



New Zealand Gazette

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TRANSPOWER NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

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



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REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS FOR THE YEAR ENDED 30 JUNE 2003

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 2003. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies.

Directors' responsibilities

The Electricity (Information Disclosure) Regulations 1999 require the Directors to prepare financial statements that give a true and fair view of the financial position of Transpower New Zealand Limited Lines Business as at 30 June 2003, and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

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

Basis of opinion

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

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

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



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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by Transpower New Zealand Limited Lines Business as far as appears from our examination of those records; and
- the financial statements of Transpower New Zealand Limited Lines Business:
 - (a) comply with generally accepted accounting practice in New Zealand; and
 - (b) give a true and fair view of Transpower New Zealand Limited Lines Business' financial position as at 30 June 2003 and the results of its operations and cash flows for the year ended on that date; and
 - (c) comply with the Electricity (Information Disclosure) Regulations 1999.

Our audit was completed on 17 November 2003 and our unqualified opinion is expressed as at that date.

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

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

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

PricewaterhouseCoopers



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

We have examined the attached information, being:

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

that were prepared by Transpower New Zealand Limited Lines Business and dated 17 November 2003 for the purposes of regulation 15 of the Electricity (Information Disclosure) Regulations 1999.

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

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

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
17 November 2003

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

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

We have examined the valuation report of Transpower New Zealand Limited Lines Business and dated 26 November 2003, which report contains valuations of system fixed assets as at 30 June 2003.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, the valuations contained in the report, including the total valuation of system fixed assets of \$1,966,000,000, have been made in accordance with the ODV Handbook.

A handwritten signature in black ink that reads "Jim Chin". The signature is written in a cursive, flowing style.

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand
26 November 2003

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

		LINES BUSINESS	
		2003	2002
	Notes	\$000	\$000
Operating revenue	2	441,288	470,273
Operating expenses	3	294,557	291,446
		<hr/>	<hr/>
		146,731	178,827
Net finance costs	5	78,714	81,536
Surplus from operations before tax and revaluation		68,017	97,291
Transfer from asset revaluation reserve	13	(33,208)	64,288
Surplus from operations before tax		<hr/>	<hr/>
		34,809	161,579
Tax expense	6	16,360	24,150
Operating surplus after tax		<hr/>	<hr/>
		18,449	137,429
Net surplus attributable to shareholders		<hr/>	<hr/>
		18,449	137,429

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2003

		LINES BUSINESS	LINES BUSINESS
		2003	2002
	Notes	\$000	\$000
Equity at the beginning of the year		972,778	911,678
Net surplus attributable to shareholders		18,449	137,429
Total recognised revenue and expenses for the year		18,449	137,429
Dividends paid	15	(27,766)	(76,329)
Equity at the end of the year		<u>963,461</u>	<u>972,778</u>

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

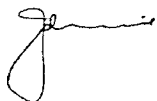
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

		LINES BUSINESS	
		2003	2002
	Notes	\$000	\$000
ASSETS EMPLOYED			
Current assets	7	62,592	67,381
Fixed assets	8	2,122,626	2,152,317
Total Assets Employed		<u>2,185,218</u>	<u>2,219,698</u>
FUNDS EMPLOYED			
Liabilities			
Current liabilities	9	419,737	441,084
Long term lease liabilities	10	-	-
Long term debt	11	802,019	805,836
Total Liabilities		<u>1,221,757</u>	<u>1,246,920</u>
Equity			
Capital	12	1,200,000	1,200,000
Reserves	13	-	-
Accumulated deficit	14	(236,539)	(227,222)
Total Equity		<u>963,461</u>	<u>972,778</u>
Total Funds Employed		<u>2,185,218</u>	<u>2,219,698</u>

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

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 17 November 2003.

For, and on behalf of, the Board



John Rennie
Director

17 November 2003



Susan Paterson
Director

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2003

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	441,458	517,327
Interest received	4,120	6,055
Cash was applied to:		
Payments to suppliers and employees	(196,447)	(197,471)
Tax payments	(23,192)	3,191
Interest paid	(81,896)	(95,158)
Net cash inflows from operations	<u>144,043</u>	<u>233,944</u>
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of assets	2,321	1,422
Short term investments	842,460	708,999
Cash was applied to:		
Purchase of fixed assets	(99,322)	(84,116)
Short term investments	(834,050)	(718,886)
Net cash outflows from investments	<u>(88,591)</u>	<u>(92,581)</u>
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	1,035,167	1,060,931
Cash was applied to:		
Dividends paid	(27,766)	(76,329)
Repayment of loans	(1,061,886)	(1,126,167)
Net cash outflows from financing	<u>(54,486)</u>	<u>(141,565)</u>
Net increase/(decrease) in cash held	967	(202)
Opening balance brought forward	(1,719)	(1,517)
Closing net cash carried forward	<u>(752)</u>	<u>(1,719)</u>
Closing net cash carried forward comprises:		
Cash and bank	-	19
Bank overdraft	(752)	(1,738)
	<u>(752)</u>	<u>(1,719)</u>

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF CASH FLOWS continued
FOR THE YEAR ENDED 30 JUNE 2003

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

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Operating surplus after tax	18,449	137,429
Add/(deduct) non-cash items:		
Depreciation	81,307	83,619
Infrastructure asset service potential adjustment	8,545	12,689
Transfer from asset revaluation reserve	33,208	(64,288)
Capitalised interest	(3,179)	(3,424)
Movements in working capital items:		
Decrease(increase) in trade and other receivables	1,757	46,502
Decrease(increase) in prepayments	(423)	(960)
Decrease(increase) in stocks of materials	891	(3,961)
(Decrease)increase in trade and other liabilities, interest payable and deferred income	(2,785)	(1,763)
(Decrease)increase in taxation payable	(6,832)	27,341
Increase(decrease) in provisions	6,295	(6,592)
Add/(deduct) items classified as investing activities:		
Fixed asset write-offs and loss on sale	6,810	7,352
Net Cash Flow from Operations	144,043	233,944

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

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

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986, the Financial Reporting Act 1993 and the Electricity (Information Disclosure) Regulations 1999 as amended by the Electricity (Information Disclosure) Amendment Regulations 2000 and 2001.

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

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

Measurement Base

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

Accounting Policies

The following accounting policies are applied:

(a) Principles of Consolidation

The Transpower Lines Business financial statements are prepared from the financial statements of Transpower and its subsidiaries which undertake lines business activities, as at 30 June 2003. The purchase method is used to consolidate subsidiary companies. All significant transactions between group companies are eliminated on consolidation.

(b) Revenue

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

(c) Goods and Services Tax (GST)

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003*(d) Current Assets*

Receivables are stated at their estimated net realisable value.

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

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

(e) Investments

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

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

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

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003*(f) Fixed Assets (continued)****Infrastructure Asset - Transmission Lines***

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

The Transpower Lines Business intends to maintain the operating capability of the transmission line network into the foreseeable future.

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

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

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

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

Effective 1 July 2003, Transpower will fully comply with FRS 3 and will no longer use infrastructure accounting.

Capital Work in Progress

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003*(g) Depreciation*

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

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

(h) Leased Assets

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

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

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

(i) Statement of Cash Flows

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003*(i) Statement of Cash Flows (continued)*

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

(j) Taxation

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

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

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

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

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

(k) Foreign Currencies

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003**(l) Financial Instruments**

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

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

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

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

(m) Reclassifications

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

Changes in Accounting Policies

Spares are now included as fixed assets and depreciated. Previously spares were accounted for as stocks of materials. This change of accounting policy has resulted in an increase in fixed assets and a reduction in stocks of materials of \$17,464,000 (2002: \$16,472,000). Depreciation expense in 2003 has increased by an immaterial amount.

There have been no other changes in accounting policies.

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

2. OPERATING REVENUE

	LINES BUSINESS LINES BUSINESS	
	2003	2002
	\$000	\$000
Transmission services revenue	439,616	468,335
Other revenue	1,672	1,938
Total operating revenue	<u>441,288</u>	<u>470,273</u>

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

Included in the 2002 financial year is a provision release of \$24.5 million due to the Meridian Settlement. This resulted in an increase in the operating surplus after tax in the 2002 financial year by \$21.2 million.

Electricity regulations additional disclosures:

Revenue provided to Lines Business from Other Transpower Business	71	87
Revenue - AC loss rental rebates	69,076	85,017
Expense - AC loss rental rebates	(69,063)	(84,778)
AC loss rental rebates not passed through to customers	<u>13</u>	<u>239</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

3. OPERATING EXPENSES

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Administration and general costs	65,099	62,305
Asset operation and maintenance costs	120,445	106,599
Charges in respect of assets:		
Depreciation - Buildings	1,942	1,432
Depreciation - Substations	32,893	38,730
Depreciation - HVDC Link	10,788	10,140
Depreciation - HVDC leased assets	12,176	12,796
Depreciation - Communication assets	9,464	9,498
Depreciation - Administration assets	14,044	11,023
Infrastructure asset service potential adjustment	8,545	12,689
Stock and asset write-offs	7,105	7,500
Charges in respect of receivables:		
Bad debts written off	8	32
Movement in the provision for doubtful debts	8,251	-
Provision for industry related costs	-	15,000
Directors' fees	329	331
Study grants and donations	877	825
Lease and rental costs	2,591	2,546
Total operating expenses	<u>294,557</u>	<u>291,446</u>
Net loss on the disposal of assets included in stock and asset write-offs:		
Net loss on the disposal of assets	6,810	7,352
	<u>6,810</u>	<u>7,352</u>
Electricity regulations additional disclosures:		
Employee salaries and redundancies	28,688	27,602
Human resource expenses	2,766	2,794
Marketing / advertising expenses	551	494
Legal and consultancy expenses (including industry reform)	12,419	13,373
Corporate and administration expenses	14,891	11,103
Other	5,784	6,939
Total administration and general expenditure	<u>65,099</u>	<u>62,305</u>
Transfer payments to "Other Transpower Businesses"		
Payment for metering data	988	870
Payment for insurance	11,427	5,205
Total transfer payments to "Other Transpower Businesses"	<u>12,415</u>	<u>6,075</u>
Local authority rates expense	<u>1,145</u>	<u>1,244</u>
Consumer billing and information system expense	<u>375</u>	<u>767</u>
Depreciation of system assets	65,847	71,735
Depreciation of other assets	15,460	11,884
Total depreciation	<u>81,307</u>	<u>83,619</u>
Bad debts written off	8	32
Movement in the provision for doubtful debts	8,251	-
Total cost of offering credit	<u>8,259</u>	<u>32</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

4. REMUNERATION OF AUDITORS	LINES BUSINESS	
	2003	2002
Fees paid or payable to PricewaterhouseCoopers	\$000	\$000
As auditor of Transpower and Transpower subsidiaries	207	187
For other services		
Reporting Engagements other than the annual report	58	111
Assistance to Internal Audit function	272	273
Other Assurance-oriented assignments	273	822
Other	237	260
	<u>1,047</u>	<u>1,653</u>
5. NET FINANCE COSTS		
Finance costs	86,013	91,015
Capitalised interest	(3,179)	(3,424)
Interest received	(4,120)	(6,055)
Net finance costs	<u>78,714</u>	<u>81,536</u>
Total operating expenses	294,557	291,446
Net finance costs	78,714	81,536
Total expenses including net financing costs	<u>373,271</u>	<u>372,982</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

6. TAXATION

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Operating surplus before tax	34,809	161,579
Prima facie tax at 33%	11,487	53,321
Tax effect of:		
Timing differences not recognised		
- current period excluding revaluation adjustment	(7,696)	(6,780)
- current period revaluation adjustment	10,959	(21,215)
Permanent differences	468	(52)
Income tax charge in respect of the current year	15,218	25,274
Under / (over) provision in prior years	1,142	(1,124)
Tax expense	16,360	24,150
The income tax charge is represented by:		
Tax payable in the current year	16,566	24,660
Deferred tax	(206)	(510)
	16,360	24,150
Deferred tax asset		
Balance at the beginning of the year	1,665	1,155
Increase in deferred tax asset	206	510
Balance at the end of the year	1,871	1,665
Deferred tax liability memorandum account		
Balance at the beginning of the year	151,310	123,315
Increase (reduction) in deferred tax liability	(3,263)	27,995
Balance at the end of the year	148,047	151,310
These timing differences predominantly relate to depreciation and infrastructure asset service potential adjustment in respect of fixed assets, and are not recognised in the financial statements.		
Imputation credit memorandum account		
Balance at the beginning of the year	45,684	86,904
Tax payments made	25,901	(384)
Imputation credits attached to dividends paid to shareholders	(17,166)	(40,836)
Balance at the end of the year	54,419	45,684

TRANSPower NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

7. CURRENT ASSETS

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Cash and bank	-	19
Short term investments	510	9,887
Trade receivables	36,303	40,625
Provision for current tax	8,518	1,892
Deferred tax	1,871	1,665
Other receivables	2,565	-
Stocks of materials	11,093	11,984
Prepayments	1,732	1,309
Total current assets	<u>62,592</u>	<u>67,381</u>

Reconciliation of provision for current tax:

Balance at the beginning of the year	(1,892)	(29,743)
Tax payable in the current year (refer Note 6)	16,566	24,660
Provisional tax (payments) refunds made during the year	(23,192)	3,191
Balance at the end of the year	<u>(8,518)</u>	<u>(1,892)</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

8. FIXED ASSETS

	LINES BUSINESS Valuation 2003 \$000	LINES BUSINESS Valuation 2002 \$000
Infrastructure asset		
Transmission lines	806,001	817,531
Non infrastructure assets		
Freehold land	51,807	49,942
Freehold buildings	38,472	41,476
Substations	773,267	765,574
HVDC link	60,309	67,530
HVDC leased assets	222,178	243,318
Communications	47,356	42,763
Administration assets	24,081	24,798
Capital work in progress	99,155	99,385
Total non infrastructure assets	1,316,625	1,334,786
Total fixed assets	2,122,626	2,152,317

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

Capital work in progress comprises the following asset classes:

Transmission lines	5,700	5,392
Freehold land	247	677
Freehold buildings	198	3,412
Substations	68,898	67,962
HVDC link	191	304
HVDC leased assets	237	501
Communications	5,183	9,381
Administration assets	18,501	11,756
	99,155	99,385

During the year the following borrowing costs were capitalised:

Transmission lines	348	264
Freehold land	95	20
Freehold buildings	76	111
Substations	1,734	1,850
HVDC link	6	7
HVDC leased assets	7	12
Communications	321	421
Administration assets	592	739
	3,179	3,424

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

The fixed assets of the Lines Business were valued at 30 June 2003 in accordance with the ODV methodology. The valuation was completed by Transpower, and independently reviewed by PricewaterhouseCoopers.

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

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

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

Replacement costs for HVDC assets are based on:

- international costs for HVDC equipment obtained from Teshmont Consultants Inc
- caseament costs capitalised in accordance with the Handbook
- exchange rates are historical rates over the period April 2000 to June 2003, with the average USD exchange rate over that period being 0.4780

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

8. FIXED ASSETS continued

In accordance with the Handbook asset values have been established at the lower of the Economic Value or the Optimised Depreciated Replacement Cost.

Electricity regulations additional disclosures:

Motor vehicles	848	877
Office equipment	55	248
Customer billing and information assets	-	489

The customer billing and information assets are fully depreciated.

Transpower lines business system fixed assets have been valued at \$1,966 million (2002: \$1,995 million).

9. CURRENT LIABILITIES

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Bank overdrafts	752	1,738
Trade creditors	25,511	31,689
Interest payable	14,253	10,136
Employee entitlements	6,820	5,957
Other creditors and provisions	28,094	21,800
Short term debt	71,233	98,126
Current portion of long term debt	256,485	253,462
Current portion of lease liabilities	-	-
Deferred income	16,589	18,176
Total current liabilities	419,737	441,084

10. LONG TERM LEASE LIABILITIES

Long term lease liabilities payable:

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

The Transpower Lines Business has two cross border leases.

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

11. LONG TERM DEBT

	LINES BUSINESS LINES BUSINESS	
	2003	2002
	\$000	\$000
Between one to two years	185,722	256,485
Between two to five years	435,541	336,863
Greater than five years	194,535	229,229
Long term debt	815,798	822,577
Less debt allocated to non-lines businesses*	(13,779)	(16,741)
Total Long Term Debt	802,019	805,836

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

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

Bonds	435,001	485,000
Bonds unamortised discount	(3,144)	(4,591)
Euro medium term notes	183,941	342,168
Other	200,000	-
	815,798	822,577

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

Bonds

Bonds are issued under a trust deed dated 6 April 1995 between Transpower, the Initial Guarantoring Subsidiaries (including Transpower Finance Limited) and The New Zealand Guardian Trust Company Limited. The trust deed has been amended on 30 June 1997 and 26 June 1998 in accordance with Supplemental Trust Deeds. Pursuant to the trust deed, Transpower, Transpower Finance Limited and Transpower Finance Limited's fellow subsidiaries, excluding Risk Reinsurance Limited, Benmore Finance, Bunnythorpe Holdings and Benmore Trust (the "Guaranteeing Group") have given a negative pledge that while any of the stock issued under the trust deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. Each member of the Guaranteeing Group has guaranteed all amounts payable on redemption or repayment of the Bonds and the payment of interest during the term of the Bonds.

Euro Medium Term Notes

Under the Euro Medium Term Note Program Transpower Finance Limited may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed US\$1,000,000,000 (NZ\$1,778,410,000) as at June 2003, US\$1,000,000,000 (NZ\$2,034,588,000) as at 30 June 2003 or equivalent in other currencies. The Guarantor (Transpower) and Transpower Finance Limited have given a negative pledge and guarantee payment of all principal and interest amounts.

Australian Medium Term Notes

During the period Transpower arranged an Australian Medium Term Note Program. Under the Australian Medium Term Note Program, Transpower Finance Limited may issue notes guaranteed by TPNZ. The aggregate principal amount of the notes outstanding may not exceed A\$750,000,000 (NZ\$858,025,000).

There were no Australian Medium Term notes outstanding as 30 June 2003 (2002: nil).

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

12. CAPITAL

Transpower's share capital consists of 1,200,000,000 (2002: 1,200,000,000) issued and fully paid ordinary shares which confer on the holders the right to vote at any annual general meeting of Transpower. All ordinary shares rank equally.

13. RESERVES

	LINES BUSINESS LINES BUSINESS	
	2003	2002
	\$000	\$000
Asset revaluation reserve		
Balance at the beginning of the year	-	-
Revaluation (devaluation) of fixed assets*	(33,208)	64,288
Transfer to retained earnings	-	-
Transfer to statement of financial performance	33,208	(64,288)
Balance at the end of the year	-	-
Total reserves	-	-

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

14. ACCUMULATED DEFICIT	LINES BUSINESS LINES BUSINESS	
	2003	2002
	\$000	\$000
Balance at the beginning of the year	(227,222)	(288,322)
Operating surplus after tax	18,449	137,429
Accumulated deficit before dividends paid	(208,773)	(150,893)
Dividends paid	(27,766)	(76,329)
Balance at the end of the year	(236,539)	(227,222)

15. DIVIDENDS TO THE SHAREHOLDER

Final dividend paid	5,766	8,954
Interim dividend paid	22,000	67,375
	<u>27,766</u>	<u>76,329</u>

Subsequent to balance date, the directors have declared a final dividend payable of \$16,532,000 for the Transpower Group. Calculating the Transpower Lines Business dividend on the same basis, this would amount to \$16,743,000

16. CAPITAL COMMITMENTS

Capital commitments in respect of contracts for capital expenditure:

Within one year	9,979	16,665
One to two years	840	4,704
Two to five years	1,108	617
Total capital commitments	<u>11,927</u>	<u>21,986</u>

17. OPERATING LEASE COMMITMENTS

Commitments in respect of non-cancellable operating leases payable:

Within one year	2,993	1,921
One to two years	2,619	2,993
Two to five years	7,535	7,835
Later than five years	15,985	17,690
Total operating lease commitments	<u>29,132</u>	<u>30,439</u>

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

18. CONTINGENT LIABILITIES

(i) Guarantees

Cross Border Lease

Transpower has entered into two cross border leases in respect of certain HVDC converter stations and the submarine cables. The nature of these transactions is described in Note 10. Transpower has given guarantees and certain undertakings in accordance with a limited guarantee dated 24 October 1996 in respect of certain HVDC converter stations and a limited guarantee dated 31 May 1996 in respect of the submarine cables.

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

Debt

Transpower has provided guarantees in respect of loan arrangements for the Bonds, Euro medium term notes and Australian medium term notes as described in Note 11.

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

	LINES BUSINESS LINES BUSINESS	
	2003	2002
	\$000	\$000
Bonds	541,463	490,279
Euro Medium Term Notes	244,923	571,020
Australian Medium Term Notes	-	-

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

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

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

(iii) Network Tasman

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

(iv) Economic Gain (Loss) Account

In the current self-regulatory environment, Transpower operates its revenue setting methodology within an Economic Value ("EV") framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. The balance of the accumulated gain (loss) from monopoly activities attributable to customers ("the EV balance") may be passed on to customers over time. Any such transfer to customers would occur after consideration by Directors of the balance of this account and its likely future movement in order to preserve stability and predictability of prices.

As Transpower is entering a new regulatory regime, the future treatment of the EV balance is uncertain. Under this new regulatory regime the statutory Electricity Commission will be required to endorse Transpower's pricing methodology and may make changes accordingly. Also, the Commerce Commission will set revenue thresholds for Transpower. In these circumstances it is unclear that the realised gains included in the EV balance will be crystallised, in which case the Directors consider that it may be inappropriate to continue to return the EV balance to customers.

At 30 June 2003 there is \$68,185,000 (30 June 2002: \$126,376,000) to the credit of the customer account.

(v) Debt Defeasance

During the period the Transpower Group entered into a funding arrangement which resulted in the Group raising \$200,000,000 in debt. The funding arrangement raised gross funding of \$732,700,000 of which \$532,700,000 was on lent to financial institutions. The net effect of this transaction is that \$532,700,000 of funding is defeased and is therefore not recognised in the Group Statement of Financial Position. There were no gains or losses on defeasance. In respect of the \$532,700,000 defeased

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003**18. CONTINGENT LIABILITIES *continued***

Transpower has a secondary obligation of up to \$100,000,000 if a financial institution does not provide adequate capital and a financial institution does not honour its obligations on the loan note. Transpower considers that the likelihood of being required to satisfy this secondary obligation is remote.

(vi) Provision for Industry Related Costs

Directors have provided for certain industry related costs. Directors believe that further disclosure of the details of these costs could adversely influence Transpower's position in its negotiations with third parties. As a result, disclosure is limited in accordance with section 11.13 of FRS-15. There are no other material contingent liabilities for Transpower or the Transpower Group as at balance date.

19. SEGMENTAL INFORMATION

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

20. FINANCIAL INSTRUMENTS**(a) Financial risks**

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

Interest rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200320. FINANCIAL INSTRUMENTS *continued***(b) Risk management policies**

The key risk management policies are as follows:

Interest rate risk management policy

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

Currency risk management policy

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

Credit risk management policy

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

In addition the counterparty must have a minimum long term credit rating of A or above by Standard & Poor's, or Moody's equivalent; or if the counterparty is a New Zealand corporate a short term credit rating of A-1 or above. Credit limits are monitored on a daily basis.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising Transpower's customer base. It is the Company's policy to perform credit evaluations on customers requiring credit and the Company may in some circumstances require collateral. No collateral is held at 30 June 2003 (2002: nil).

Liquidity risk policy

To ensure Transpower has adequate funding facilities in place to support future operations, Transpower's liquidity policy requires the Company to have access to committed debt facilities (i.e. guaranteed funds) that exceed the peak cumulative anticipated financing and operating cash flow requirements excluding long term debt over the next six months by 20 per cent. To smooth Transpower's refinancing requirements in future periods, committed debt facilities maturing in any 12 month period are not to exceed NZ \$350,000,000.

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200320. FINANCIAL INSTRUMENTS *continued*

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

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

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

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

In the event the Transpower Group is unable to use these facilities the Group has established two committed credit facilities. One facility is a NZ\$500,000,000 Multi-option Facility with a syndicate of domestic and offshore banks. This was not used at 30 June 2003 or 30 June 2002. The second facility is a Standby Facility for NZ\$250,000,000 which was not used at 30 June 2003. At June 2002 this facility was US\$75,000,000 (NZ\$152,594,000) and was also unused.

Term investments

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200320. FINANCIAL INSTRUMENTS *continued*

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

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
Interest rate swaps	3,610,080	2,615,780

Cross currency interest rate swaps

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

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

Cross currency interest rate swaps		
Principal receivable	573,686	921,286
Principal payable	(629,618)	(916,138)

Forward rate agreements

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

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

Forward rate agreements	60,000	10,000
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Interest rate options

The Group enters into interest rate options to manage interest rate re-pricing risk.

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

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

Interest rate options	110,000	85,000
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Foreign exchange forward contracts

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

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

Forward foreign exchange contracts	-	-
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TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200320. FINANCIAL INSTRUMENTS *continued***(d) Maximum credit risk exposure**

The maximum credit exposure to which Transpower is subject is best measured by the net cash settlement amount receivable from the counterparty for cross currency interest rate swaps, foreign exchange forward contracts, interest rate swaps and the market value of interest rate options, foreign currency options and forward rate agreements.

Where the net interest accrued on interest rate swaps represents a payable or the current market value of interest rate options, foreign currency options and forward rate agreements represents a loss, Transpower is not subject to credit risk on these instruments at balance date.

	LINES BUSINESS 2003 \$000	LINES BUSINESS 2002 \$000
<i>Net cash settlement amount receivable</i>		
Cross currency interest rate swaps	4,341	70,801
Interest rate swaps	7,095	3,979
<i>Current market value</i>		
Forward rate agreements	-	2

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

(e) Carrying value and fair value*Carrying value*

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 200320. FINANCIAL INSTRUMENTS *continued***Fair value**

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

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

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

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

The unrealised cost arising from movements in interest rates since the acquisition date of debt carried at 30 June 2003 and the derivative products used to manage interest rate risk in respect of that debt was NZ\$67,010,000 (NZ\$24,732,000 as at 30 June 2002). This comprises the difference between the carrying values and fair values of debt, cross currency interest rate swaps, foreign exchange forward contracts (hedging foreign currency debt), interest rate swaps, forward rate agreements and interest rate options.

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

20. FINANCIAL INSTRUMENTS continued

	Carrying Value 2003 \$000	Fair Value 2003 \$000	Carrying Value 2002 \$000	Fair Value 2002 \$000
LINES BUSINESS				
On Balance Sheet				
Short term investments	510	510	9,887	9,887
Debt	(1,129,737)	(1,178,551)	(1,157,424)	(1,183,032)
Off Balance Sheet				
Cross currency interest rate swaps	378	8,430	2,548	13,926
Interest rate swaps	951	(25,355)	(1,767)	(9,764)
Forward rate agreements	-	58	-	2
Interest rate options	-	-	-	(2,507)

(f) Interest rate re-pricing analysis

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 30 JUNE 2003

20. FINANCIAL INSTRUMENTS continued

LINES BUSINESS 2003

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	More than five years \$000	Total \$000
Assets						
Short term investments	6.39%	510	-	-	-	510
		510	-	-	-	510
Liabilities						
Bank Overdraft	9.20%	(752)	-	-	-	(752)
Debt	6.70%	(497,880)	(185,722)	(319,716)	(126,419)	(1,129,737)
		(498,632)	(185,722)	(319,716)	(126,419)	(1,130,489)
Off Balance Sheet						
Interest rate swaps		73,000	130,000	87,000	(290,000)	-
Interest rate options		-	-	-	-	-
		73,000	130,000	87,000	(290,000)	-
Re-pricing Profile		(425,122)	(55,722)	(232,716)	(416,419)	(1,129,979)

The interest rate on debt as amended by interest rate swaps is 7.14%

LINES BUSINESS 2002

	Effective interest rate	Within one year \$000	One to two years \$000	Two to five years \$000	More than five years \$000	Total \$000
Assets						
Cash and bank	2.00%	19	-	-	-	19
Short Term Investment	5.95%	9,887	-	-	-	9,887
		9,906	-	-	-	9,906
Liabilities						
Bank Overdraft	9.20%	(1,738)	-	-	-	(1,738)
Debt	6.84%	(637,965)	(137,602)	(251,683)	(130,174)	(1,157,424)
		(639,703)	(137,602)	(251,683)	(130,174)	(1,159,162)
Off balance sheet						
Interest rate swaps		208,080	7,300	(35,380)	(180,000)	-
Interest rate options		(25,000)	50,000	5,000	(30,000)	-
		183,080	57,300	(30,380)	(210,000)	-
Re-pricing Profile		(446,717)	(80,302)	(282,063)	(340,174)	(1,149,256)

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

21. SUBSIDIARY AND JOINT VENTURES OF TRANSPOWER GROUP

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

Subsidiaries	2003 Holding	2002 Holding
Fighting Bay Finance Limited	100%	100%
Haywards Limited	100%	100%
Oteranga Bay Limited	100%	100%
Transpower Finance Limited	100%	100%
Aratiatia Holdings Limited	100%	-
Benmore Finance	100%	-
Bunnythorpe Holdings	100%	-
Benmore Trust	100%	-
Transisland Grid Assets Limited (non-trading)	100%	100%
Transpower Land Holdings Limited (non-trading)	-	100%

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

d-cypha Limited	100%	100%
Risk Reinsurance Limited	100%	100%
Omaka Training Limited (non-trading)	100%	100%

Joint Ventures

OPTIMAL Limited	50%	50%
-----------------	-----	-----

All subsidiary entities have a balance date of 30 June.

Transpower Land Holdings Limited was amalgamated during the year.

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

All subsidiaries are direct subsidiaries of Transpower except for;

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

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

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

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

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

22. RELATED PARTY TRANSACTIONS

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

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

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

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

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

NOTES TO THE FINANCIAL STATEMENTS *continued*
FOR THE YEAR ENDED 30 JUNE 2003

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

	2003	2002
Transfer Payments by Line businesses to "Other Transpower Businesses" for:		
Asset maintenance services	0	0
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Avoided transmission charges on account of own generation	0	0
Expense to non-related entities for:		
Disconnection/reconnection services	0	0
Consumer-based load control services	0	0
Royalty and patent expenses	0	0
Operating Expenditure		
Transmission charges	0	0
Amortised goodwill	0	0
Amortisation of other intangibles	0	0
Merger and acquisition expenses	0	0
Takeover defence expenses	0	0
Research and development expenses	0	0
Rebates to consumers due to ownership interests	0	0
Subvention payments	0	0
Other goods and services provided to Transpower lines business	0	0
Unusual expenses	0	0
Assets		
Goodwill	0	0
Total intangible assets	0	0
Total tangible assets	2,185,218	2,219,698
Equity		
Capital notes	0	0

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

STATEMENT OF PERFORMANCE MEASURES
FOR THE YEAR ENDED 30 JUNE 2003

	LINES BUSINESS 2003	LINES BUSINESS 2002	LINES BUSINESS 2001	LINES BUSINESS 2000
Financial Measures				
Return on Equity	5.9%	8.6%	8.3%	11.8%
Return on Funds	3.3%	8.5%	8.4%	10.7%
Return on Investment	7.1%	9.3%	3.2%	10.1%

Efficiency Measures

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

	$\frac{a}{b}$	120,445,000	106,599,000	101,514,000	89,839,000
		17,556	17,145	*17,288	17,542
a	is direct expenditure (in dollars); and	\$6,861	\$6,217	\$5,872	\$5,121
b	is system length (in kilometres);				

Direct line costs per kilometre

*2000/01 figures updated with revised data.

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

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial	146,731				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	146,731				
Interest on cash, bank balances, and short-term investments (ISTI)	4,120				
OSBIT minus ISTI	142,611	a	142,611		142,611
Net surplus after tax from financial statements	51,657				
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	51,657	n		51,657	
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)	65,847				
Depreciation of SFA at ODV (y)	65,847				
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	27,025	q			deduct 27,025
Revaluations	-33,208	r			add -33,208
Income tax	16,360	p			deduct 16,360
Numerator			142,611	51,657	66,019
			$OSBIT^{ADJ} = a + g + s + d$	$NSAT^{ADJ} = n + g + s - s*t + d$	$OSBIT^{ADJ} = a + g - q + r + s + d - p - s*t$
Fixed assets at end of previous financial year (FA ₀)	2,135,845				
Fixed assets at end of current financial year (FA ₁)	2,122,626				
Adjusted net working capital at end of previous financial year	-15,703				
Adjusted net working capital at end of current financial year (ANWC ₁)	-39,574				
Average total funds employed (ATFE)	2,101,597	c	2,101,597		2,101,597
(or regulation 33 time-weighted average)					
Total equity at end of previous financial year (TE ₀)	972,778				
Total equity at end of current financial year (TE ₁)	968,461				
Average total equity	968,120	k		968,120	
(or regulation 33 time-weighted average)					
WUC at end of previous financial year (WUC ₀)	99,385				
WUC at end of current financial year (WUC ₁)	99,155				
Average total works under construction	99,270	e	deduct 99,270	deduct 99,270	deduct 99,270
(or regulation 33 time-weighted average)					
Revaluations	-33,208	r			
Half of revaluations	-16,604	r/2			deduct -16,604
Intangible assets at end of previous financial year (IA ₀)	0				
Intangible assets at end of current financial year (IA ₁)	0				
Average total intangible asset	0	m		add 0	
(or regulation 33 time-weighted average)					
Subvention payment at end of previous financial year (S ₀)	0				
Subvention payment at end of current financial year (S ₁)	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v		add 0	
System fixed assets at end of previous financial year at book value	1,995,000				
System fixed assets at end of current financial year at book value	1,966,000				
Average value of system fixed assets at book value	1,980,500	f	deduct 1,980,500	deduct 1,980,500	deduct 1,980,500
(or regulation 33 time-weighted average)					
System Fixed assets at year beginning at ODV value (SFA _{odv0})	1,995,000				
System Fixed assets at end of current financial year at ODV value	1,966,000				
Average value of system fixed assets at ODV value	1,980,500	h	add 1,980,500	add 1,980,500	add 1,980,500
(or regulation 33 time-weighted average)					
Denominator			2,002,327	868,850	2,018,931
			$ATFE^{ADJ} = c - e - f + h$	$Ave TE^{ADJ} = k - e - m + v - f + h$	$ATFE^{ADJ} = c - e - \frac{1}{2}r - f + h$
Financial Performance Measure:			7.1	5.9	3.3
			$ROF = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$	$ROE = NSAT^{ADJ} / ATE^{ADJ} \times 100$	$ROI = OSBIT^{ADJ} / ATFE^{ADJ} \times 100$

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

TRANSPOWER NEW ZEALAND LIMITED LINES BUSINESS

**ANNUAL VALUATION RECONCILIATION REPORT
YEAR ENDED 30 JUNE 2003**

	\$ million
System fixed assets at ODV at 30 June 2002	<u>1,995</u>
<i>Add</i> system fixed assets acquired during the year at ODV	120
<i>Less</i> system fixed assets disposed of during the year at ODV	7
<i>Less</i> depreciation on system fixed assets at ODV*	109
<i>Add</i> revaluations of system fixed assets	-33
Equals system fixed assets at ODV at 30 June 2003	<u><u>1,966</u></u>

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

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

Depreciation on system fixed assets as per the Transpower Lines Business's financial statements	66
<i>Plus</i> Long Run Average cost**	<u>43</u>
Depreciation on system fixed assets at ODV	<u><u>109</u></u>

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

Long Run Average Cost	43
<i>Less</i> Service Potential Adjustment	<u>9</u>
Life Extending Maintenance Expenditure	<u><u>34</u></u>

The \$34 million Life Extending Maintenance is included in the "system fixed assets acquired during the year at ODV".

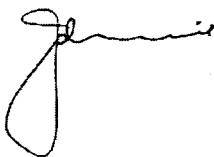
**ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1999
REGULATION 32(3)**

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

We, John Rennie and Susan Paterson, Directors of Transpower New Zealand Limited ("Transpower") certify that, having made all reasonable enquiry, to the best of our knowledge;

- (a) The attached audited financial statements of Transpower, prepared for the purposes of regulation 5 of the Electricity (Information Disclosure) Regulations 1999, give a fair view of the matters to which they relate and comply with the requirements of those regulations; and
- (b) The attached information, being the financial performance measures, efficiency performance measures, energy delivery efficiency measures, statistics and reliability performance measures in relation to Transpower, and having been prepared for the purposes of regulations 15, 16, 16A, 21, and 22 of the Electricity (Information Disclosure) Regulations 1999, comply with the requirements of the Electricity (Information Disclosure) Regulations 1999.

The valuations on which those financial performance measures are based are as at 30 June 2003.



John Rennie

17 November 2003



Susan Paterson

The Electricity Information Disclosure Regulations 1999

(For 12 months ending 30 June 2003, 30 June 2002, 30 June 2001, 30 June 2000)

Part 4

Energy Delivery Efficiency Performance Measures and Statistics (Disclosure under Regulation 21)	2002/03	2001/02	2000/01	1999/00
1. Energy delivery efficiency performance measures				
(a) Load factor % <i>Electrical energy entering the transmission system as percentage of maximum demand times hours per year</i>	70.50	67.09	68.67	69.08
(b) Loss ratio % <i>Transmission losses as percentage of energy entering the system</i>	4.36	2.90	4.65	3.97
(c) Capacity utilisation % <i>Maximum demand as percentage of total transformer capacity #[@]</i>	69.86	70.71	71.00	69.11
2. Statistics				
(a) System length, broken down by voltage				
Total km	17,134	17,145	17,288	17,542
350 kV (HVDC) km	611	611	611	611
270 kV (HVDC) km	611	611	611	611
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,357	8,357	8,357	8,365
110 kV (HVAC) km	6,076	6,108	6,134	6,212
66/50/33/11 kV km	1,449	1,428	1,545	1,712
(b) Circuit length of overhead electric lines, broken down by voltage				
Total km	17,049	17,060	17,203	17,457
350 kV (HVDC) km	571	571	571	571
270 kV (HVDC) km	571	571	571	571
0 kV (HVDC earth electrode) km	31	31	31	31
220 kV (HVAC) km	8,357	8,357	8,357	8,365
110 kV (HVAC) km	6,071	6,103	6,129	6,207
66/50/33/11 kV km	1,449	1,428	1,545	1,712
NB: HVDC link submarine power cables measure approximately 80km. Broken down by voltage				
350 kV (HVDC) km	40	40	40	40
270 kV (HVDC) km	40	40	40	40
(c) Total circuit length of underground electric lines (110 kV HVAC) km	5	5	5	5
(d) Transformer capacity (kilovolt amperes) # kVA	8.64x10 ⁶	8.59x10 ⁶	8.53x10 ⁶	8.43x10 ⁶
(e) Maximum demand (kilowatts) * kW	6.04x10 ⁹	6.07x10 ⁹	6.05x10 ⁹	5.83x10 ⁹
(f) total electricity entering the system (before losses of electricity), in kilowatt hours: * kWh	37.28x10 ⁹	35.70x10 ⁹	36.42x10 ⁹	35.28x10 ⁹
(g) the total amount of electricity (in kilowatt hours) supplied from the system (after losses of electricity) during the financial year on behalf of each person that is an electricity generator or an electricity retailer, or both: * kWh	35.65x10 ⁹	34.66x10 ⁹	34.72x10 ⁹	33.88x10 ⁹
(h) Total connected customers	48	49	50	54

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

Installed transformer capacity based on ONAN ratings.

@ 1999/00 calculation corrected.

Part 6

Reliability Performance Measures to be Disclosed by Transpower (Disclosure Under Regulation 22)	2002/03	2001/02	2000/01	1999/00
1. Total number of unplanned interruptions* [@] <i>Resulting from 56 loss of supply incidents in 2002/03</i>	72	113	102	62
2. Electricity customer interruptions in system minutes** [@]	6.3	8.1	12.7	4.9
planned	3.6	3.2	0.9	2.8
unplanned [@]	2.6	4.9	11.8	2.1
3. Underlying electricity customer interruptions in system minutes ** [@] <i>Underlying interruptions are those interruptions of 1 system minute or less duration</i>	6.3	8.1	4.0	4.9
planned	3.6	3.2	0.9	2.8
unplanned [@]	2.6	4.9	3.1	2.1
4. Average supply reliability <i>Measured by the energy supplied divided by the sum of the energy supplied and not supplied[@]</i>	99.9982	99.9976	99.9963	99.9986
5. Uneconomic generation due to planned and unplanned transmission system unavailability % <i>Uneconomic generation relates to the amount of electricity generated from any source other than the most economic source.</i>	-	-	-	-
6. Uneconomic generation due to HVDC system unavailability %	-	-	-	-
7. Uneconomic generation due to unplanned transmission system unavailability %	-	-	-	-
8. Planned interruption restoration performance %	81.3	81.8	89.5	100
9. Unplanned interruption response %	100	100	100	100

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

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

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

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

[@] 2001/02 figures updated with revised data.