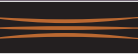


T R A N S P O W E R



Keeping the energy flowing

CONTENTS

- A Transpower's Objectives
- B Nature and scope of commercial activities
- C Capital structure
- D Accounting policies
- E Performance targets and measures
- F Dividend policy and estimates
- G Information to be reported
- H Procedures for share subscriptions or purchases
- I Activities for which compensation is sought
- J Other matters agreed by the Shareholding Ministers and the Board
- K Commercial value of the Crown's investment

APPENDIX 1 – Subsidiary and associated companies

APPENDIX 2 – Statement of accounting policies

TRANSPOWER STATEMENT OF CORPORATE INTENT ("SCI") FOR 1 JULY 2007 TO 30 JUNE 2010

Introduction

This SCI is submitted by the Board of Directors of Transpower New Zealand Limited, in accordance with Section 14 of the State-Owned Enterprises Act 1986 ("the Act"). It sets out the Board's overall intentions and objectives for Transpower New Zealand Limited and its subsidiary companies for the year commencing 1 July 2007 and the succeeding financial years.

Transpower New Zealand Limited and its subsidiary companies are referred to as "Transpower" throughout this SCI.

Business scope

Transpower is the owner and operator of the National Grid, which facilitates electricity transmission and provides co-ordination functions essential to the secure and efficient operation of the national power system. Transpower has contracted with the Electricity Commission (EC) to provide System Operator services for the Electricity Industry. System operation involves the real-time co-ordination of electricity generation, transmission and demand, and the real-time management of the electricity market in New Zealand.

Role of the National Grid

The National Grid is fundamental to enabling New Zealand to achieve its international and local aspirations. It is a vital infrastructure of critical importance to all New Zealanders. New Zealand needs a reliable supply of electricity, delivered to areas of demand, in order to:

- sustain commercial confidence;
- enable economic growth and development;
- enable New Zealand to effectively participate and be competitive in the global community; and
- maintain and enhance the living standards of all New Zealanders.

The National Grid is sound and serviceable, but is ageing and requires major upgrading. In addition, the pattern of continuing growth in demand for electricity increases the requirements for transmission capacity, which must be catered for efficiently. There is also a need to plan and develop the National Grid in such a way that it enables implementation of the New Zealand Energy Strategy and contributes to a sustainable future for New Zealand.

Transpower is committed to playing its part by discharging its responsibilities fully in this regard. Critical to fulfilling this objective is the regulatory regime in which Transpower operates.

Regulatory regime

Transpower is subject to regulation promulgated by two Crown regulatory commissions:

- the Commerce Commission in respect of:
 - the quantum of Transpower's revenues to ensure that transmission services are provided efficiently and in a manner that avoids excessive (i.e. monopoly) profits; and
 - the quality with which these services are provided to ensure that these services appropriately reflect customers' needs (to be measured for the time being in terms of

the reliability of supply to National Grid users and the effectiveness of consultation with those users); and

- the Electricity Commission in respect of:
 - transmission investment approvals requested by Transpower to ensure security of supply is maintained;
 - agreements and rules to define the nature of transmission services to be provided by Transpower; and
 - the allocation of the costs of transmission services, including new investment costs, between National Grid users (i.e. the transmission pricing methodology).

Regulatory developments

Transpower has a number of concerns with the regulatory regimes operated by the Commerce Commission and Electricity Commission, in particular: ensuring clarity of roles and accountabilities between Transpower and the Electricity Commission with respect to transmission planning; avoiding duplication and delays in investment decision making; and improving the co-ordination of the respective roles and decisions of the Commerce Commission and Electricity Commission.

Transpower welcomed the changes in the revised Government Policy Statement (October 2006) setting out Government's expectations for the respective roles of Transpower (as grid planner) and the Electricity Commission (in a review and approval role). Similarly, the publication, in April 2007, of a draft protocol pursuant to the memorandum of understanding between the two Commissions may lead to further positive developments.

Transpower is engaging constructively with its stakeholders to ensure that its regulatory concerns and the resulting risks to its business are understood, and to advocate for change where Transpower considers this is necessary.

The financial and operational performance targets set out in this SCI are predicated on a number of important pending regulatory outcomes including the timely approval by the Electricity Commission of a number of major grid upgrade proposals and the outcome of ongoing discussions with the Commerce Commission to agree an administrative settlement under Part 4A of the Commerce Act.

A lack of timely or positive responses to investment proposals or failure to resolve the key regulatory concerns outlined above, will impact Transpower's ability to meet its principal objectives under this SCI.

Transmission as an enabler of the New Zealand Energy Strategy

The development of the New Zealand Energy Strategy in 2006/07 is a critical step forward in creating a sustainable energy future for New Zealand. As the planner of New Zealand's transmission system, Transpower anticipates playing a significant role in taking forward transmission solutions in a manner that: enables the efficient and sustainable use of energy resources and, in particular, facilitates utilisation of renewable energy and allows for the evaluation of opportunities, where prudent, to promote demand-side management as a viable alternative to transmission investment.

To achieve these objectives will require further work on the approval processes of both the Electricity Commission and Resource Management Act 1991 ("RMA") in respect of Transpower's proposals. Transpower is increasingly aware of the need to better integrate the

requirements of the investment approval processes operated by the Electricity Commission and the resource consenting requirements under the RMA.

Resource Management Act

As Transpower progresses towards upgrading existing lines and significant new transmission line construction to deliver much needed investment in the National Grid, the fragmented district and regional plan rules promulgated by local authorities under the RMA continue to be a constraint. The National Policy Statement (NPS) and National Environmental Standards (NES) for electricity transmission, presently being developed by Government, are critical in providing a more consistent approach to managing the environmental effects of transmission through district and regional plans. It is essential, therefore, that the NPS provides the clear direction required, and is specific about how the Government wants to achieve sustainable management of New Zealand's transmission assets. The NES must provide a comprehensive and effective rule base covering all the environmental effects of transmission activities.

A TRANSPOWER'S OBJECTIVES

Transpower's principal objective, as set out in Section 4 of the Act, is to operate as a successful business and to be:

- a) as profitable and efficient as comparable businesses that are not owned by the Crown;
- b) a good employer; and
- c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

To achieve its principal objective, Transpower will:

- a) be as profitable and efficient as comparable businesses:
 - within regulatory requirements, seek to deliver and operate a National Grid that meets the needs of users now and into the future;
 - comply with the statutory requirements of the regulatory regimes under which it operates;
 - work with regulatory agencies to agree investment plans that address risks to power system reliability or that relieve persistent congestion affecting market efficiency;
 - provide transmission services to the standard of quality and security agreed with National Grid users or required by regulatory agencies;
 - provide System Operator services in accordance with service agreements negotiated with users of those services or required by regulatory agencies;
 - promote efficient investment in the National Grid to provide the platform for a competitive wholesale market, thus enabling options for investment in generation and demand-side management;
 - seek to efficiently recover the full costs of its services;
 - improve the efficiency of its services, whilst optimising asset reliability and availability; and
 - pursue business opportunities based on the capabilities and expertise developed through its core business activities.
- b) be a good employer
 - maintain well qualified and motivated staff and adopt human resource policies that treat employees fairly and properly in all aspects of recruitment, retention and employment; and
 - promote a high level of safety throughout the organisation, taking all practicable steps to provide its employees and the employees of its contractors with safe working conditions;
- c) act in a socially responsible manner
 - build closer relationships with landowners, occupiers and other community representatives and interest groups affected by Transpower's activities;
 - build closer relationships with Maori;

- improve environmental reporting and performance, taking all reasonable steps to reduce the risk of adverse effects on the environment that may be caused by aspects of Transpower's activities;
- incorporate sustainability into Transpower's business activities and work with key stakeholders to promote sustainable outcomes for the electricity sector; and
- sponsor educational and training activities that support the future requirements of the electricity industry in New Zealand.

B NATURE AND SCOPE OF COMMERCIAL ACTIVITIES

Transpower's principal commercial activities are:

- the transmission of electrical energy from producers to distributors and direct supply users;
- the operation, maintenance and development of such assets as are required to seek to ensure this is achieved on a long term basis;
- as System Operator, the short term matching of demand and supply of electricity;
- the co-ordination of the provision of ancillary services, including voltage control and frequency control; and
- the gathering, management and provision of information to the electricity industry.

Any significant departure from Transpower's principal business activities and/or any proposal that Transpower should enter into significant new business activities will be discussed in advance with the Shareholding Ministers. Approval will normally be sought through the Shareholding Ministers' consideration of updated Statements of Corporate Intent.

C CAPITAL STRUCTURE

The estimated capital structure at 2006/07 year-end, and forecast for the next three financial years is set out below:

Capital Structure	Debt \$m	Equity \$m	Total Funds Employed \$m	Equity To Total Funds Ratio
Forecast 2006/07 ¹	1,587	1,349	3,067	0.44
Budget 2007/08	1,163	1,338	2,823	0.47
Plan 2008/09	1,442	1,487	3,277	0.45
Plan 2009/10	1,889	1,658	3,930	0.42

Debt includes all long and short-term borrowings, including finance leases, if any.

Equity includes ordinary shares, preference shares, share premiums, reserves and retained earnings.

Total funds employed equal the sum of debt, liabilities and equity.

¹ 2006/07 Forecast is reported in accordance with NZ GAAP. From 2007/08 onwards, are reported in accordance with IFRS.

Transpower's intent is that investment related expenditure can be fully recovered from transmission customers in a timely manner. However, cost recovery is subject to the uncertainty surrounding regulatory decisions by the Electricity Commission and Commerce Commission.

Transpower will aim to optimise its capital structure. Optimisation depends on a number of factors, including long-run expectations for: the economic environment, Transpower's weighted-average cost of capital, the security of Transpower's revenue stream, and required spending on National Grid assets.

Significant additional capital funding will be required as major investments are undertaken to reinforce the National Grid. Investment of this magnitude will place significant pressure on Transpower's balance sheet. The investment outlook and the need to maintain access to appropriate debt markets to allow efficient debt funding for necessary capital investments are reflected in the Directors' view of an appropriate range for Transpower's credit rating.

Transpower will seek to manage its future capital requirements without recourse to additional equity injection by the shareholder. To achieve this and maintain an appropriate credit rating will require a higher proportion of retained funds (refer Section F, below).

D ACCOUNTING POLICIES

The accounting policies recognised by the Institute of Chartered Accountants of New Zealand for the measurement and reporting of profit, cash flow, movements in equity, and financial position have been adopted by Transpower. Transpower is adopting IFRS from 1 July 2007 (with comparatives being restated for 2006/07). The major changes from the adoption of IFRS are in the following areas:

- Deferred Tax is to be recognised on the balance sheet under the comprehensive basis with a consequential reduction in reported equity.
- Financial instruments are valued at Fair Value rather than Hedge Accounted. This will result in more volatility in the Profit & Loss.
- Certain revenue items which have been recognised in full under existing NZ GAAP will be recognised over the life of the underlying transaction. This results in a reduction in retained earnings and an increase in revenue in future years.
- Wholesale Market Activity revenue and expenses are to be disclosed as a net contribution. This will reduce revenue and cost of sales by equal offsetting amounts and thus have no net impact on the financial results.

Details of Transpower's IFRS accounting policies and their application are specified in Appendix 2.

E PERFORMANCE TARGETS AND MEASURES

The performance of Transpower in relation to its objectives (contingent on resolution of the current uncertain regulatory framework) will be assessed by reference to the following financial and operating performance targets:

Financial Performance Targets	2006/07 Forecast²	2007/08 Budget	2008/09 Plan	2009/10 Plan
An accounting return on total assets (earnings before interest and tax divided by average total funds employed)	12.0% ³	11.8%	10.9%	11.2%
An accounting return on equity (net profit after tax divided by average total shareholders' funds) ⁴	12.1% ³	13.4%	13.5%	17.3%
An accounting return on equity (adjusted to remove the effect of works under construction)	9.7%	11.2%	10.5%	11.2%
An accounting rate of profit (x divided by y, where x is earnings before interest and tax, less cash tax and less interest tax shield, but with the addition of that year's revaluations; and y is average total funds employed, less half the revaluations)	8.4% ³	9.0%	8.2%	8.3%
Average total transmission costs (c/kWh)	1.35	1.44	1.49	1.60

Operational Performance Targets	2006/07 Forecast	2007/08 Budget	2008/09 Plan	2009/10 Plan
High Voltage Alternating Current (HVAC) availability (%)	98.6	98.6	98.6	98.6
High Voltage Direct Current (HVDC) availability (%)	95.8	91.5	91.0	90.5
Unplanned supply interruptions (System Minutes)	8.4	<9.0	<9.0	<9.0

F DIVIDEND POLICY AND ESTIMATES

Funds attributable to the shareholder and surplus to Transpower's financing and operating requirements will be distributed annually to Transpower's shareholders.

The level of surplus funds each year will be 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.

Indicative estimates of expected dividends are subject to greater uncertainty than in the past. This uncertainty reflects the significant investment programme planned and the requirement for future flexibility over the level of retained funds that will be necessary to maintain a credit rating within the AA band and thus ensure access to efficient debt funding.

Year	2006/07 Forecast	2007/08 Budget	2008/09 Plan	2009/10 Plan
Estimated amounts to be distributed by way of dividend:	\$0.0m	\$0.0m	\$0.0m	\$0.0m

² 2006/07 Forecast is reported in accordance with NZ GAAP. The years from 2007/08 onwards, are reported in accordance with IFRS.

³ Forecast.

⁴ Return on equity is forecast to increase in the short term. This is due to the effect of works under construction (WUC), which is forecast to increase significantly during Transpower's major capital investment programme. WUC is deducted from equity to calculate total shareholders funds.

In recommending the dividends to be paid to the shareholders, Transpower will follow procedures generally adopted by directors of publicly listed companies, and comply with the requirements of section 15 of the Act and any notice given by the Shareholding Ministers under section 13 of the Act.

The one time payment of the dividend will be the business day nearest to 31 October for the final dividend.

G INFORMATION TO BE REPORTED

To enable the Shareholding Ministers to assess the value of their investment in Transpower, any information that would normally be supplied to a controlling private shareholder will be made available.

An annual report for each financial year, including audited financial statements, will be submitted in accordance with section 15 of the Act. The annual report will:

- contain sufficient information to enable an informed assessment to be made of Transpower's operations, including a comparison with the SCI; and
- state the dividend payable to the Crown for the relevant financial year.

Transpower will also submit the following information to the Shareholding Ministers:

- half-yearly reports in accordance with section 16 of the Act, which will include unaudited statements of financial performance, movements in equity, financial position, cash flows and such details as are necessary to permit an informed assessment of the company's performance during that reporting period; and
- a draft of Transpower's Business Plan and a draft SCI, which will be made available to Shareholding Ministers for discussion prior to the commencement of the financial year to which the plan and the SCI relates.

Transpower will, in addition, provide other information relating to the affairs of the company requested by the Shareholding Ministers pursuant to section 18 of the Act.

H PROCEDURES FOR SHARE SUBSCRIPTIONS OR PURCHASES

Subscriptions for shares in any company or interests in any other organisation will, where material, be subject to consultation with Shareholding Ministers. The procedures for the establishment of subsidiary companies and the sale of substantial assets in Transpower or any of its subsidiaries are set out in Appendix 1.

I ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT

Transpower will, in accordance with section 7 of the Act, seek compensation sufficient to allow Transpower's position to be restored if the Government wishes Transpower to undertake activities or assume obligations that in Transpower's view will result in a reduction of Transpower's profit or net worth or to modify the National Grid in ways which lower its ongoing security and reliability.

There are currently no activities in relation to which Transpower is seeking, or has sought, compensation from the Crown.

J OTHER MATTERS AGREED BY THE SHAREHOLDING MINISTERS AND THE BOARD

No other matters have been agreed by the Shareholding Ministers and the Board for inclusion in this statement pursuant to section 14(2)(j) of the Act.

K COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

As at 30 June 2007, the principal physical assets of Transpower primarily comprise:

- 173 sub/switching stations;
- more than 11,790 route kilometres of HVAC and HVDC transmission lines;
- the HVDC link between the North and South Islands;
- two national control centres;
- three regional operating centres;
- a communications network;
- a supervisory control and data acquisition network;
- more than 50 freehold properties acquired on the proposed route for the North Island Grid Upgrade.

In addition, the company owns two trading subsidiaries (Energy Market Services Limited and Risk Reinsurance Limited) and has significant intellectual capital in staff, company processes and procedures.

The Board's estimate of the current commercial value of the Crown's investment in Transpower at 1 July 2007 is \$1,293,522,000. It is based on the reported shareholders' funds as disclosed in the unaudited interim financial statements as at 31 December 2006.

APPENDIX 1 SUBSIDIARY AND ASSOCIATED COMPANIES

The terms "share", "Shareholding Ministers", and "subsidiary" have the same meanings as in section 2 of the Act.

Transpower will ensure at all times that:

- a) control of the affairs of every subsidiary of Transpower is exercised by a majority of the Directors appointed by Transpower; and
- b) a majority of the Directors of every subsidiary of Transpower are persons who are also Directors or employees of Transpower, or who have been approved by the Shareholding Ministers for appointment as Directors of the subsidiary.

Consultation

Transpower will, in relation to any single transaction or series of transactions, consult with the Shareholding Ministers on items outside normal operations and having a material impact on the company's financial position not contemplated in the Business Plan, including:

- 1. any substantial capital investment in activities within the scope of core business;
- 2. any substantial expansion of activities outside the scope of core business;
- 3. subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve significant overseas equity investment or are outside Transpower's core business;
- 4. the sale or other disposal of the whole or any substantial part of the business undertaking of Transpower; and
- 5. where Transpower or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of Transpower), they will not sell or otherwise dispose of any shares in that company without first giving written notice to the Shareholding Ministers of the intended disposal.

Transpower will also consult on specific items included in the Business Plan as agreed between Transpower and Shareholding Ministers from time to time.

For the purpose of this document, a substantial investment outside core business would be any transaction or series of transactions resulting in a maximum potential cash outflow from Transpower in excess of \$20 million or 2% of total consolidated Transpower group equity, whichever is the lesser.

APPENDIX 2 STATEMENT OF ACCOUNTING POLICIES

Transpower's accounting policies are disclosed annually in the annual report, and this includes any changes from the previous year.

The following accounting policies will be applied in the year to 30 June 2007 and disclosed in the annual report for that year. All references to Notes can be found in the 2005/06 Annual Report.

1 Reporting Entity

These financial statements report on Transpower and its subsidiaries (the Transpower Group).

The financial statements are presented in accordance with the State-Owned Enterprises Act 1986 and are prepared in accordance with the Financial Reporting Act 1993. The companies within the Transpower Group, excluding Risk Reinsurance Limited, are registered under the Companies Act 1993. Transpower is an issuer for the purposes of the Financial Reporting Act 1993.

2 Measurement Base

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

3 Specific Accounting Policies

The following accounting policies are applied:

a) Principles of Consolidation

The Transpower Group financial statements are consolidated from the financial statements of subsidiaries using the purchase method. All significant transactions between group companies are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the parent.

b) Revenue

Revenue shown in the Statements of Financial Performance comprises the amounts received and receivable by the Transpower Group from customers for transmission services, wholesale market services and lease revenue. Dividends received and interest income from investments are included within net finance costs.

c) Goods and Services Tax (GST)

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

d) Current Assets

Receivables are stated at their estimated net realisable value.

Short term investments are recorded at their amortised cost.

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 in subsidiaries are recorded at net tangible asset value. Investments are recorded at the lower of cost and net realisable value.

f) Fixed Assets

Historical Cost Measurement

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

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

Capital Work in Progress

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

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

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

g) Depreciation

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

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

h) Leased Assets

The Transpower Group leases certain plant, equipment, land and buildings.

Finance leases effectively transfer substantially all of the risks and benefits incidental to the ownership of the leased item to the entity. Assets acquired by means of a finance lease are capitalised at the lower of the fair value of the asset and the present value of

the minimum lease payments. Leased assets are depreciated over their economic lives. A corresponding liability is also established at the inception of each lease and each lease payment is allocated between the liability and finance costs.

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

i) Intangible Assets

Goodwill

The excess of cost over the fair value of the net assets of the subsidiaries is recognised as goodwill, and is amortised to the Statements of Financial Performance on a straight line basis over the shorter of its estimated useful life or twenty years.

(j) Statements of Cash Flows

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

- i) Cash and bank means coins, notes and demand deposits. Cash includes liabilities which are the negative form of the above, such as the bank overdraft.
- ii) Operations comprise the transmission of bulk electricity, wholesale market services and related support, maintenance, administration and interest costs.
- iii) Investments comprise the purchase, holding and disposal of fixed assets and investments. Capitalised interest on capital work in progress is also included in investing activities.
- iv) Financing activities include changes in equity, borrowings and dividends paid on equity.

k) Taxation

The Transpower Group 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 are expected to reverse in the foreseeable future.

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

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

l) Foreign Currencies

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

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

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

m) 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 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 Group is a party is provided in Note 21.

Adoption of NZ IFRS

Transpower will adopt the requirements of NZ IFRS in accordance with NZ IFRS 1 "First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards" in the Interim report for the half year ending 31 December 2007. Comparative information will be restated to conform to the requirements of NZ IFRS.

www.transpower.co.nz
