



New Zealand Gazette

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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO
SECTION 57T OF THE COMMERCE ACT 1986



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REPORT OF THE AUDITORS

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2008

We have audited the financial statements of Transpower New Zealand Limited Lines Business. The financial statements provide information about the past financial performance of Transpower New Zealand Limited Lines Business and its financial position as at 30 June 2008. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

Directors' responsibilities

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 57T of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2008, and results of operations and cash flows for the year then ended.

Auditors' responsibilities

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

Basis of opinion

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

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

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

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by Transpower New Zealand Limited Lines Business as far as appears from our examination of those records; and
- the financial statements of Transpower New Zealand Limited Lines Business:
 - (a) comply with generally accepted accounting practice; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date; and
 - (c) comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 27 November 2008 and our unqualified opinion is expressed as at that date.

A stylized, handwritten signature of the PricewaterhouseCoopers firm.

PricewaterhouseCoopers

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

We have examined the attached information, being:

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

that were prepared by Transpower New Zealand Limited Lines Business and dated 27 November 2008 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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

A stylized, handwritten signature of the PricewaterhouseCoopers firm, written in black ink.

PricewaterhouseCoopers

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008**

	Notes	LINES BUSINESS	
		2008 \$000	2007 \$000
Operating revenue	2	593,884	539,480
Operating expenditure	4	373,824	333,415
Earnings before interest, tax and changes in the fair value of financial instruments		220,060	206,065
Net finance costs	5	58,169	58,639
Earnings before changes in the fair value of financial instruments and tax		161,891	147,426
Gain (loss) in the fair value of financial instruments	6	(44,533)	107,742
Earnings before tax		117,358	255,168
Income tax expense	7	37,153	68,677
Net profit		80,205	186,491

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008**

	LINES BUSINESS	
	2008 \$000	2007 \$000
Equity at the beginning of the year	1,153,414	966,710
Available for sale financial assets	(603)	213
Net income (expenses) recognised directly in equity	(603)	213
Net profit for the year	80,205	186,491
Total recognised income and expense for the year	79,602	186,704
Equity at the end of the year	1,233,016	1,153,414

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

BALANCE SHEET
AS AT 30 JUNE 2008

		LINES BUSINESS	
	Notes	2008 \$000	2007 \$000
ASSETS EMPLOYED			
Current assets			
Cash and cash equivalents		2,910	1,919
Trade and other receivables	8	26,294	58,646
Current tax asset		7,685	8,402
Investments	10	99,569	65
Derivatives in gain	10	77,410	102,038
Other financial assets	10	172	529,928
Inventories	11	3,544	2,136
		217,584	703,134
Non current assets			
Non current receivables		3,125	5,409
Other financial assets	12	3,995	4,151
Works under construction	13	316,765	251,421
Property, plant and equipment	13	2,191,559	2,066,753
Intangibles	14	17,060	14,802
		2,532,504	2,342,536
TOTAL ASSETS EMPLOYED		2,750,088	3,045,670
FUNDS EMPLOYED			
Current liabilities			
Trade and other payables	15	70,388	56,847
Current debt	16	153,713	758,659
Derivatives in loss	16	16,572	131,039
Deferred income	3	35,350	15,715
Provisions	17	25,654	25,921
		301,677	988,181
Non current liabilities			
Non current payables		2,279	2,535
Finance lease liabilities	18	1,495	1,643
Non current debt	19	1,035,607	719,090
Deferred tax	20	176,014	180,807
		1,215,395	904,075
Total liabilities		1,517,072	1,892,256
Equity			
Capital	21	1,200,000	1,200,000
Reserves	21	(381)	222
Accumulated surplus (deficit)	21	33,397	(46,808)
Total equity		1,233,016	1,153,414
TOTAL FUNDS EMPLOYED		2,750,088	3,045,670

The Board of Directors of Transpower New Zealand Limited authorised these Financial Statements for issue on 27 November 2008. For, and on behalf of, the Board



GREGORY FORTUIN
DIRECTOR



MARK TUME
DIRECTOR

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 2008**

LINES BUSINESS

	2008	2007
	\$000	\$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	645,871	536,030
Dividends received from subsidiaries	5,000	-
Interest received	1,789	36,929
Cash was applied to:		
Payments to suppliers and employees	(233,374)	(220,511)
Tax payments	(41,229)	(38,130)
Interest paid	(77,815)	(101,345)
Net cash inflows (outflows) from operations	300,242	212,973
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of property, plant and equipment	102	547
Short term investments	452,728	285,724
Cash was applied to:		
Purchase of property, plant and equipment	(308,641)	(276,732)
Short term investments	(552,232)	(285,723)
Net cash inflows (outflows) from investments	(408,043)	(276,184)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	1,571,097	891,503
Cash was applied to:		
Increase in long term investments	-	-
Dividends paid	-	-
Repayment of loans	(1,462,305)	(828,461)
Net cash inflows (outflows) from financing	108,792	63,042
Net increase (decrease) in cash held	991	(169)
Opening balance brought forward	1,919	2,088
Closing net cash carried forward	2,910	1,919
Closing net cash carried forward comprises:		
Cash and bank	2,910	1,919

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

RECONCILIATION OF "NET PROFIT" WITH "NET CASH FLOW FROM OPERATIONS"

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Operating surplus after tax	80,205	186,491
Add (deduct) non-cash items:		
Change in fair value of financial instruments	44,533	(107,742)
Depreciation and amortisation	120,465	116,064
Deferred tax	(4,535)	27,637
Impairment	17	1
Imputed interest	1,055	1,118
Movements in working capital items:		
Decrease (increase) in trade and other receivables	34,832	4,687
Decrease (increase) in prepayments	(1,751)	(876)
Decrease (increase) in stocks of materials	(1,408)	2,889
(Decrease) increase in trade and other payables, interest payable and deferred income	33,176	(16,948)
(Decrease) increase in taxation payable	717	2,903
(Decrease) increase in provisions	(267)	(1,133)
Add (deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	7,115	7,043
Capitalised interest	(13,912)	(9,161)
Net cash flow from operations	300,242	212,973

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

1. Statement of Accounting Policies

Reporting Entity and Statutory Base

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

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.

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

In December 2002, the New Zealand Accounting Standards Review Board announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for periods commencing on or after 1 January 2007. New Zealand has adopted its own version of IFRS, being the New Zealand equivalents to IFRS (NZ IFRS). The Group has adopted NZ IFRS for the period commencing 1 July 2007 and these financial statements have been prepared in compliance with NZ IFRS. In complying with NZ IFRS, the Group is also in compliance with IFRS.

Transition from existing GAAP to NZ IFRS has been made in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards". Comparative information has been restated to conform to the requirements of NZ IFRS.

Measurement Basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified by 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 which undertake lines business activities using the purchase method. 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.

c) Revenue

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

customers. A significant stream of revenue that is received up-front but 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 above items, being greater than one year, revenue is shown on a yield to maturity basis gross of an inferred interest expense.

Certain money relating to the operation of the electricity market, specifically non-Transpower related ancillary services and losses and constraint payments, is "passed-through" and is therefore not recorded in the income statement. This pass-through occurs when the Transpower Lines Business does not carry out the service and it is deemed to act only as a collection agent.

d) Goods and Services Tax (GST)

The income statement 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.

Available for sale

Fonterra shares are designated as available for sale. This is because the shares are not held for trading, have no maturity date, are not quoted in an active market, and have no fixed or determinable payments.

Fair value is based on the annual price published by Fonterra, which is based on an independent valuation.

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.

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

unrealised gains and losses arising from changes in the fair values are included in the income statement 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 equity. On sale or on impairment, the accumulated fair value adjustments are included in the income statement.

l) Property, Plant and Equipment

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

m) Capital Work in Progress

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location and condition. 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
Substations	8-55 years
HVDC	3-30 years
Communications	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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

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 groups) 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 the income statement in the period in which they arise.

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 representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the income statement as expenses/revenue, in the period in which the benefits are incurred/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	3-7 years
Easements	Indefinite

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. 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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

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 the income statement 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 the income statement 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.

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 the income statement. There are two exceptions to this. Firstly, when items are credited or debited directly to equity, the deferred tax or current tax is also recognised directly in equity. Secondly, where tax arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill or excess.

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).

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

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 the income statement.

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 the income statement. The gains or losses in the associated derivative are also recognised in the income statement.

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 the income statement 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.

Adoption of NZ IFRS

During the year ended 30 June 2008, The Transpower Lines Business adopted the requirements of NZ IFRS in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

International Financial Reporting Standards". Note 31 contains an explanation of the transition to NZ IFRS. Comparative information has been restated to conform to the requirements of NZ IFRS.

New Standards and Interpretations Not Yet Adopted

NZ IFRS 8 Operating Segments was approved by the Accounting Standards Review Board in December 2006 and is applicable for accounting periods on or after 1 January 2009. The Transpower Lines Business has not applied this standard early.

If the Transpower Lines Business did apply this standard early, the impact would have been:

- i) No change in scope, there would still be one reportable operating segment, transmission.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

2. Operating Revenue

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Transmission revenue		
HVAC interconnection	418,208	437,802
HVAC connection	103,464	105,879
HVDC	87,952	83,558
EV (rebate) charge - HVAC	(45,766)	(52,815)
EV (rebate) charge - HVDC	8,556	8,307
Other rebate - HVAC	-	(49,425)
Other rebate - HVDC	(7,697)	(18,004)
New investment agreements	19,321	17,438
Other	9,846	6,740
Total revenue	593,884	539,480

Transmission Revenue

Transmission revenue consists of charges for the transmission of electricity from the point of generation to the point of supply, being HVAC interconnection, connection and HVDC.

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

Other rebates consist of credit notes issued as part of the Administrative Settlement process with the Commerce Commission and a credit adjustment for the HVDC Pole 1 assets.

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

Electricity regulations additional disclosures:

Revenue provided to Lines Business from
Other Transpower Businesses

	261	257
Revenue - Electricity loss rental rebates	133,675	45,448
Expense - Electricity loss rental rebates	(133,675)	(45,448)
Electricity loss rental rebates not passed through to customers	-	-

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

3. Deferred Income

	LINES BUSINESS	
	2008	2007
	\$000	\$000
New investment agreements	12,296	13,024
Transmission realignment	19,541	-
Other	3,513	2,691
Total deferred income	35,350	15,715

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 interest expense is based on the Lines Business's WACC in the year the payment was received.

Transmission Realignment

The Lines Business has carried out some work on transmission assets consisting of undergrounding and realignment regarding a property development. The revenue received is recognised over the life of the specific transmission assets, 50 years, beginning 1 July 2009, the expected commissioning date.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

4. Expenditure on Activities

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Transmission charges	-	-
Transfer payments to "Other Transpower Businesses"		
Asset maintenance:	-	-
Disconnection/reconnection services	-	-
Metering data	2,822	2,718
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Avoided transmission charges on account of own generation	-	-
Other - IT support	-	-
Other - insurance	9,189	9,548
Total	12,011	12,265
Expenses to entities that are not related parties for:		
Asset maintenance:	118,051	104,513
Disconnection/reconnection services	-	-
Information technology costs	15,532	15,842
Metering data	-	-
Consumer-based load control services	-	-
Royalty and patent expenses	-	-
Total	133,583	120,355
Employee salaries and redundancies	36,090	33,310
Consumer billing and information system expense	285	285
Depreciation		
Depreciation of system assets	110,036	103,756
Depreciation of other assets	5,216	6,751
Total	115,252	110,507
Amortisation of:		
Other intangibles	5,213	5,557
Total	5,213	5,557
Corporate and administration expenses	13,331	11,646
Human resource expenses	5,753	5,007
Marketing / advertising expenses	385	411
Merger and acquisition expenses	-	-
Takeover defence expenses	-	-
Research and development expenses	-	-
Legal and consultancy expenses	9,901	10,546
Study grants and donations	1,611	977
Directors' fees	566	449
Audit fees		
Audit fees paid to principal auditors:	300	215
Audit fees paid to other auditors:	18	-
Fees paid for other services provided by principal and other auditors:	1,950	2,195
Total	2,268	2,410
Cost of offering credit		
Bad debts written off	17	1
Increase in estimated doubtful debts	-	-
Total	17	1
Local authority rates expense	2,739	2,524
AC loss-rental rebates (distributed to retailers/customers) expense:	-	-
Rebates to consumers due to ownership interests	-	-
HVDC share of reserves	14,773	735
Subvention payments	-	-
Unusual expenses	-	-
Other expenses not listed - Industry related expenses	12,930	9,386
Other expenses not listed - Stock and asset W/O	7,115	7,043
Total operating expenses	373,824	333,415

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

5. Net Finance Costs

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Interest paid and associated fees	77,815	103,504
Interest received	(1,789)	(36,822)
Capitalised interest	(13,912)	(9,161)
Imputed interest	1,055	1,118
Dividends received	(5,000)	-
Total net finance costs	58,169	58,639
Total operating expenses	373,824	333,415
Net finance costs	58,169	58,639
Total expenses including net financing costs	431,993	392,054

Interest Paid and Associated Fees

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

Interest Received

All interest received is on investments designated as fair value through profit or loss.
Investments designated as available for sale do not earn interest income.

Imputed Interest

Imputed interest is on new investment agreements. Refer to Note 3 Deferred Income for more information.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

6. Change in fair value of financial instruments

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Accounting hedges		
Fair value movement forward exchange contracts	3,826	(4,744)
Fair value movement hedge commitment	(3,651)	4,662
	175	(82)
Debt and investments		
Fair value movement cross currency swaps	142,778	(92,857)
Fair value movement interest rate swaps	(29,479)	91,269
Fair value movement interest rate options	(112)	-
Fair value movement investments	7,376	(6,254)
Fair value movement debt	(165,271)	115,666
	(44,708)	107,824
Total fair value gain (loss)	(44,533)	107,742

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 9 Financial Instrument Designation for further information.

Credit risk impact

In 2008, none of the debt fair value gain (loss) is due to changes in credit risk. In 2007, the fair value movement on debt is estimated to include a fair value gain of between \$515,000 and \$1,030,000 due to a change in credit risk. In November 2006, Transpower's Standard and Poor's credit rating decreased from a AA to AA-. This is estimated to have increased the cost of the Lines Business's debt by between 5 and 10 basis points. The nominal value of debt in November 2006 was \$1,030,000,000 therefore the fair value impact of the increased credit risk is estimated to be a fair value gain of between \$515,000 and \$1,030,000.

Accounting Hedges

The 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.

Debt and Investments

Refer to Note 23 Financial Instruments for information on the use of debt, investments and derivatives.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

7. Income tax expense**LINES BUSINESS**

	2008	2007
	\$000	\$000
Current tax expense		
Current period	40,330	44,652
Adjustment for prior periods	1,358	(3,612)
	41,688	41,040
Deferred tax expense		
Origination and reversal of temporary differences	(4,535)	27,637
Change in unrecognised temporary differences	-	-
Recognition of previously unrecognised tax losses	-	-
	(4,535)	27,637
Total income tax expense (credit)	37,153	68,677
Reconciliation of effective tax		
Operating surplus before tax	117,358	255,168
Income tax at 33c	38,728	84,206
Tax effect of:		
Non deductible expenses	564	509
Tax exempt income	-	-
Recognition of previously unrecognised tax losses	-	-
Current year losses for which no deferred tax asset was recognised	-	-
Change in unrecognised temporary differences	-	-
Under/(over) provided in prior periods	(2,139)	(16,038)
Total income tax expense (credit)	37,153	68,677
Income tax recognised directly in equity		
Available for sale financial assets	(258)	91
Total income tax recognised directly in equity	(258)	91

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

8. Trade and other receivables

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Trade receivables	23,542	56,636
Impairment of trade receivables	(982)	(350)
Interest receivable	381	758
Prepayments	3,353	1,602
Total trade and other receivables	26,294	58,646

Impairment of trade 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.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

9. Financial instrument designation

	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
Current assets					
Cash and cash equivalents					
Accounts receivable					
Hedge commitments					
Interest rate swaps					
Non current assets					
Structured financing transaction assets					
Fonterra shares					
Current liabilities					
Accounts payable					
Call borrowing					
Intercompany debt					
Current portion of non current debt					
Interest rate options					
Cross currency interest rate swaps					
Forward exchange contracts					
Non current liabilities					
Bonds					
Euro Medium Term Notes					
US Private Placement					
Structured financing transaction liabilities					

Fair Value Through Profit or Loss (Accounting Mismatch)

The 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 Lines Business has applied these provisions as net debt and derivatives are managed as one integrated portfolio.

Hedge Commitments

The 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.

Fonterra Shares

The 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.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

10. Other current financial assets

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Investments		
Other investments	99,569	65
	<u>99,569</u>	<u>65</u>
Derivatives in gain		
Interest rate swaps	77,410	102,038
Other financial assets		
Structured finance transaction assets	-	526,297
Hedge commitments	172	3,631
	<u>172</u>	<u>529,928</u>
Total other current financial assets	<u><u>177,151</u></u>	<u><u>632,031</u></u>

Impairment Losses on Financial Assets

No impairment losses were incurred in the 2008 period (2007: nil).

Financial Instrument Designation

Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

Investments

Other investments are short term money-market investments used for funding purposes.

Derivatives in Gain

Derivatives are used to manage financial risk, refer to Note 23 Financial Instruments for information. The gain on derivatives represents the unrealised gain at balance date. The 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 16 Other Current Financial Liabilities for derivatives that are in loss.

Structured Financing Transaction Assets

The structured financing transaction assets are discussed in Note 19 Non Current Debt.

Hedge Commitments

The 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 16 Other Current Financial Liabilities.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

11. Inventories

LINES BUSINESS		
	2008	2007
	\$000	\$000
Substations	2,406	1,221
Transmission lines	259	364
Communications	813	440
Other	66	111
Total inventories	3,544	2,136
Inventories expensed during the period	3,387	2,230

All inventory is classified as finished goods (no processing is done).

12. Other non current financial assets

LINES BUSINESS		
	2008	2007
	\$000	\$000
Other financial assets		
Fonterra shares	3,995	4,151
	3,995	4,151
Total non current financial assets	3,995	4,151

Impairment Losses on Financial Assets

No impairment losses were incurred in the 2008 period (2007: nil).

Financial Instrument Designation

Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

Fonterra Shares

Refer to Note 9 Financial Instrument Designation for background information on why the Lines Business holds these shares.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

13. 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
At 30 June 2008								
Cost	1,105,710	71,284	1,104,137	319,888	97,808	52,461	316,765	3,068,033
Accumulated depreciation	(152,659)	(18,581)	(195,138)	(128,179)	(37,766)	(27,386)	-	(559,709)
Net book value	953,051	52,683	908,999	191,709	60,042	25,075	316,765	2,508,324
At 30 June 2007								
Cost	965,855	71,003	1,043,957	300,398	71,503	43,123	251,421	2,747,260
Accumulated depreciation	(119,713)	(14,700)	(149,635)	(94,144)	(28,152)	(22,742)	-	(429,086)
Net book value	846,142	56,303	894,322	206,254	43,351	20,381	251,421	2,318,174
30 June 2008 reconciliation								
Opening net book value (1 July 2007)	846,142	56,303	894,322	206,254	43,351	20,381	251,421	2,318,174
Additions	142,369	148	61,520	1,735	25,937	9,931	66,931	308,571
Disposals	(1,172)	(12)	-	-	(377)	(21)	(1,587)	(3,169)
Impairment	-	-	-	-	-	-	-	-
Depreciation	(34,288)	(3,756)	(46,843)	(16,280)	(8,869)	(5,216)	-	(115,252)
Closing net book value	953,051	52,683	908,999	191,709	60,042	25,075	316,765	2,508,324
30 June 2007 reconciliation								
Opening net book value (1 July 2006)	730,209	58,305	880,368	223,976	42,616	16,533	212,091	2,154,098
Additions	151,602	1,721	62,002	1,451	6,137	10,590	40,220	273,723
Disposals	(2,390)	(6)	(3,437)	(42)	1,030	9	(890)	(5,726)
Impairment	-	-	(1,507)	-	-	-	-	(1,507)
Depreciation	(33,279)	(3,717)	(43,104)	(19,131)	(6,432)	(6,751)	-	(112,414)
Closing net book value	846,142	56,303	894,322	206,254	43,351	20,381	251,421	2,318,174

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 \$253,940,000 (2007: \$216,734,000)

North Island Grid Upgrade

On 5 July 2007, the Electricity Commission approved the line proposed between Whakamaru and South Auckland. Transpower to date, including property purchases, has capitalised \$212.4 million in respect of the North Island Grid

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

Upgrade (NIGU).

In August 2007 Minister Hodgson, acting on behalf of the Acting Minister for the Environment, "called in" Transpower's notices of requirement and applications for resource consent for the NIGU project. The Minister then appointed an independent Board of Inquiry to hear and consider submissions and make decisions on the proposal. The hearing commenced on 25 March 2008 and the Board of Inquiry is expected to announce its decision on the notices of requirement and resource consent applications towards the end of calendar 2008.

On 19 December 2007 New Era Energy (NEE) filed judicial review proceedings against the Electricity Commission's decision to approve the NIGU project. NEE is an incorporated society that co-ordinates the efforts of six local action groups along Transpower's proposed NIGU route.

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

- HVAC transmission lines
- HVDC transmission lines
- HVAC substations
- HVDC substations and submarine cables
- Communications
- Administration assets
- Software intangible assets
- Other intangible assets

During the year the following borrowing costs were capitalised:

- HVAC transmission lines
- HVDC transmission lines
- HVAC substations
- HVDC substations and submarine cables
- Communications
- Administration assets
- Software intangible assets
- Other intangible assets

These costs were capitalised at the weighted average cost of debt of 7.5% (2007: 7.2%)

Electricity regulations additional disclosures:

- Motor vehicles
- Office equipment
- Land and buildings
- Customer billing and information assets

LINES BUSINESS	
2008	2007
\$'000	\$'000
75,475	99,906
512	159
178,415	103,463
10,065	5,293
19,915	7,142
18,588	30,735
12,107	-
1,888	3,723
316,765	251,421
-	-
5,423	3,829
-	2
6,442	3,695
476	235
584	132
932	1,200
55	1
-	71
13,912	9,165

968	662
1,088	1,399
316,936	225,385
-	-

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

14. Intangibles**LINES BUSINESS**

	Easements	Software	Total
	\$000	\$000	\$000
At 30 June 2008			
Cost	11,172	34,784	45,956
Accumulated amortisation	-	(28,896)	(28,896)
Carrying value	11,172	5,888	17,060
At 30 June 2007			
Cost	9,275	29,428	38,703
Accumulated amortisation	-	(23,901)	(23,901)
Carrying value	9,275	5,577	14,802
2008 reconciliation			
Opening carrying value	9,275	5,577	14,852
Additions	1,897	5,548	7,445
Disposals	-	(24)	(24)
Impairment	-	-	-
Amortisation	-	(5,213)	(5,213)
Closing carrying value	11,172	5,888	17,060
2007 reconciliation			
Opening carrying value	4,597	6,051	10,648
Additions	4,710	5,691	10,401
Disposals	(32)	(658)	(690)
Impairment	-	-	-
Amortisation	-	(5,557)	(5,557)
Closing carrying value	9,275	5,577	14,802

LINES BUSINESS

	2008	2007
	\$000	\$000
Future contractual commitments		
Easements	156	113
Software	459	477

Easements

Easements are deemed to have an indefinite useful life because:

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

Software

The amortisation of software occurs over 3-7 years.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

15. Trade and other payables

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Trade creditors	64,686	51,792
Employee entitlements	5,556	4,857
Current portion of external finance leases	146	198
Total trade and other payables	70,388	56,847

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

16. Other current financial liabilities

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Current debt		
Call borrowing	-	32,388
Current portion of non current debt	153,713	726,271
	153,713	758,659
Derivatives in loss		
Cross currency interest rate swaps	16,391	127,088
Forward exchange contracts	69	3,951
Interest rate options	112	-
	16,572	131,039
Total other current financial liabilities	170,285	889,698

Financial Instrument Designation

Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

Derivatives in loss

Derivatives are used to manage financial risk, refer to Note 23 Financial Instruments for information. The loss on derivatives represents the unrealised loss at balance date. The 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 10 Other Current Financial Assets for derivatives that are in gain.

The Lines Business hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. These contracts are hedge accounted using the fair value method. The hedge commitment is shown separately in Note 10 Other Current Financial Assets.

Current portion of non current debt

The June 2007 balance consists of the structured finance transaction maturing. The nature of this transaction is discussed in the June 2007 Annual Report.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

17. Provisions**LINES BUSINESS**

	Employee benefits	Restructuring	Dismantling	Legal	Total
	\$000	\$000	\$000	\$000	
Balance at 1 July 2007	5,205	716	20,000	-	25,921
Provisions made during the period	5,534	345	-	1,854	7,733
Provisions used during the period	(5,999)	(950)	(1,051)	-	(8,000)
Provisions reversed during the period	-	-	-	-	-
Balance at 30 June 2008	4,740	111	18,949	1,854	25,654

Employee Benefits

The 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, Transpower 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. Pole 1 contains mercury and Transpower has estimated the decommissioning cost based on engineering advice. The decommissioning timeframe is uncertain, with management's best estimate being within the next five years. Actual decommissioning costs and timeframe may vary from the figures indicated.

Legal

Transpower has reached a draft settlement regarding a legal dispute. This settlement is expected to become final within one year. Directors believe that further disclosure of the details of these costs could adversely influence Transpower's position relating to finalising this settlement. As a result, disclosure is limited in accordance with paragraph 92, NZ IAS 37.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

18. Non current finance lease liability

	LINES BUSINESS	
	2008	2007
	\$000	\$000
One to five years	520	546
Greater than five years	975	1,097
	1,495	1,643
Reconciliation to lease payments:		
Total future minimum lease payments	3,104	3,413
Interest expense	(1,463)	(1,572)
Total lease liability recognised	1,641	1,841
This is represented by:		
Current lease liability	146	198
Non current lease liability	1,495	1,643
	1,641	1,841

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

19. Non current debt

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Bonds	246,230	239,802
Euro Medium Term Notes	783,786	330,617
US Private Placement	143,595	131,512
Structured financing transaction liability	-	726,271
	1,173,611	1,428,202
Less current portion of long term debt	(153,713)	(726,271)
Total long term debt	1,019,898	701,931
One to five years	329,305	427,399
Greater than five years	690,593	274,532
	1,019,898	701,931
Add debt allocated (to) from non-lines businesses*	15,709	17,159
Total long term debt	1,035,607	719,090

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

There were no defaults or breaches on loans during the period (2007: no defaults or breaches).

Financial Instrument Designation

Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

Bonds

The bonds are issued in New Zealand Dollars and have a nominal value of \$250 million, with maturities in 2010 and 2020 and yields ranging from 6.95% 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 new subsidiaries into the Guaranteeing Group.

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

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

Euro Medium Term Notes

Notes have been issued in Swiss Francs, Japanese Yen and Canadian Dollars with nominal values of CHF 400 million (\$476.4 million as amended by cross currency swaps), JPY 7 billion (\$132.8 million as amended by cross currency swaps) and CAD 125 million (\$153.6 million as amended by cross currency swaps). Maturities are between 2009 and 2014 with yields ranging from 0.91% to 4.61%.

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 (NZ\$1,310,960,000) as at 30 June 2008, USD 1,000,000,000 (\$1,299,630,000) as at 30 June 2007 or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance have given a negative pledge and guarantee payment of all principal and interest amounts.

Australian Medium Term Notes

Under the Australian Medium Term Note programme, Transpower Finance may issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding may not exceed AUD 750,000,000 (\$946,005,000) as at 30 June 2008.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

There were no Australian Medium Term notes outstanding as at 30 June 2008 (2007: nil).

US Private Placement

Bonds were issued for a nominal amount of USD 100 million (\$164.5 million as amended by cross currency 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"), Fighting Bay Finance Limited, Haywards Limited, Oteranga Bay Limited, Omaka Training Limited, Halfway Bush Finance Limited and TB and T Limited (the "Subsidiary Guarantors"). The Guarantor and Subsidiary Guarantors have unconditionally guaranteed payment of the principal, interest and other amounts owing under the Agreement.

Structured Financing Transaction

In 2002, Transpower entered into a transaction which raised gross funds of \$732.7 million of which \$532.7 million was on-lent to financial institutions. The economic substance of the transaction was that Transpower and the Group had a net obligation of \$200 million. This transaction was unwound during June 2007, with termination on 3 July 2007.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

20. Deferred tax**LINES BUSINESS**

	Balance 1 July 2006 \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Balance 30 June 2007 \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Balance 30 June 2008 \$000
Depreciation timing differences	159,254	2,831	-	162,085	(3,437)	-	158,648
Fair value of net debt and derivatives	1,931	31,974	-	33,905	(13,234)	-	20,671
Revenue deferral	(1,060)	88	-	(972)	88	-	(884)
Dismantling provision	(6,800)	-	-	(6,800)	915	-	(5,885)
Other	(446)	(7,256)	91	(7,611)	11,133	(258)	3,264
Total deferred tax	153,079	27,637	91	180,807	(4,535)	(258)	176,014

There are no unrecognised deferred tax balances (2007: nil).

Deferred tax is shown net as the balance relates to companies included in the Lines Business 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, new investments agreements and transmission realignment. Note 3 Deferred Income contains information on these transactions.

Dismantling provision relates to the HVDC Pole 1, refer to Note 17 Provisions for background.

Imputation credit memorandum account

	2008 \$000	2007 \$000
Balance at the beginning of the year	211,384	165,034
Imputation credits on dividends received	4	15
Net tax payments/transfers made/refunds received	48,014	46,335
Imputation credits attached to dividends paid to shareholders	-	-
Balance at the end of the year	259,402	211,384

Dividend Withholding Payments

There were no dividend withholding payments during the year (2007: none).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

21. Capital and Reserves**LINES BUSINESS**

	Contributed capital \$000	Retained earnings \$000	Available for sale reserve \$000	Total equity \$000
Balance at 1 July 2006	1,200,000	(233,299)	9	966,710
Fair value movement on Fonterra shares	-	-	-	-
Deferred tax recognised directly in equity	-	-	304	304
Total recognised income and expense	-	186,491	(91)	186,400
Balance at 30 June 2007	1,200,000	(46,808)	222	1,153,414
Fair value movement on Fonterra shares	-	-	(861)	(861)
Deferred tax recognised directly in equity	-	-	258	258
Total recognised income and expense	-	80,205	-	80,205
Balance at 30 June 2008	1,200,000	33,397	(381)	1,233,016

Capital

Transpower has contributed paid in capital of \$1,200,000,000 (2007: \$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 (2007: nil)

Management of Capital

Dividends will not be payable in the short term. This is due to dividends being paid when there is "surplus funds". Surplus funds is 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. Transpower is currently undertaking a large capital works programme which is being funded from debt and existing reserves.

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.

22. Segment Reporting

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

23. Financial instruments

(a) Financial Risks

The Lines Business is subject to a number of financial risks which arise as a result of its business activities, including having a debt portfolio of \$1,173,611,000 as at 30 June 2008 (2007: \$1,460,590,000) denominated in both New Zealand dollars and foreign currency, making purchases from foreign suppliers and having contractual agreements with customers. These financial risks comprise:

Interest rate risk

Interest rate risk is the risk of adverse impact on the present and future finance costs of the Lines Business arising from the interaction of interest rate movements with the 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 Lines Business through the failure of a third party bank, financial institution or customer to meet its financial obligations. Financial instruments which subject the 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 Lines Business arising from the Lines Business's inability to meet its monetary obligations in an orderly manner. This might result from the 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 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

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

Currency risk management policy

The Lines Business's policy is to hedge all committed foreign currency denominated purchases greater than \$1 million (New Zealand Dollar equivalent). Foreign currency borrowings are hedged into New Zealand dollars at the time of commitment to drawdown by the Lines Business. Currency risk on foreign currency denominated borrowings is eliminated using cross currency interest rate swaps.

Credit risk management policy

The Lines Business'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 20 per cent of Lines Business 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.

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

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising the Lines Business's customer base. It is the Lines Business's policy to perform credit evaluations on customers requiring credit and the Lines Business may in some circumstances require collateral. No collateral is held at 30 June 2008 (2007: nil).

Liquidity risk policy

To ensure the Lines Business has adequate funding facilities in place to support future operations, the Lines Business's liquidity policy requires the 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 and peak cumulative anticipated operating cash flow requirements over the next six months.

To smooth the Lines Business'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

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

In the event the Lines Business is unable to utilise these facilities the Lines Business has established a committed credit facility. This is a 364 day Standby Facility for \$250,000,000 (which was not in use at 30 June 2008 or 30 June 2007). In addition, the Lines Business has established an additional 3 year standby facility for \$250,000,000 effective 2 July 2008.

Term investments

The Lines Business 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.

Interest rate swaps

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

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

LINES BUSINESS		
	2008	2007
	\$000	\$000
Within one year	139,500	332,000
One to two years	70,000	47,000
Two to five years	266,500	112,500
Greater than five years	2,782,132	2,644,500
Total interest rate swaps	3,258,132	3,136,000

Cross currency interest rate swaps

Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by the Lines Business 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.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

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

LINES BUSINESS		
	2008	2007
	\$000	\$000
Within one year	13,405	-
One to two years	-	40,441
Two to five years	27,833	45,872
Greater than five years	(9,162)	34,511
Total cross currency interest rate swaps	32,076	120,824

Forward rate agreements

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

The notional contract amounts of forward rate agreements outstanding as at 30 June 2008 was nil (2007: nil).

Interest rate options

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

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

Foreign exchange forward contracts

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

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

Within one year	19,310	32,685
One to two years	35,493	663
Two to five years	-	-
Greater than five years	-	-
Total forward foreign exchange contracts	54,803	33,348

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

(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:

LINES BUSINESS	
	2008
	\$000
Interest rate swaps	77,410
Cross currency interest rate swaps	52,830
Interest rate options	-
Foreign exchange forward contracts	935
Total	131,175
	2007
	\$000
	102,038
	-
	-
	-
Total	102,038

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions contained in the Lines Business's ISDA agreements. The Lines Business further manages this risk by only entering into transactions with counterparties that fall within the 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 loans and receivables, are carried at fair value in the Balance Sheet. Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

For loans and receivables the fair value is materially similar to their cost due to the short term nature of the balance.

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 methods used for determining fair values are discussed in Note 1 Accounting Policies.

(f) Interest Rate Repricing Analysis

The following table covers the 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 Lines Business will transact further interest rate hedging in advance of the repricing date to fix interest rates on the 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.

The amounts in the tables below are at amortised cost.

LINES BUSINESS 2008	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash	7.15%	11,014	-	-	-	11,014
Short term investments	8.33%	75,049	-	-	-	75,049
Long term investments	7.93%	-	-	14,000	10,000	24,000
		86,063	-	14,000	10,000	110,063
Liabilities						
Debt	8.62%	(166,938)	-	(351,963)	(658,382)	(1,177,283)
		(166,938)	-	(351,963)	(658,382)	(1,177,283)
Derivatives						
Interest rate swaps		2,183,368	(70,000)	(146,500)	(1,966,868)	-
Interest rate options		-	-	-	100,000	100,000
		2,183,368	(70,000)	(146,500)	(1,866,868)	100,000
Repricing Profile		2,102,493	(70,000)	(484,463)	(2,515,250)	(967,220)

The interest rate on debt as amended by interest rate swaps is 7.00%.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

LINES BUSINESS 2007	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000	Total \$000
Assets						
Cash	6.90%	4,682	-	-	-	4,682
Short term investments	7.37%	-	-	-	-	-
Long term investments	6.32%	526,297	-	-	-	526,297
		<u>530,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>530,979</u>
Liabilities						
Debt	7.29%	(758,595)	(167,063)	(350,691)	(314,474)	(1,590,823)
		<u>(758,595)</u>	<u>(167,063)</u>	<u>(350,691)</u>	<u>(314,474)</u>	<u>(1,590,823)</u>
Derivatives						
Interest rate swaps		2,223,500	158,000	(37,000)	(2,444,500)	(100,000)
Interest rate options		-	-	-	100,000	100,000
		<u>2,223,500</u>	<u>158,000</u>	<u>(37,000)</u>	<u>(2,344,500)</u>	<u>-</u>
Repricing Profile		<u>1,995,884</u>	<u>(9,063)</u>	<u>(387,691)</u>	<u>(2,658,974)</u>	<u>(1,059,844)</u>

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

LINES BUSINESS 2007	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000
Non derivative financial liabilities				
Borrowings (Principal)	(765,024)	(126,497)	(306,091)	(279,963)
Interest payments on borrowings	(35,806)	(36,206)	(87,415)	(133,535)
Derivative financial liabilities				
Derivative contracts - receipts	99,314	226,126	617,814	702,912
Derivative contracts - payments	(121,668)	(286,928)	(657,552)	(699,102)
	<u>(823,184)</u>	<u>(223,505)</u>	<u>(433,244)</u>	<u>(409,688)</u>

(g) Liquidity Analysis

LINES BUSINESS 2008	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000
Non derivative financial liabilities				
Borrowings (Principal)	(155,693)	-	(330,125)	(677,806)
Interest payments on borrowings	(47,030)	(47,025)	(115,008)	(144,371)
Derivative financial liabilities				
Derivative contracts - receipts	306,993	169,819	779,470	1,157,685
Derivative contracts - payments	(349,891)	(183,350)	(810,075)	(1,091,389)
	<u>(245,621)</u>	<u>(60,556)</u>	<u>(475,738)</u>	<u>(755,881)</u>

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

LINES BUSINESS 2007

	Within one year \$000	One to two years \$000	Two to five years \$000	Greater than five years \$000
Non derivative financial liabilities				
Borrowings (Principal)	(765,024)	(126,497)	(306,091)	(279,963)
Interest payments on borrowings	(35,806)	(36,206)	(87,415)	(133,535)
Derivative financial liabilities				
Derivative contracts - receipts	99,314	226,126	617,814	702,912
Derivative contracts - payments	(121,668)	(286,928)	(657,552)	(699,102)
	<u>(823,184)</u>	<u>(223,505)</u>	<u>(433,244)</u>	<u>(409,688)</u>

(h) Sensitivity AnalysisCurrency risk

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

Interest rate risk

The Lines Business policy is to hedge between 80% and 100% of debt in year 1 and reducing amounts out to 15 years.

Fair value movement risk

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

A parallel shift in the yield curve by 1% would create the following fair value movements based on net debt held at 30 June 2008.

1% parallel upward shift - fair value gain of \$77.7 million.

1% parallel downward shift - fair value loss of \$84.1 million.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

24. Operating lease commitments

	LINES BUSINESS	
	2008 \$000	2007 \$000
Commitments in respect of non-cancellable operating leases payable:		
Within one year	7,061	7,316
One to two years	6,407	7,063
Two to five years	9,584	12,935
Later than five years	5,882	8,956
Total operating lease commitments	28,934	36,270

These lease commitments primarily relate to leases on Transpower office space.

25. Capital commitments

	LINES BUSINESS	
	2008 \$000	2007 \$000
Capital commitments in respect of contracts for capital expenditure:		
Within one year	98,059	40,260
One to two years	-	-
Total capital commitments	98,059	40,260

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

26. 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.

Cross Border Leases

Transpower has entered into three cross border leases in respect of certain HVDC converter stations, the submarine cables and the majority of the AC transmission assets in the South Island.

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

The cross border leases are excluded from these Lines Business financial statements.

(ii) Economic Gain (Loss) Account

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

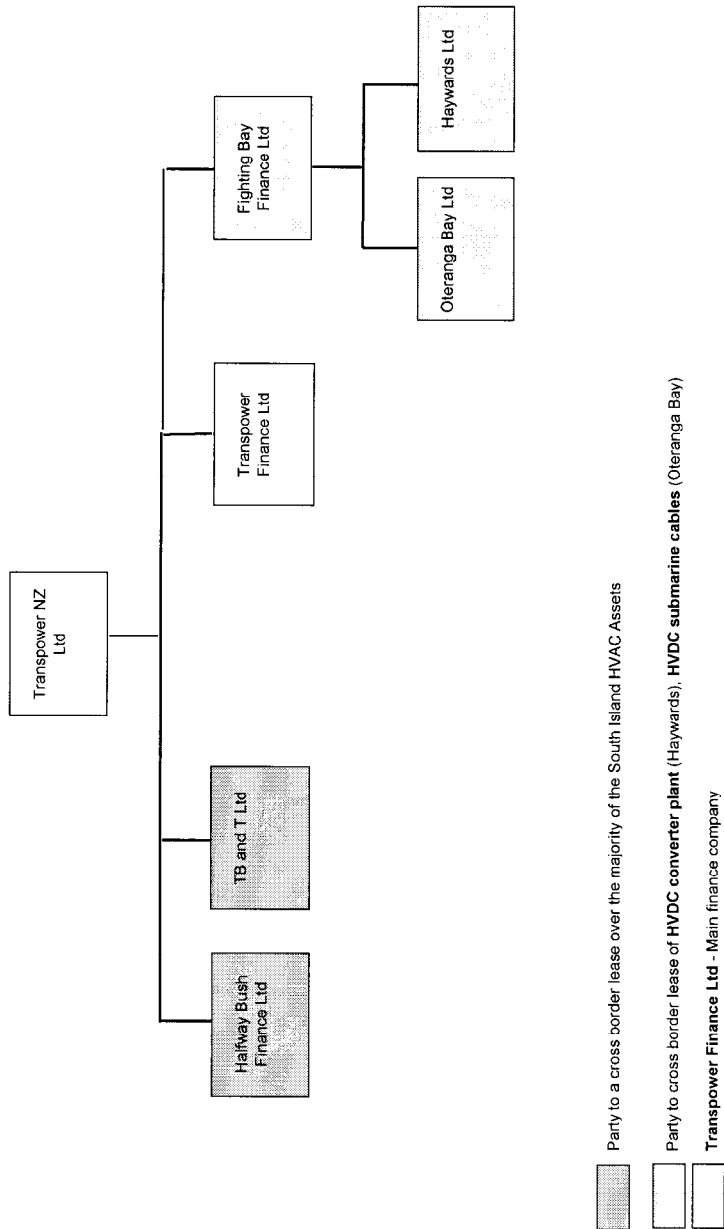
The net balance of the EV account at 30 June 2008 was \$6.6m to the credit of the customer.

(iii) Various Other Lawsuits, Claims and Investigations

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

27. 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 2008.
As at balance date the subsidiaries are as follows:



Changes during the year

Entities that existed to facilitate a structured financing transaction cease to exist at 30 June 2008 due to:

- Amalgamation on 30 June 2008 into Transpower Finance Limited of:
 - Aratiatia Holdings Limited (was 100% owned by Transpower)
 - Bunmythorpe Holdings (was 100% owned by Transpower)
 - Benmore Finance (was 100% owned by Aratiatia Holdings Limited from 19 September 2007 prior to this it was 96% owned by Transpower and 4% owned by Bunmythorpe Holdings)
- Dissolving on 30 June 2008 of Benmore Trust (Trustee was Transpower) with net assets being distributed to Aratiatia Holdings Limited and Benmore Finance

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

28. Related parties

Transactions with key management personnel

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

Key management personnel compensation

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

	LINES BUSINESS	
	2008	2007
	\$000	\$000
Directors' fees	564	449
Short term employee benefits	4,221	3,995
Defined contribution schemes	16	-
Termination benefits	117	198

29. 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.

30. Significant estimates or judgements

Judgements

No significant judgements were made during the year.

Estimations

A key estimate and assumption made regarding future events was in relation to a dismantling provision. This provision has a balance at 30 June 2008 of \$18.9 million. The nature and uncertainty on this provision is discussed in Note 17 Provisions.

31. Adoption of international financial reporting standards

The IFRS Project

In December 2002, the New Zealand Accounting Standards Review Board announced that International Financial Reporting Standards ("IFRS") will apply to all New Zealand entities from 1 January 2007. In adopting IFRS for issue as NZ IFRS, certain adaptations of IFRS have been made to reflect New Zealand circumstances. In complying with NZ IFRS, the Lines Business will also be in compliance with IFRS. The Lines Business has elected to apply NZ IFRS for the year ended 30 June 2007.

Basis of Preparation of Data

The restated financial information has been prepared on the basis of NZ IFRS and New Zealand Equivalents to Standing Interpretations Committee ("NZ SIC") and New Zealand Equivalents to International Financial Reporting Interpretations Committee ("NZ IFRIC").

In accordance with NZ IFRS 1, "First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards", the transition date to NZ IFRS was 1 July 2006, the start of the comparative period for the year ended 30 June 2007. Normally, accounting changes of this nature would require full retrospective application, but NZ IFRS 1 presents optional and mandatory exemptions to full retrospective application.

NZ IFRS 1 Exemptions

The Lines Business has applied the following key exemptions:

Business combinations

Business combinations prior to the transition date (1 July 2006) have not been restated on an NZ IFRS basis.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

Restated Financial Information under NZ IFRS
Balance Sheet as at 1 July 2006

ASSETS EMPLOYED

	NZ GAAP \$000	Financial Instruments (a)	Intangible Assets (b)	Leave Provisions (c)	Deferred Revenue (d)	Rental Incentive (e)	Fair Value Hedges (f)	Deferred Tax (g)	Fonterra Shares (h)	Dismantling Provision (i)	Total Adjustments	NZ IFRS \$000
Current assets												
Cash	2,088											2,088
Trade and other receivables	62,955	(2,758)									(2,758)	60,197
Current tax asset	11,305											11,305
Investments	-											-
Derivatives in gain	-	10,769					849				11,618	11,618
Other financial assets	-											-
Inventories	5,025											5,025
	81,373	8,011	-	-	-	-	849	-	-	-	8,860	90,233
Non current assets												
Non current receivables	7,650											7,650
Other financial assets	532,700	(149)							708		559	533,259
Property, plant and equipment	2,175,521		(10,649)				(79)		(695)		(11,423)	2,164,098
Intangibles	-		10,649								10,649	10,649
	2,715,871	(149)	-	-	-	-	(79)	-	13	-	(215)	2,715,656
TOTAL ASSETS EMPLOYED	2,797,244	7,862	-	-	-	-	770	-	13	-	8,645	2,805,889

FUNDS EMPLOYED

Current liabilities												
Trade and other payables	75,651	(9,046)		398							(8,648)	67,003
Current debt	130,467	3,321									3,321	133,788
Derivatives in loss	-	34,261					759				35,020	35,020
Deferred income	18,494				3,207	806					4,013	22,507
Provisions	7,054									20,000	20,000	27,054
	231,666	28,536	-	398	3,207	806	759	-	-	20,000	53,706	285,372
Non current liabilities												
Non current payables	2,803											2,803
Finance lease liabilities	1,913											1,913
Non current debt	1,422,538	(26,526)									(26,526)	1,396,012
Deferred tax	-	1,931		(131)	(1,060)	(266)		159,197	4	(6,600)	153,079	153,079
	1,427,254	(24,595)	-	(131)	(1,060)	(266)	4	159,197	4	(6,600)	126,553	1,553,807
Total liabilities	1,658,920	3,941	-	267	2,147	540	763	159,197	4	13,400	180,259	1,839,179
Equity												
Capital	1,200,000											1,200,000
Reserves	-											-
Accumulated surplus (deficit)	(61,676)	3,921		(267)	(2,147)	(540)	7	(159,197)	9	(13,400)	(171,623)	(233,299)
Total equity	1,138,324	3,921	-	(267)	(2,147)	(540)	7	(159,197)	9	(13,400)	(171,614)	966,710
TOTAL FUNDS EMPLOYED	2,797,244	7,862	-	-	-	-	770	-	13	-	8,645	2,805,889

Restated Financial Information under NZ IFRS
Balance Sheet as at 30 June 2007

ASSETS EMPLOYED

	NZ GAAP \$000	Financial Instruments (a)	Intangible Assets (b)	Leave Provisions (c)	Deferred Revenue (d)	Rental Incentive (e)	Fair Value Hedges (f)	Deferred Tax (g)	Fonterra Shares (h)	Dismantling Provision (i)	Reclassify (j)	Total Adjustments	NZ IFRS \$000
Current assets													
Cash	1,919											-	1,919
Trade and other receivables	61,403	(2,757)										(2,757)	58,646
Current tax asset	8,402											-	8,402
Investments	65											-	65
Derivatives in gain	-	102,038										102,038	102,038
Other financial assets	526,297						3,631					3,631	529,928
Inventories	629										1,507	1,507	2,136
	598,715	99,281	-	-	-	-	3,631	-	-	-	1,507	104,419	703,134
Non current assets													
Non current receivables	5,409											-	5,409
Other financial assets	-											4,151	4,151
Property, plant and equipment	2,338,062		(14,802)				256				(1,507)	(19,888)	2,318,174
Intangibles	-		14,802									14,802	14,802
	2,343,471	-	-	-	-	-	256	-	316	-	(1,507)	(935)	2,342,536
TOTAL ASSETS EMPLOYED	2,942,186	99,281	-	-	-	-	3,887	-	316	-	-	103,484	3,045,670

FUNDS EMPLOYED

Current liabilities													
Trade and other payables	67,635	(11,186)		398								(10,788)	56,847
Current debt	758,595	64										64	758,659
Derivatives in loss	-	127,088					3,951					131,039	131,039
Deferred income	11,761				3,240	715						3,955	15,716
Provisions	5,921									20,000		20,000	25,921
	843,912	115,966	-	398	3,240	715	3,951	-	-	20,000	-	144,270	988,182
Non current liabilities													
Non current payables	2,535											-	2,535
Finance lease liabilities	1,643											-	1,643
Non current debt	849,387	(130,297)										(130,297)	719,090
Deferred tax	-	33,847		(120)	(972)	(236)	42	154,751	95	(6,600)		180,807	180,807
	853,565	(96,450)	-	(120)	(972)	(236)	42	154,751	95	(6,600)	-	50,510	904,075
Total liabilities	1,697,477	19,516	-	278	2,268	479	3,993	154,751	95	13,400	-	194,780	1,892,257
Equity													
Capital	1,200,000											-	1,200,000
Reserves	-											221	221
Accumulated surplus (deficit)	44,709	79,765		(278)	(2,268)	(479)	(106)	(154,751)	221	(13,400)		(91,517)	(46,808)
Total equity	1,244,709	79,765	-	(278)	(2,268)	(479)	(106)	(154,751)	221	(13,400)	-	(91,296)	1,153,413
TOTAL FUNDS EMPLOYED	2,942,186	99,281	-	-	-	-	3,887	-	316	-	-	103,484	3,045,670

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

Restated Financial Information under NZ IFRS
Income Statement for the year ended 30 June 2007

	NZ GAAP \$000	Financial Instruments (a)	Leave Provisions (c)	Deferred Revenue (d)	Rental Incentive (e)	Fair Value Hedges (f)	Deferred Tax (g)	Total Adjustments	NZ IFRS \$000
Operating revenue	538,389			1,091				1,091	539,480
Operating expenses	333,506							(91)	333,415
	204,883							1,182	206,065
Net finance costs	57,465			1,118		56		1,174	58,639
(Gain) loss in the fair value of financial instruments	-	(107,825)				83		(107,742)	(107,742)
Tax expense	41,033	31,979	12	88	52	(46)	(4,441)	27,644	68,677
Net profit	106,385	75,846	(12)	(115)	39	(93)	4,441	80,106	186,491

Notes to Restated Financial Information

(a) Financial instruments

Debt, investments and derivatives are measured at fair value under IFRS with the movement in fair value going to the Income Statement. The only exception being available-for-sale investments where the movement in fair value goes to equity (adjustments (i) and (j) below).

Fair value includes accrued interest. Previously accrued interest was shown separately in trade receivables and payables.

(b) Intangible assets

Software and easements have been reclassified from property, plant and equipment to intangible assets.

(c) Leave provisions

A provision has been created for sick leave. Also, the existing long service leave provision has increased to incorporate the probability of leave being taken in periods beyond a year.

(d) Deferred revenue

The Lines Business has received money upfront to relating to new investment agreements.

New investment agreements – certain new investment agreements, whereby a customer pays for Transpower to build a grid connection asset, are received upfront. Prior to IFRS, these were amortised over the contract period on a straight line basis. Under IFRS, this must now be deferred over the underlying contract life on a yield to maturity basis recognising an imputed interest expense.

(e) Rental incentive

Transpower received a free rent period at the start of the current lease for the Wellington office. Under IFRS, this incentive must be amortised over the life of the lease.

(f) Fair value hedges

Transpower hedges foreign purchases over \$ 1 million (New Zealand Dollar equivalent) with forward foreign exchange contracts and accounts for these as fair value hedges.

(g) Deferred tax

Deferred tax is provided in full on temporary differences arising between the accounting and tax base of assets and liabilities. Deferred tax assets are only recognised to the extent that there will be future taxable profits or deferred tax liabilities to offset those assets. Deferred tax assets are recognised on a net basis where the Lines Business has legal right of set off within a tax jurisdiction.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

(h) Fonterra Shares

Transpower owns Fonterra shares. These shares are classified as available for sale and are held at fair value with movements in fair value going to reserves. Previously, Fonterra shares were recognised and held at cost as part of property, plant and equipment.

(i) Dismantling provision

A dismantling provision has been recognised on transition to IFRS in relation to the HVDC Pole 1.

(j) Reclassification of inventory

The provision for obsolete inventory has been reclassified to property, plant and equipment as the provision relates to spares.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

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

	LINES BUSINESS	
	2008	2007
Assets	\$000	\$000
Goodwill	-	-
Total intangible assets	17,060	14,802
Total tangible assets	2,508,324	2,318,174

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	220,060				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	220,060				
Interest on cash, bank balances, and short-term investments (ISTI)	0				
OSBIT minus ISTI	220,060	a	220,060		220,060
Net surplus after tax from financial statements	80,205				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	80,205	n		80,205	
Amortisation of goodwill and amortisation of other intangibles	0	g	add 0	add 0	add 0
Subvention payment	0	s	add 0	add 0	add 0
Depreciation of SFA at BV (x)	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	25,089	q			deduct 25,089
Revaluations	0	r			add 0
Income tax	37,153	p			deduct 37,153
Numerator			220,060 OSBIT ^{ADJ} = a + g + s + d	80,205 NSAT ^{ADJ} = n + g + s - s*t + d	157,818 OSBIT ^{ADJ} = a + g - q + r + s + d - p - s*t
Fixed assets at end of previous financial year (FA ₀)	2,332,976				
Fixed assets at end of current financial year (FA ₁)	2,525,384				
Adjusted net working capital at end of previous financial year (ANWC ₀)	-37,701				
Adjusted net working capital at end of current financial year (ANWC ₁)	-101,554				
Average total funds employed (ATFE) (or regulation 33 time-weighted average)	2,359,553	c	2,359,553		2,359,553
Total equity at end of previous financial year (TE ₀)	1,153,414				
Total equity at end of current financial year (TE ₁)	1,233,016				
Average total equity (or regulation 33 time-weighted average)	1,193,215	k		1,193,215	
WUC at end of previous financial year (WUC ₀)	251,421				
WUC at end of current financial year (WUC ₁)	316,765				
Average total works under construction (or regulation 33 time-weighted average)	284,093	e	deduct 284,093	deduct 284,093	deduct 284,093
Revaluations	0	r			
Half of revaluations	0	r/2			deduct 0
Intangible assets at end of previous financial year (IA ₀)	0				
Intangible assets at end of current financial year (IA ₁)	0				
Average total intangible asset (or regulation 33 time-weighted average)	0	m		deduct 0	
Subvention payment at end of previous financial year (S ₀)	0				
Subvention payment at end of current financial year (S ₁)	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v		add 0	
System fixed assets at end of previous financial year at book value (SFA _{bo})	0				
System fixed assets at end of current financial year at book value (SFA _{bo1})	0				
Average value of system fixed assets at book value (or regulation 33 time-weighted average)	0	f	deduct 0	deduct 0	deduct 0
System Fixed assets at year beginning at ODV value (SFA _{odvo})	0				
System Fixed assets at end of current financial year at ODV value (SFA _{odv1})	0				
Average value of system fixed assets at ODV value (or regulation 33 time-weighted average)	0	h	add 0	add 0	add 0
Denominator			2,075,460 ATFE ^{ADJ} = c - e - f + h	909,122 Ave TE ^{ADJ} = k - e - m + v -	2,075,460 ATFE ^{ADJ} = c - e - 1/2r - f + h
Financial Performance Measure:			10.6	8.8	7.6
			ROF = OSBIT ^{ADJ} /ATFE ^{ADJ} x 100	ROE = NSAT ^{ADJ} /ATE ^{ADJ} x 100	ROI = OSBIT ^{ADJ} /ATFE ^{ADJ} x 100

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

Transpower has included intangible assets with 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 2008

	LINES BUSINESS 2008	LINES BUSINESS 2007	LINES BUSINESS 2006	LINES BUSINESS 2005	LINES BUSINESS 2004
Financial Measures					
Return on Equity	8.8%	9.7%	7.8%	8.1%	7.1%
Return on Funds	10.6%	9.6%	9.0%	9.4%	7.9%
Return on Investment	7.6%	6.5%	5.8%	6.1%	10.3%

Efficiency Measures

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

	$\frac{a}{b}$	133,583,000 17,334	120,355,000 17,334	140,790,000 17,248	152,304,000 17,045	131,616,000 17,041
a*	is direct expenditure (in dollars); and	\$7,706	\$6,943	\$8,163	\$8,935	\$7,723
b	is system length (in kilometres);					

* 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 2008

	2008 \$ million	2007 \$ million
System fixed assets book value at 30 June 2007	2,137	2,040
Add system fixed assets acquired during the year at DHC	241	234
Less system fixed assets disposed of during the year at DHC	(16)	(5)
Less depreciation on system fixed assets at DHC	(129)	(132)
Equals system fixed assets book value at 30 June 2008	2,233	2,137

* During the year Transpower chose to reset the pseudo value of Pole 1 to zero. This was a shareholder change.

1 The Electricity Information Disclosure Requirements¹

(For 12 months ending 30 June 2008, 2007, 2006, 2005)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics

(Disclosure under Requirement 20)

1. Energy delivery efficiency performance measures

(a) Load factor (%)

	2007/08	2006/07	2005/06	2004/05
Electrical energy entering the transmission system as percentage of maximum demand times hours per year	68.35	66.60	66.50	69.70

(b) Loss ratio (%)

	2007/08	2006/07	2005/06	2004/05
Transmission losses as percentage of energy entering the system	3.66	3.74	3.63	3.76

(c) Capacity utilisation (%)

	2007/08	2006/07	2005/06	2004/05
Maximum demand as percentage of total transformer capacity Based on Maximum Continuous Ratings	48.10	50.37	51.61	49.72

2. Statistics

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

	2007/08	2006/07	2005/06	2004/05
Total ^a	17,333	17,334	17,248	17,045
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)	8,631	8,617	8,611	8,380
110 kV (HVAC)	6,298	6,299	6,219	6,073
66/50/33/11 kV (HVAC) ^a	1,151	1,165	1,165	1,339

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

	2007/08	2006/07	2005/06	2004/05
Total ^a	17,248	17,249	17,163	16,960
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)	8,631	8,617	8,611	8,380
110 kV (HVAC)	6,293	6,294	6,214	6,068
66/50/33/11 kV (HVAC) ^a	1,151	1,165	1,165	1,339

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

	2007/08	2006/07	2005/06	2004/05
350 kV (HVDC)	40	40	40	40
270 kV (HVDC)	40	40	40	40

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

	2007/08	2006/07	2005/06	2004/05
(110 kV HVAC)	5	5	5	5

	2007/08	2006/07	2005/06	2004/05
(d) Transformer capacity (Maximum Continuous Ratings) (kVA)	13.80x10 ⁶	13.31x10 ⁶	12.88x10 ⁶	12.75x10 ⁶

	2007/08	2006/07	2005/06	2004/05
(e) Maximum demand (kilowatts) ^{bc} (kW)	6.64x10 ⁶	6.71x10 ⁶	6.65x10 ⁶	6.34 x10 ⁶

	2007/08	2006/07	2005/06	2004/05
(f) Total electricity entering the system (before losses) ^{bc} (kWh)	39.72x10 ⁹	39.13x10 ⁹	38.73x10 ⁹	38.71x10 ⁹

(g) Total amount of electricity (in kilowatt hours) supplied from the system (after losses of electricity) during the financial year on behalf of each person that is an electricity generator or an electricity retailer, or both: ^{bcd} (kWh)

	2007/08	2006/07	2005/06	2004/05
	38.27x10 ⁹	37.66x10 ⁹	37.33x10 ⁹	37.25x10 ⁹

	2007/08	2006/07	2005/06	2004/05
(h) Total connected customers	49	48	47	48

Notes

- a Excludes 61km of circuits leased from others and operated by Transpower, and 34 km owned by Transpower but operated by others.
- 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

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

The Electricity Information Disclosure Requirements

(For 12 months ending 30 June 2008, 2007, 2006, 2005)

Part 6

Reliability Performance Measures to be Disclosed by Transpower^a

(Disclosure Under Requirement 21)

	2007/08	2006/07	2005/06	2004/05
1. Total number of unplanned interruptions ^b				
Resulting from 71 loss of supply incidents in 2007/08	115	104	148	67
2. Electricity customer interruptions in system minutes ^c	28.0 ^d	11.7	40.8	6.7
Planned	3.3	3.3	2.8	3.4
Unplanned	24.6 ^d	8.4	38.0	3.3
3. Underlying electricity customer interruptions in system minutes ^c				
Underlying interruptions are those interruptions of 1 system minute or less duration	6.8	6.4	8.8	5.7
Planned	2.1	2.2	1.5	3.4
Unplanned	4.7	4.1	7.2	2.3
4. Average supply reliability (%)				
Measured by the energy supplied divided by the sum of the energy supplied and not supplied	99.9919	99.9965	99.9879	99.9981
5. Uneconomic generation due to planned and unplanned transmission system unavailability (%) ^e	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability (%) ^e	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability (%) ^e	-	-	-	-
8. Planned interruption restoration performance (%)	73.1	73.1	72.2	71.9
9. Unplanned interruption response (%)	100.0	99.0	100.0	100.0

Notes

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

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

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

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

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

d Transpower considers that approximately 15.7 system minutes out of the total of 24.6 system minutes of unplanned interruptions is not totally attributable to Transpower. This arises from two major incidents during which industrial customers did not have the flexibility in their systems to be able to transfer load to alternative feeders.

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

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

The valuations on which those financial performance measures are based are as at 30 June 2008.



Gregory Fortuin

27 November 2008



Mark Tume

Form 7**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 2004
REGULATION 37****STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND
INFORMATION SUPPLIED TO COMMERCE COMMISSION**

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

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957. Declared at this day of 27 November 2008.

Mark Tume
Director


Solicitor of the High Court
of New Zealand

David M. Knight
Barrister & Solicitor
WELLINGTON