>	<u>123,532</u>

**Financial Instrument Categorisation**

Refer to Note 10 Financial Instrument Categorisation for the category of the above instruments.

**Fonterra Shares**

Refer to Note 10 Financial Instrument Categorisation for background information on why the Lines Business holds these shares.

**Derivatives in Gain**

Derivatives are used to manage financial risk, refer to Note 24 Financial Instruments for further information. The gain on derivatives represents the unrealised gain at balance date. The Transpower Lines Business anticipates that the derivatives will be held until maturity, and it is unlikely that settlement at the reported fair values will occur. Refer Note 17 Other Financial Liabilities for derivatives that are in loss.

**14. Property, plant and equipment****LINES BUSINESS**

	HVAC Transmission lines \$000	HVDC Transmission lines \$000	HVAC Substations \$000	HVDC Substations and Submarine Cables \$000	Communications \$000	Administration assets \$000	Capital work in progress \$000	Total \$000
<b>At 30 June 2010</b>								
Cost	1,201,270	73,345	1,460,905	325,184	141,261	78,890	474,561	3,755,416
Accumulated depreciation	(228,266)	(26,078)	(283,881)	(161,080)	(60,758)	(46,183)	-	(806,246)
Net book value	973,004	47,267	1,177,024	164,104	80,503	32,707	474,561	2,949,170
<b>At 30 June 2009</b>								
Cost	1,122,499	72,891	1,215,995	323,853	105,273	53,682	439,816	3,334,009
Accumulated depreciation	(189,486)	(22,326)	(240,641)	(144,642)	(48,390)	(28,605)	-	(674,090)
Net book value	933,013	50,565	975,354	179,211	56,883	25,077	439,816	2,659,919
<b>30 June 2010 reconciliation</b>								
Opening net book value (1 July 2009)	933,013	50,565	975,354	179,211	56,883	25,077	439,816	2,659,919
Additions	131,921	534	267,527	1,597	34,633	15,358	34,745	486,315
Disposals / transfers	(27,327)	(47)	(18,334)	(39)	1,016	(936)	-	(45,667)
Impairment	(24,821)	-	-	0	0	0	-	(24,821)
Depreciation	(39,782)	(3,785)	(47,523)	(18,665)	(12,029)	(6,792)	-	(126,576)
Closing net book value	973,004	47,267	1,177,024	164,104	80,503	32,707	474,561	2,949,170
<b>30 June 2009 reconciliation</b>								
Opening net book value (1 July 2008)	953,051	52,683	908,999	191,709	60,042	25,075	316,765	2,508,324
Additions	41,056	1,732	119,043	4,586	8,387	7,494	123,369	305,667
Disposals / transfers	(23,763)	(73)	(4,560)	(304)	(228)	(45)	(318)	(29,291)
Impairment	-	-	-	-	-	-	-	-
Depreciation	(37,331)	(3,777)	(48,128)	(16,780)	(11,318)	(7,447)	-	(124,781)
Closing net book value	933,013	50,565	975,354	179,211	56,883	25,077	439,816	2,659,919

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

Land and buildings are contained within the above classes and have a net book value of \$277,551,101 (2009: \$251,604,933)

Transpower does not have any investment properties at 30 June 2010 (2009: nil).

**North Island Grid Upgrade property impairment**

This impairment is for \$24.8 million (2009: nil) in relation to those assets not classified as held for sale. The nature of this impairment is discussed in Note 9: Non current assets held for sale.

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

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

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
HVAC transmission lines	150,263	89,380
HVDC transmission lines	40	593
HVAC substations	141,348	215,685
HVDC substations and submarine cables	94,333	16,264
Communications	38,820	42,100
Administration assets	9,850	17,090
Software intangible assets	3,923	601
Other intangible assets	35,984	58,103
	<b>474,561</b>	<b>439,816</b>

**During the year the following borrowing costs were capitalised:**

HVAC transmission lines	7,095	3,330
HVDC transmission lines	-	14
HVAC substations	12,722	7,207
HVDC substations and submarine cables	3,535	720
Communications	2,554	1,637
Administration assets	173	392
Software intangible assets	89	12
Other intangible assets	3,480	1,813
	<b>29,648</b>	<b>15,125</b>

These costs were capitalised at the weighted average cost of debt of 7.65% (2009: 7.34%)

**Electricity regulations additional disclosures:**

Motor vehicles	1,264	1,117
Office equipment	428	617
Customer billing and information assets	-	-

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**15. Intangibles****LINES BUSINESS**

	<b>Easements</b>	<b>Software</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>At 30 June 2010</b>			
Cost	107,058	48,669	155,727
Accumulated amortisation	-	(34,823)	(34,823)
Carrying value	107,058	13,846	120,904
<b>At 30 June 2009</b>			
Cost	35,869	45,752	81,621
Accumulated amortisation	-	(35,086)	(35,086)
Carrying value	35,869	10,666	46,535
<b>2010 reconciliation</b>			
Opening carrying value	35,869	10,666	46,535
Additions	71,189	10,216	81,405
Disposals	-	10	10
Impairment	-	-	-
Amortisation	-	(7,046)	(7,046)
Closing carrying value	107,058	13,846	120,904
<b>2009 reconciliation</b>			
Opening carrying value	11,172	5,888	17,060
Additions	24,697	10,968	35,665
Disposals	-	-	-
Impairment	-	-	-
Amortisation	-	(6,190)	(6,190)
Closing carrying value	35,869	10,666	46,535

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Future contractual commitments		
Easements	66	197
Software	153	435

**Easements**

Easements are deemed to have an indefinite useful life because:

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

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

There was no impairment on easements during the year (2009: none). The cost of easements are expected to be fully recovered from transmission customers.

**Software**

The amortisation of software occurs over 3-5 years.

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**16. Trade and other payables**

	LINES BUSINESS	
	2010	2009
	\$000	\$000
Trade creditors	81,444	71,461
Employee entitlements	6,573	4,998
Current portion of external finance leases	133	197
<b>Total trade and other payables</b>	<b>88,150</b>	<b>76,656</b>

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**17. Other financial liabilities**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current financial liabilities</b>		
<b>Current debt</b>		
Call borrowing	49,497	-
Current portion of non current debt	101,604	165,535
	<u>151,101</u>	<u>165,535</u>
<b>Derivatives in loss</b>		
Interest rate swaps	46,152	-
Forward exchange contracts	30,630	2,903
Interest rate options	-	362
	<u>76,782</u>	<u>3,265</u>
<b>Other financial liabilities</b>		
Hedge commitments	-	269
<b>Total other current financial liabilities</b>	<u>227,883</u>	<u>169,069</u>

**Non current financial liabilities**

<b>Derivatives in loss</b>		
Interest rate swaps	59,559	13,153
	<u>59,559</u>	<u>13,153</u>

**Financial instrument categorisation**

Refer to Note 10 Financial Instrument Categorisation for the category of the above instruments.

**Derivatives in loss**

Derivatives are used to manage financial risk, refer to Note 24 Financial Instruments for information. The loss on derivatives represents the unrealised loss at balance date. The Group anticipates that the derivatives will be held until maturity and it is unlikely that settlement at the reported fair values will occur. Refer Note 11 Other Current Financial Assets for derivatives that are in gain.

**Hedge Commitments**

The Transpower Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The "hedge commitment" represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (forward exchange contract) is shown separately in Note 11 Other Current Financial Assets. Although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

## TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**18. Provisions**

	LINES BUSINESS			Total
	Employee benefits	Restructuring	Dismantling	
	\$000	\$000	\$000	\$000
Balance at 1 July 2009	3,960	696	17,283	21,939
Provisions made during the period	4,534	322	-	4,856
Provisions used during the period	(3,959)	(660)	(2,040)	(6,659)
Provisions reversed during the period	-	-	-	-
Balance at 30 June 2010	4,535	358	15,243	20,136
Current portion of provisions	4,535	358	5,081	9,974
Non current portion of provisions	-	-	10,162	10,162
Balance at 30 June 2010	4,535	358	15,243	20,136

**Employee Benefits**

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

**Restructuring**

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

**Dismantling**

In September 2007, The Transpower Lines Business stood down the HVDC Pole 1 (Pole 1) due to the low probability, high consequence risks that the continued operation of the aging technology posed. Following additional risk mitigation measures including decommissioning one half of Pole 1, the remaining half pole was made available for limited operation.

The Transpower Lines Business recognises site restoration and rehabilitation liabilities where The Transpower Lines Business believes an obligation exists. Pole 1 contains mercury and The Transpower Lines Business has estimated the decommissioning cost based on engineering advice. Decommissioning of the remaining half of Pole 1 is planned for the end of 2011 taking about two years to completely clear the Pole 1 site. Actual decommissioning costs may vary from the figures indicated.

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**19. Non current finance lease liability**

	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
One to five years	473	583
Greater than five years	696	836
	<u>1,169</u>	<u>1,419</u>
Reconciliation to lease payments:		
Total future minimum lease payments	2,556	3,079
Interest expense	(1,254)	(1,463)
<b>Total lease liability recognised</b>	<u>1,302</u>	<u>1,616</u>
This is represented by:		
Current lease liability	133	197
Non current lease liability	1,169	1,419
	<u>1,302</u>	<u>1,616</u>

## 20. Non current debt

	LINES BUSINESS	
	2010	2009
	\$000	\$000
Bonds	448,447	289,872
Term borrowing	100,391	-
Euro Medium Term Notes	782,794	710,704
US Private Placement	164,852	163,753
	<u>1,496,484</u>	<u>1,164,329</u>
Less current portion of long term debt	(101,604)	-
<b>Total long term debt</b>	<u><b>1,394,880</b></u>	<u><b>1,164,329</b></u>
One to five years	712,972	353,127
Greater than five years	681,908	811,202
	<u>1,394,880</u>	<u>1,164,329</u>
Add debt allocated (to) from non-lines business	26,408	(11,210)
<b>Total long term debt</b>	<u><b>1,421,288</b></u>	<u><b>1,153,119</b></u>

Debt is reported at fair value and therefore reflects fair value movements due to interest rate and exchange rate fluctuation.

At 30 June 2010, no loans were in breach or default (30 June 2009: none).

### Financial Instrument Categorisation

Refer to Note 10 Financial Instrument Categorisation for how the above instruments have been categorised.

### Bonds

The bonds are issued in New Zealand Dollars and have a nominal value of \$450 million, with maturities between 2010 and 2020 and yields ranging from 4.12% to 7.78%.

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

Pursuant to the Trust Deed, Transpower and its subsidiaries excluding Risk Reinsurance Limited, Energy Market Services Limited and d-cyphaTrade Limited (the "Guaranteeing Group") have given a negative pledge that, while any of the stock issued under the Trust Deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets.

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

### Term Borrowing

A term borrowing facility has been established with the Bank of Tokyo. Under the term borrowing facility Transpower may borrow up to NZD \$100m. This facility matures in 2016 and has a current interest rate of 3.43% at 30 June 2010. At 30 June 2010, the facility is fully drawn.

### Euro Medium Term Notes

Notes have been issued in Swiss Francs, Japanese Yen, Hong Kong Dollars and Canadian Dollars. The nominal values are: CHF 300 million (\$400.1 million converted at 30 June 2010 exchange rate of 0.7498 and \$343.9 million as amended by cross currency interest rate swaps), JPY 5 billion (\$81.4 million converted at 30 June 2010 exchange rate of 61.41 and \$98.4 million as amended by cross currency interest rate swaps), HKD 400 million (74.1 million converted at 30 June 2010 exchange rate of 5.397 and \$73.1 million as amended by cross currency interest rate swaps) and CAD 125 million (\$171.3 million converted at 30 June 2010 exchange rate of 0.7298 and \$153.6 million as amended by cross currency interest rate swaps). Maturities are between 2011 and 2020 with yields ranging from 1.37% to 4.61%.

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Under the Euro Medium Term Note programme Transpower Finance may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed USD 1,000,000,000 (\$1,442,585,000) as at 30 June 2010, (USD 1,000,000,000 (\$1,532,332,000) as at 30 June 2009) or equivalent in other currencies.

The Guarantor (Transpower) and Transpower Finance have given a negative pledge covenant that while any of the notes issued under the EMTN programme remain outstanding they will not (and their subsidiaries will not), subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets to secure payment of certain indebtedness.

The Guarantor (Transpower) and Transpower Finance guarantee payment of all principal and interest amounts in respect of notes issued under the EMTN programme.

**Australian Medium Term Notes**

Under the Australian Medium Term Note programme, Transpower Finance may issue notes guaranteed by Transpower. The aggregate amount of the notes outstanding may not exceed AUD 750,000,000 (\$921,829,000) as at 30 June 2010 (AUD 750,000,000 (\$930,290,000) as at 30 June 2009).

There were no Australian Medium Term notes outstanding as at 30 June 2010 (30 June 2009: nil).

**US Private Placement**

Bonds were issued for a nominal amount of USD 100 million (\$144.3 million converted at 30 June 2010 exchange rate of 0.6932 and \$164.5 million as amended by cross currency interest rate swaps) with maturities in 2016 and 2019 and yields ranging from 5.59% to 5.74%.

Bonds are issued by Transpower Finance under a Note and Guarantee Agreement dated 27 September 2004. The Bonds are guaranteed by Transpower (the "Guarantor"), Halfway Bush Finance Limited and TB and T Limited (the "Subsidiary Guarantors"). The Guarantor and Subsidiary Guarantors have unconditionally guaranteed payment of the principal, interest and other amounts owing under the Agreement.

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**21. Deferred tax****LINES BUSINESS**

	Balance 1 July 2008	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 June 2009	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 June 2010
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Depreciation timing differences	158,648	15,754	-	174,402	38,175	-	212,577
Fair value of net debt and derivatives	20,671	(26,081)	-	(5,410)	(30,102)	-	(35,512)
Revenue deferral	(884)	884	-	-	(3,850)	-	(3,850)
Dismantling provision	(5,685)	500	-	(5,185)	612	-	(4,573)
Impairment	-	-	-	-	(11,565)	-	(11,565)
Other	3,264	(8,063)	(281)	(5,080)	2,356	-	(2,724)
<b>Total deferred tax</b>	<b>176,014</b>	<b>(17,006)</b>	<b>(281)</b>	<b>158,727</b>	<b>(4,374)</b>	<b>-</b>	<b>154,353</b>

There are no unrecognised deferred tax balances (2009: nil).

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

Depreciation timing differences relate to the difference between tax and accounting depreciation.

Fair value of net debt and derivatives relates to deferred tax on fair value gains/losses.

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

Dismantling provision relates to the HVDC Pole 1, refer to Note 18 Provisions for background.

Impairment relates to the NIGUP property, refer to Note 14 Property, Plant and Equipment for background.

Refer to Note 7 Income Tax Expense for the impact on deferred tax as a result of the 20 May 2010 budget tax changes.

**Imputation credit memorandum account**

	LINES BUSINESS	
	2010	2009
	\$000	\$000
Balance at the beginning of the year	290,311	259,402
Imputation credits on dividends received	-	-
Net tax payments/transfers made/refunds received	35,621	30,909
Imputation credits attached to dividends paid to shareholders	-	-
<b>Balance at the end of the year</b>	<b>325,932</b>	<b>290,311</b>

**Dividend Withholding Payments**

There were no dividend withholding payments during the year (2009: none).

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## 22. Equity

### Capital

Transpower has contributed paid in capital of \$1,200,000,000 (2009: \$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. This consists of 1,200,000,000 fully paid \$1 shares. The shares have no par value. All ordinary shares rank equally.

### Dividends

There were no dividends paid or declared during the period (2009: nil)

### Management of Capital

It is not anticipated that dividends will be payable in the short term. This is due to dividends being paid when there is surplus funds. Surplus funds are determined by reference to a sustainable financial structure, having regard to Transpower's credit rating, predictions of short and medium term economic conditions, the medium term capital expenditure programme and working capital requirements. The Transpower Lines Business is currently undertaking a large capital works programme which is being funded from debt and operating cash flows.

### Available for Sale Reserve

This reserve comprises the cumulative net change in the fair value of available for sale financial assets until the investment is derecognised. This comprises the Fonterra shares that the Transpower Lines Business holds.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

## **23. Segment Reporting**

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

## 24. Financial instruments

### (a) Financial Risks

The Transpower Lines Business is subject to a number of financial risks which arise as a result of its business activities, including having a debt portfolio which is denominated in both New Zealand dollars and foreign currency, its investment portfolio and from hedging purchases from foreign suppliers.

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 Transpower Lines Business arising from the interaction of interest rate movements with The Transpower Lines Business'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 Lines Business through the failure of a third party bank, financial institution or customer to meet its financial obligations. Financial instruments which subject The Transpower Lines Business 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 Lines Business arising from The Transpower Lines Business's inability to meet its monetary obligations in an orderly manner. This might result from The Transpower Lines Business 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 Board 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 derivatives must be directly related to underlying physical or forecast debt or firm capital commitments on Board approved projects.

### (b) Financial Risk Management Policies

The key financial risk management policies are as follows:

#### **Interest rate risk management policy**

Transpower's policy sets annual minimum and maximum economic hedging parameters expressed as a percentage of forecast debt. This policy ensures that Transpower's cost of funds will be reasonably predictable from year to year. Transpower does not hedge account for interest rate risk.

#### **Currency risk management policy**

Transpower's policy is to hedge all committed foreign currency denominated purchases greater than \$1 million (New Zealand Dollar equivalent). Foreign currency borrowings are converted into New Zealand dollars at the time of commitment to drawdown by Transpower. Not all derivatives are hedge-accounted. Currency risk on foreign currency dominated borrowings is managed using cross currency interest rate swaps.

#### **Credit risk management policy**

Transpower's 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 the greater of 20 per cent of Group shareholders' funds or 15 per cent of the shareholders' funds of the counterparty as shown in the most current audited annual report. If the counterparty is a New Zealand Corporate, the credit limit is not to exceed \$40,000,000.

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

Credit exposures versus these limits are monitored on a daily basis. For those counterparties with whom Transpower has a Collateral Support Agreement (CSA), the counterparty credit limit is defined as the maximum exposure threshold dictated by the CSA.

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 Transpower's policy to perform credit evaluations on customers requiring credit and Transpower may in some circumstances require collateral. No collateral is held at 30 June 2010 (2009: nil).

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**Liquidity risk policy**

To ensure Transpower has adequate funding facilities in place to support future operations, The Transpower Lines Business's liquidity policy requires The Transpower Lines Business to have access to committed funding facilities (i.e. guaranteed funds), to cover the sum of all debt which matures over the next six months plus peak cumulative anticipated operating cash flow requirements over the next six months.

To smooth Transpower's refinancing requirements in future periods, committed debt facilities maturing in any 12 month period are not to exceed \$500,000,000. No more than 50% of long term debt can mature within the next three years and at least 30% of long term debt must mature after five years.

**(c) Financial Instruments That 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:

**Term debt**

Transpower has six 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, a Domestic Multi-option Facility and a Revolving Cash Advance Facility. Transpower uses these facilities to issue debt securities into different markets.

In the event Transpower is unable to utilise these facilities Transpower has established committed credit facilities. There is:

- a three year Standby Facility for \$250,000,000, effective 2 July 2008. This was not in use at 30 June 2010 or 30 June 2009.
- a three year Standby Facility for \$250,000,000, effective 26 May 2010. This was not in use at 30 June 2010 or 30 June 2009

**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.

**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 interest payments and final principal exchange at the time of entering into the contract.

The notional gross contract amounts of cross currency interest rate swaps outstanding at balance date, by maturity banding, are:

	2010 \$000	2009 \$000
<b>Pay leg</b>		
Within one year	-	-
One to two years	251,963	-
Two to five years	343,908	251,963
Greater than five years	237,588	508,382
	<u>833,459</u>	<u>760,345</u>
<b>Receive leg</b>		
Within one year	-	-
One to two years	(252,686)	-
Two to five years	(400,125)	(245,761)
Greater than five years	(218,369)	(578,369)
	<u>(871,180)</u>	<u>(824,130)</u>

**Interest rate swaps**

Interest rate swaps are used to change the interest rate structure on physical debt or cross currency interest rate swaps issued by Transpower. The interest rate on debt is either converted from floating rate to fixed rate or vice versa through entering into interest rate swaps.

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The notional gross contract amounts of interest rate swaps outstanding at balance date, by maturity banding, are:

	2010 \$000	2009 \$000
Within one year	102,000	170,000
One to two years	14,500	100,000
Two to five years	813,750	211,500
Greater than five years	2,819,000	3,354,500
Total interest rate swaps	3,749,250	3,836,000

**Basis swaps**

Basis swaps are used to eliminate currency risk when Transpower issues bonds in a foreign currency. In a basis swap, Transpower receives the offshore currency floating interest rate and pays the New Zealand dollar floating interest rate (BKBM). By undertaking basis swaps, foreign currency denominated debt is effectively converted into a BKBM exposure.

The notional gross contract amounts of basis swaps outstanding at balance date, by maturity banding are:

	2010 \$000	2009 \$000
Within one year	-	-
One to two years	-	-
Two to five years	-	-
Greater than five years	-	25,000
Total basis swaps	-	25,000

**Interest rate options**

Transpower enters into interest rate options to manage interest rate re-pricing risk. Transpower purchases interest rate options to manage 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 gross contract amounts of interest rate options outstanding at balance date, by maturity banding, are:

	2010 \$000	2009 \$000
Within one year	-	-
One to two years	-	-
Two to five years	-	-
Greater than five years	-	100,000
Total interest rate options	-	100,000

**Foreign exchange forward contracts**

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

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

	2010 \$000	2009 \$000
Within one year	139,359	55,297
One to two years	136,448	-
Two to five years	21,090	-
Greater than five years	-	-
Total foreign exchange forward contracts	296,897	55,297

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**(d) Maximum Credit Risk Exposure**

The maximum credit exposure in respect of non-derivative assets is best represented by their carrying value. For derivative financial instruments the maximum credit exposure is best represented by the net mark to market valuation by counterparty where the valuation is positive, as follows:

	2010 \$000	2009 \$000
Cross currency interest rate swaps	122,912	136,937
Interest rate swaps	17,557	21,170
Basis swaps	-	240
Interest rate options	-	-
Foreign exchange forward contracts	657	34
Total	141,126	158,381

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions contained in Transpower's ISDA agreements. Transpower further manages this risk by only entering into transactions with counterparties that fall within The Transpower Lines Business's credit risk management policy as outlined in section (b) Financial Risk Management Policies, of this note.

**(e) Fair Value and Classifications**

All financial instruments, except for accounts payable and receivables, are carried at fair value in the Balance Sheet. Refer to Note 10 Financial Instrument Categorisation for the category of the above instruments.

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 Transpower Lines Business used discounted cash flow techniques to calculate the market value of its investments, debt and financial instruments. The interest rate used for discounting is based on the applicable swap curve. For foreign exchange forward contracts, The Transpower Lines Business calculates the fair value by reference to current forward exchange rates. These market valuations are the level 2 category as discussed in NZ IFRS 7.

For cash and cash equivalents, accounts payable and receivables the fair value is materially similar to their cost due to the short term nature of the balance.

**(f) Interest Rate Repricing Analysis**

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

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

For the purpose of repricing, debt denominated in foreign currencies is stated after applying cross currency interest rate swaps.

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The amounts in the tables below are at amortised cost.

2010	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
<b>Assets</b>						
Cash	0.10%	20,389	0	0	0	20,389
		20,389	0	0	0	20,389
<b>Liabilities</b>						
Debt	4.15%	(129,000)	(251,963)	(343,908)	(687,588)	(1,412,459)
		(129,000)	(251,963)	(343,908)	(687,588)	(1,412,459)
<b>Derivatives</b>						
Interest rate swaps		2,947,250	(14,500)	(713,750)	(2,219,000)	0
Basis swaps		0	0	0	0	0
Interest rate options		0	0	0	0	0
		2,947,250	(14,500)	(713,750)	(2,219,000)	0
<b>Repricing Profile</b>						
		2,838,639	(266,463)	(1,057,658)	(2,906,588)	(1,392,070)

The interest rate on debt as amended by interest rate swaps is 7.41%.

2009	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
<b>Assets</b>						
Cash	0.31%	36,402	-	-	-	36,402
		36,402	-	-	-	36,402
<b>Liabilities</b>						
Debt	3.56%	(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
		(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
<b>Derivatives</b>						
Interest rate swaps		2,662,576	18,000	(209,500)	(2,471,076)	-
Basis swaps		-	-	-	25,000	25,000
Interest rate options		-	-	-	100,000	100,000
		2,662,576	18,000	(209,500)	(2,346,076)	125,000
<b>Repricing Profile</b>						
		2,532,815	(82,000)	(461,463)	(3,054,458)	(1,065,106)

The interest rate on debt as amended by interest rate swaps is 7.12%.

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**(g) Liquidity Analysis**

The following table represents the cash flows The Transpower Lines Business expects to make/receive on its debt and derivative portfolio, and debtors and creditors. Foreign amounts are converted into New Zealand dollars using the period end exchange rate.

2010	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
<b>Non derivative financial assets</b>					
Trade and other receivables	61,663	521	1,560	7,329	71,073
Current tax asset	5,202	-	-	-	5,202
External investment					
<i>Principal</i>	0	-	0	0	-
<i>Interest receipts</i>	0	-	0	0	-
	<u>66,865</u>	<u>521</u>	<u>1,560</u>	<u>7,329</u>	<u>76,275</u>
<b>Non derivative financial liabilities</b>					
Trade and other payables	88,150	885	1,004	596	90,635
Finance lease liabilities	133	127	346	696	1,302
External borrowings					
<i>Principal</i>	(129,000)	(252,686)	(400,125)	(668,369)	(1,450,180)
<i>Interest payments</i>	(61,542)	(57,888)	(146,514)	(140,072)	(406,016)
	<u>(102,259)</u>	<u>(309,562)</u>	<u>(545,289)</u>	<u>(807,149)</u>	<u>(1,764,259)</u>
<b>Derivatives</b>					
Derivative contracts - receipts	110,293	375,167	745,585	493,960	1,725,005
Derivative contracts - payments	(149,429)	(424,535)	(843,590)	(608,878)	(2,026,432)
	<u>(39,136)</u>	<u>(49,368)</u>	<u>(98,005)</u>	<u>(114,918)</u>	<u>(301,427)</u>
<b>2009</b>					
	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
<b>Non derivative financial assets</b>					
Trade and other receivables	57,798	656	-	-	58,454
	<u>57,798</u>	<u>656</u>	<u>-</u>	<u>-</u>	<u>58,454</u>
<b>Non derivative financial liabilities</b>					
Trade and other payables	76,656	2,723	-	-	79,379
Current tax liability	13,788	-	-	-	13,788
Finance lease liabilities	197	583	836	-	1,616
External borrowings					
<i>Principal</i>	(130,000)	(100,000)	(245,761)	(778,369)	(1,254,130)
<i>Interest payments</i>	(52,894)	(49,394)	(120,192)	(138,349)	(360,829)
	<u>(92,253)</u>	<u>(146,088)</u>	<u>(365,117)</u>	<u>(916,718)</u>	<u>(1,520,176)</u>
<b>Derivatives</b>					
Derivative contracts - receipts	92,672	94,799	540,214	905,126	1,632,811
Derivative contracts - payments	(120,611)	(134,423)	(692,466)	(968,349)	(1,915,849)
	<u>(27,939)</u>	<u>(39,624)</u>	<u>(152,252)</u>	<u>(63,223)</u>	<u>(283,038)</u>

**(h) Sensitivity Analysis**Currency risk

Group policy (section b) is to hedge all foreign denominated debt and committed foreign purchases greater than \$1 million (New Zealand dollar equivalent).

All foreign debt is transferred back into New Zealand Dollars through Cross Currency Interest Rate Swaps and foreign purchases in excess of \$1m have forward exchange contracts.

Interest rate risk

The Transpower Lines Business policy is to hedge between 80% and 100% of debt in year 1 and reducing amounts out to 15 years. Movements in market interest rates would therefore impact through Fair Value movement risk (refer below).

Transpower does not hedge account for interest rate risk.

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Fair value movement risk

The Transpower Lines Business's net debt is designated at fair value through profit or loss. As such, The Transpower Lines Business is subject to fair value gains or losses. The extent of the gains or losses is based on The Transpower Lines Business's cash flow profile compared to the corresponding movement in the yield curve. For debt and investments the yield curve is effectively adjusted for the credit margin.

A parallel shift in the yield curve by 1% would create the following fair value movements based on net debt held at 30 June 2010.

1% parallel upward shift - fair value gain of \$116.2 million (30 June 2009: \$105.4 million)  
1% parallel downward shift - fair value loss of \$125.8 million (30 June 2009: \$114.6 million)

Credit spread movement risk

The profit or loss impact of movements in the credit spread on the fair value was a \$6 million loss in 2010 (2009: \$70 million gain). The cumulative (balance sheet) impact was a \$64 million gain in 2010 (2009: \$70 million gain).

A 10 basis point increase (decrease) in credit spreads is estimated to result in a fair value gain (loss) of \$11 million.

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**25. Operating lease commitments**

<b>Commitments in respect of non-cancellable operating leases payable:</b>	<b>LINES BUSINESS</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Within one year	10,117	6,407
One to two years	10,876	3,453
Two to five years	37,162	9,189
Later than five years	138,082	2,824
<b>Total operating lease commitments</b>	<b>196,237</b>	<b>21,873</b>

In 2009, these lease commitments primarily related to leases on Transpower office space.

In 2010, the lease commitments primarily relate to the leasing of fibre optic cables for Transpower's communications network.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**26. Capital commitments**

<b>Capital commitments in respect of contracts for capital expenditure:</b>	<b>2010 \$000</b>	<b>2009 \$000</b>
Within one year	413,229	62,386
One to two years	307,852	-
Two to three years	20,875	-
Three to four years	18,184	-
Four to five years	-	-
Greater than five years	17,037	-
<b>Total capital commitments</b>	<b>777,177</b>	<b>62,386</b>

## 27. Contingencies

### (i) Guarantees

#### Debt

Transpower, and in some cases certain subsidiaries, have provided guarantees in respect of loan arrangements for the Bonds, Euro Medium Term Notes, Australian Medium Term Notes and the US Private Placement.

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

### (ii) Economic Gain (Loss) Account

The Transpower Lines Business operates its revenue setting methodology within an Economic Value ("EV") framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers ("the EV balance") has been passed on to or claimed from customers over time.

The net balance of the EV account at 30 June 2010 was \$19.0m to the credit of customers.

This balance is comprised of an AC customer credit balance of \$127.9m and a HVDC customer debit balance of (\$109.2m).

### (iii) Kapiti High Voltage Coalition

The Kapiti High Voltage Coalition (KHVC), a group of 24 Kapiti landowners, has filed proceedings in the High Court in relation to reconductoring works carried out on the Mangahoa Paekakariki A and B lines before and during 2003. KHVC:

- seeks to judicially review the Kapiti Coast District Council's decisions to grant a 1998 Certificate of Compliance and a 2002 Resource Consent for the works; and
- alleges trespass on the basis that The Transpower Lines Business's entry onto KHVC member properties was not authorised by s23(3) of the Electricity Act 1992.

If the Council decisions are set aside, The Transpower Lines Business will need to secure new consents. If the trespass claim is successful, The Transpower Lines Business may not be able to access the works (or at least part of them) without obtaining easements and further damages claims might be brought, including by non-KHVC members.

### (iv) Regulation

Under the terms of The Transpower Lines Business's administrative settlement with the Commerce Commission The Transpower Lines Business has a threshold in relation to its non Part F capital expenditure (capital expenditure not approved by the Electricity Commission). In the event The Transpower Lines Business overspends its non Part F threshold, The Transpower Lines Business must apply to the Commerce Commission for approval prior to inclusion of these non Part F assets in the regulated asset base. The Transpower Lines Business exceeded its non Part F threshold by \$14 million. These assets are predominantly held in works under construction.

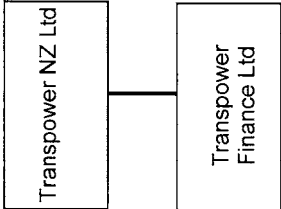
### (v) Various Other Lawsuits, Claims and Investigations

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

28. Lines Business Entities

All subsidiaries are wholly owned, are incorporated in New Zealand (except where mentioned otherwise) and have a balance date of 30 June 2010.

As at balance date the group entities are as follows:



Transpower Finance Ltd - Main finance company

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

## 29. Related parties

### Transactions with key personnel

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

### Key personnel compensation

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

	2010	2009
	\$000	\$000
Directors' fees	517	552
Key management personnel	5,548	4,415
Defined contribution schemes	180	125

Key management personnel costs have increased in 2010 primarily due to an increase in staff considered to meet this classification and the inclusion of \$490,000 in termination payments.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

### **30. Subsequent events**

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

## 31. Significant judgements or estimates

### Judgements

#### **Impairment on property assets**

A significant judgement made in applying The Transpower Lines Business's accounting policies was in relation to the impairment made of \$23.9 million on Transpower's property assets. The impairment has been based on recent valuations of properties owned. The properties relate to those on the North Island Grid Upgrade (NIGU) route between Whakamaru and south Auckland purchased for the purposes of establishing easements and then on-selling. Refer to Note 14 Property, Plant and Equipment for more information.

#### **Taxation**

Transpower has conservatively assumed that the impact of the building depreciation rule change applies to all of its buildings.

### Estimates

#### **Dismantling provision**

An estimate and assumption made regarding future events was in relation to a dismantling provision. This provision has a balance at 30 June 2010 of \$15.2 million (30 June 2009: \$17.3 million). The nature and uncertainty of this provision is discussed in Note 18 Provisions.

#### **Properties held for sale**

An estimate has been made on the values of the properties that are classified as held for sale. These are properties purchased along the NIGU route. Transpower has used recent valuations to establish the expected net realisable value of this land and recognised an impairment of \$5.2 million in relation to these properties. This is disclosed in Note 9 Non current assets held for sale.

#### **Fair values of debt, derivatives and deposits.**

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

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

	LINES BUSINESS	
	2010	2009
Assets	\$000	\$000
Goodwill	-	-
Total intangible assets	120,904	46,535
Total tangible assets	2,949,170	2,659,919

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

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

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial statements					
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	274,993				
Interest on cash, bank balances, and short-term investments (ISTI)	274,993				
OSBIT minus ISTI	0				
Net surplus after tax from financial statements	274,993	a	274,993		274,993
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	29,745				
Amortisation of goodwill and amortisation of other intangibles	29,745	n		29,745	
Subvention payment	0	g	add 0	add 0	add 0
Depreciation of SFA at BV (x)	0	s	add 0	add 0	add 0
Depreciation of SFA at ODV (y)	0				
ODV depreciation adjustment	0	d	add 0	add 0	add 0
Subvention payment tax adjustment	0	s't		deduct 0	deduct 0
Interest tax shield	30,830	q			deduct 30,830
Revaluations	0	r			add 0
Income tax	27,155	p			deduct 27,155
Numerator			274,993	29,745	217,008
			$OSBIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s't + d$	$OSBIT^{ADJ} = a + g - q + r + s + d - p - s't$
Fixed assets at end of previous financial year (FA <sub>p</sub> )	2,706,454				
Fixed assets at end of current financial year (FA <sub>c</sub> )	3,070,074				
Adjusted net working capital at end of previous financial year (ANWG <sub>p</sub> )	-66,831				
Adjusted net working capital at end of current financial year (ANWG <sub>c</sub> )	-61,832				
Average total funds employed (ATFE)	2,823,933	c	2,823,933		2,823,933
(or regulation 33 time-weighted average)					
Total equity at end of previous financial year (TE <sub>p</sub> )	1,313,381				
Total equity at end of current financial year (TE <sub>c</sub> )	1,343,126				
Average total equity	1,328,254	k		1,328,254	
(or regulation 33 time-weighted average)					
WUC at end of previous financial year (WUC <sub>p</sub> )	439,816				
WUC at end of current financial year (WUC <sub>c</sub> )	474,561				
Average total works under construction	457,189	e	deduct 457,189	deduct 457,189	deduct 457,189
(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 <sub>p</sub> )	46,535				
Intangible assets at end of current financial year (IA <sub>c</sub> )	120,904				
Average total intangible asset	83,720	m		deduct 83,720	
(or regulation 33 time-weighted average)					
Subvention payment at end of previous financial year (SP <sub>p</sub> )	0				
Subvention payment at end of current financial year (SP <sub>c</sub> )	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 <sub>bo</sub> )	0				
System fixed assets at end of current financial year at book value (SFA <sub>bi</sub> )	0				
Average value of system fixed assets at book value	0	f	deduct 0	deduct 0	deduct 0
(or regulation 33 time-weighted average)					
System Fixed assets at year beginning at ODV value (SFA <sub>bo</sub> )	0				
System Fixed assets at end of current financial year at ODV value (SFA <sub>bi</sub> )	0				
Average value of system fixed assets at ODV value	0	h	add 0	add 0	add 0
(or regulation 33 time-weighted average)					
Denominator			2,366,744	787,346	2,366,744
			$ATFE^{ADJ} = c - e - f + h$	$Ave TE^{ADJ} = k - e - m + v - f +$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f + h$
Financial Performance Measure:			11.6	3.8	9.2
			$ROF = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$	$ROE = NSAT^{ADJ} / ATFE^{ADJ} \times 100$	$ROI = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$

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

Transpower has included intangible assets with property, plant and equipment in the calculation of these ratios reflecting the nature of the intangible assets.

## TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES  
FOR THE YEAR ENDED 30 JUNE 2010

	LINES BUSINESS 2010	LINES BUSINESS 2009	LINES BUSINESS 2008	LINES BUSINESS 2007	LINES BUSINESS 2006
<b>Financial Measures</b>					
Return on Equity	3.8%	9.0%	8.8%	9.7%	7.8%
Return on Funds	11.6%	10.5%	10.6%	9.6%	9.0%
Return on Investment	9.2%	8.6%	7.6%	6.5%	5.8%
<b>Efficiency Measures</b>					
Direct line costs per kilometre, which shall be calculated in accordance with the following formula:					
$\frac{a}{b}$	\$144,042,000 17,343	143,542,000 17,341	133,583,000 17,334	120,355,000 17,334	140,790,000 17,248
<b>a*</b>	is direct expenditure (in dollars); and	<b>\$8,305</b>	<b>\$8,278</b>	<b>\$7,706</b>	<b>\$6,943</b>
<b>b</b>	is system length (in kilometres);				<b>\$8,163</b>

\* all years restated to exclude HVDC share of reserves

**TRANSPower NEW ZEALAND LIMITED LINES BUSINESS**  
**ANNUAL DEPRECIATED HISTORIC COST RECONCILIATION REPORT**  
**YEAR ENDED 30 JUNE 2010**

	2010 \$ million	2009 \$ million
System fixed assets opening book value 1 July 2009	2,265	2,218
<i>Add</i> system fixed assets acquired during the year at DHC	564	181
<i>Less</i> system fixed assets disposed of during the year at DHC	(45)	(10)
<i>Less</i> depreciation and amortisation on system fixed assets at DHC	(133)	(124)
 Equals system fixed assets closing book value 30 June 2010	<u>2,651</u>	<u>2,265</u>

# 1 The Electricity Information Disclosure Requirements<sup>1</sup>

(For 12 months ending 30 June 2010, 2009, 2008, 2007)

## Part 4

### Energy Delivery Efficiency Performance Measures and Statistics

2009/10    2008/09    2007/08    2006/07

#### (Disclosure under Requirement 20)

#### 1. Energy delivery efficiency performance measures

##### (a) Load factor (%)

Electrical energy entering the transmission system as percentage of maximum demand times hours per year

68.49    67.02    68.35    66.60

##### (b) Loss ratio (%)

Transmission losses as percentage of energy entering the system

3.72    4.02    3.66    3.74

##### (c) Capacity utilisation (%)

Maximum demand as percentage of total transformer capacity (Maximum Continuous Ratings)

46.27    46.93    48.10    50.37

#### 2. Statistics

##### (a) System length, broken down by voltage (km)

Total <sup>a</sup>

17,343    17,340    17,333    17,334

350 kV (HVDC)

611    611    611    611

270 kV (HVDC)

611    611    611    611

0 kV (HVDC earth electrode)

31    31    31    31

220 kV (HVAC)

8,623    8,632    8,631    8,617

110 kV (HVAC)

6,302    6,304    6,298    6,299

66/50/33/11 kV (HVAC) <sup>a</sup>

1,165    1,151    1,151    1,165

##### (b) Circuit length of overhead electric lines, broken down by voltage (km).

Total <sup>a</sup>

17,251    17,255    17,248    17,249

350 kV (HVDC)

571    571    571    571

270 kV (HVDC)

571    571    571    571

0 kV (HVDC earth electrode)

31    31    31    31

220 kV (HVAC)

8,623    8,632    8,631    8,617

110 kV (HVAC)

6,290    6,299    6,293    6,294

66/50/33/11 kV (HVAC) <sup>a</sup>

1,165    1,151    1,151    1,165

NB: HVDC link submarine power cables measure approximately 80km. Broken down by voltage

350 kV (HVDC)

40    40    40    40

270 kV (HVDC)

40    40    40    40

##### (c) Total circuit length of underground electric lines (km)

( 110 kV HVAC)

12    4    4    4

##### (d) Transformer capacity (Maximum Continuous Ratings) (kVA)

14.26x10<sup>6</sup>    14.09x10<sup>6</sup>    13.80x10<sup>6</sup>    13.31x10<sup>6</sup>

##### (e) Maximum demand (kilowatts) <sup>bc</sup> (kW)

6.60x10<sup>6</sup>    6.61x10<sup>6</sup>    6.64x10<sup>6</sup>    6.71x10<sup>6</sup>

##### (f) Total electricity entering the system (before losses) <sup>bc</sup> (kWh)

39.58x10<sup>9</sup>    38.82x10<sup>9</sup>    39.72x10<sup>9</sup>    39.13x10<sup>9</sup>

##### (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: <sup>bcd</sup> (kWh)

38.10x10<sup>9</sup>    37.26x10<sup>9</sup>    38.27x10<sup>9</sup>    37.66x10<sup>9</sup>

##### (h) Total connected customers

53    51    49    48

#### Notes

a Excludes 61km of circuits leased from others and operated by Transpower.

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

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

d Including sales to direct connected customers

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

# The Electricity Information Disclosure Requirements

(For 12 months ending 30 June 2010, 2009, 2008, 2007)

## Part 6

### Reliability Performance Measures to be Disclosed by Transpower<sup>a</sup>

#### (Disclosure Under Requirement 21)

	2009/10	2008/09	2007/08	2006/07
1. Total number of unplanned interruptions <sup>b</sup>				
Resulting from 44 loss of supply incidents in 2009/10	106	112	115	104
2. Electricity customer interruptions in system minutes <sup>c</sup>	23.5	18.1	28.0	11.7
Planned	1.2	2.0	3.3	3.3
Unplanned	22.2	16.1	24.6	8.4
3. Underlying electricity customer interruptions in system minutes <sup>c</sup>				
Underlying interruptions are those interruptions of one system minute or less duration	5.3	5.9	6.8	6.4
Planned	1.2	0.9	2.1	2.2
Unplanned	4.0	4.9	4.7	4.1
4. Average supply reliability (%)				
Measured by the energy supplied divided by the sum of the energy supplied and not supplied	99.9932	99.9946	99.9919	99.9965
5. Uneconomic generation due to planned and unplanned transmission system unavailability (%) <sup>d</sup>	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability (%) <sup>d</sup>	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability (%) <sup>d</sup>	-	-	-	-
8. Planned interruption restoration performance (%)	77.5	76.7	73.1	73.1
9. Unplanned interruption response (%)	99.1	100.0	100.0	99.0

#### Notes

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

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

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

c Any minor differences between the total and the sum of planned and unplanned are due to rounding.

System minutes of interruptions do not include energy made up by backfeed from another point of supply or by embedded generation within a customer's network.

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

**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, Ian Donald and Dr Don Brash, Directors of Transpower New Zealand Limited ("Transpower") certify that, having made all reasonable enquiry, to the best of our knowledge;

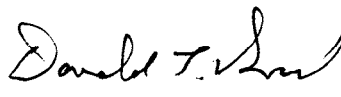
- (a) The attached audited financial statements of Transpower, prepared for the purposes of regulation 5 of the Commerce Commission's Electricity Information Disclosure Requirements 2004, comply with those Requirements; and
- (b) The attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of requirements 14, 15, 16, 20, and 21 of the Electricity Information Disclosure Requirements 2004, comply with those Requirements

The valuations on which those financial performance measures are based are as at 30 June 2010.



Ian Donald

19 November 2010



Dr Don Brash

**Form 7**

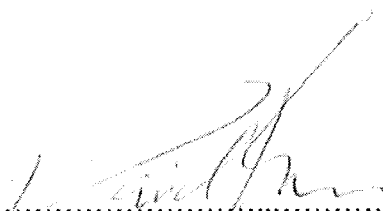
Requirement 36(1)

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

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

And I 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 19 November 2010.

  
.....  
Ian Donald

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

**David M. Knight**  
Barrister & Solicitor  
WELLINGTON



### Auditor's Report

To the readers of the financial statements of Transpower New Zealand Limited Lines Business for the year ended 30 June 2010.

We have audited the accompanying 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 2010. 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 54W 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 2010, and results of its operations and cash flows for the year then ended.

### Auditor's Responsibilities

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

### 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 judgments 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.

Ernst & Young is the auditor of Transpower New Zealand Limited and also provides other assurance services. We have no other relationship with or interest in Transpower New Zealand Limited or any of its subsidiaries.

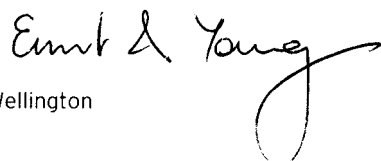
### Unqualified Opinion

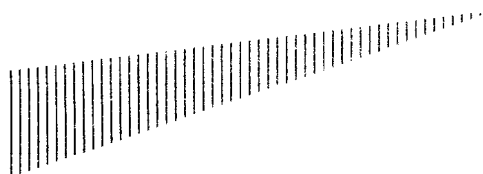
We have obtained all the information and explanations we have required.

In my opinion:

- ▶ proper accounting records have been maintained by Transpower New Zealand Limited Lines Business as far as appears from our examination of those records; and
- ▶ the financial statements referred to above:
  - ▶ comply with generally accepted accounting practice;
  - ▶ give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2010 and the results of its operations and cash flows for the year then ended; and
  - ▶ comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 19 November 2010 and our opinion is expressed as at that date.

  
Wellington



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

We have examined the attached information, being:

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

that were prepared by Transpower New Zealand Limited Lines Business and dated 30 June 2010 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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

Wellington