



TRANSPower



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CHIEF ENGINEER
BOB SIMPSON, APPOINTED NOVEMBER 2008

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JOHN CLARKE, APPOINTED AUGUST 2009

GENERAL MANAGER GRID INVESTMENT
TIM GEORGE, RESIGNED MARCH 2009

GENERAL MANAGER GRID PERFORMANCE
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GENERAL MANAGER GRID PROJECTS
MIKE CARTER, APPOINTED OCTOBER 2008

GENERAL MANAGER INFORMATION SERVICES AND TECHNOLOGY
JIM TOCHER

GENERAL MANAGER PEOPLE AND PERFORMANCE
STUART LOW

GENERAL MANAGER SYSTEM OPERATIONS
KIERAN DEVINE

ADDRESS OF OFFICES

WELLINGTON
TRANSPower HOUSE, 96 THE TERRACE
PO BOX 1021, WELLINGTON 6140
TELEPHONE 64 4 495 7000
FACSIMILE 64 4 495 7100

AUCKLAND
LEVEL 5, BUILDING 2
CENTRAL PARK CORPORATE CENTRE
666 GREAT SOUTH ROAD
PO BOX 17-215, GREENLANE, AUCKLAND 1546
TELEPHONE 64 9 589 2300
FACSIMILE 64 9 589 2310

PALMERSTON NORTH
LEVEL 5, IRD BUILDING
CORNER ASHLEY STREET
& FERGUSON STREET
PO BOX 640, PALMERSTON NORTH 4440
TELEPHONE 64 6 357 0919
FACSIMILE 64 6 357 0917

CHRISTCHURCH
LEVEL 3, 6 SHOW PLACE
ADDINGTON
PO BOX 21-154, EDGEWARE, CHRISTCHURCH 8143
TELEPHONE 64 3 339 9800
FACSIMILE 64 3 338 1290

THE PRIMARY FOCUS OF TRANSPOWER IS ON ENGINEERING EXCELLENCE, INNOVATION AND OPERATIONAL PERFORMANCE, TO ENSURE NEW ZEALAND HAS A STRONG AND SECURE NATIONAL TRANSMISSION SYSTEM AS A PLATFORM FOR SUSTAINABLE GROWTH.



WELCOME TO A YEAR IN REVIEW →

INVESTING IN TECHNOLOGY AND INNOVATION TO MEET NEW ZEALAND'S FUTURE ENERGY NEEDS.



WAYNE BROWN
CHAIRMAN

PATRICK STRANGE
CHIEF EXECUTIVE



This report describes Transpower's financial and operational performance for the financial year ending 30 June 2009.

Transpower has embarked on a significant investment programme – both building new capacity and refurbishing and replacing our ageing asset fleet – to address the legacy of a sustained period of low investment. Up to \$5 billion will be committed over the next decade to ensure the grid continues to provide a secure platform for New Zealand's future growth.

Major upgrade projects that are important to the security of the overall power system are now underway. These include the high voltage direct current (HVDC) Pole 3 project, the North Island Grid Upgrade (NIGU) and the North Auckland and Northland (NAaN) project.

The programme will pose exacting safety and quality requirements. While we, with our contractors, have improved our performance in recent years, we recognise the need to make further improvements. This year, we launched a major drive to improve our safety and quality performance across all our activities. DuPont, a global leader in safety performance, has been engaged to assist us.

Changing technology in our industry presents both a challenge and an opportunity. Incorporating new generation technologies, such as wind, and meeting more exacting customer quality requirements are challenges being addressed. Emerging grid materials and technologies are opportunities which, over time, will allow the grid to be run more efficiently.

Two essential technology platforms achieved major milestones this year. The \$70 million Market Systems Project (MSP), a major upgrade to the software and hardware supporting the electricity market and system operation functions,

went live early in July and positions the Transpower System Operator as a world leader in this area. Substantial strides were also made towards completion of the Telecommunications and Networks Programme (TNP), a \$150 million rebuilding of our communications system to our nationwide substations.

FINANCIAL PERFORMANCE

The earnings after tax but before net changes in fair value of financial instruments are \$135.8 million, an increase of \$28.1 million from the previous year. The two principal reasons for this rise are the increase in transmission revenue to \$629.9 million (from \$586.9 million) and a lower impairment charge on System Operator assets of \$6.2m (\$28.8 million last year). This was offset by an increase in transmission expenditure of \$28.2 million, in particular, a \$12.7 million rise in the cost of HVDC reserve charges.

The increase in transmission revenue was in accordance with Transpower's administrative settlement with the Commerce Commission and reflects progressive commissioning of new investments in the grid. The significant build programme will result in further increases in transmission revenue going forward.

HVDC Reserve Charges

Profits were again reduced by unforeseen HVDC reserve charges allocated to Transpower as owner of the HVDC link. Sufficient reserve generation is procured by the System Operator in each 30-minute trading period to cover the possible sudden loss of the largest generating unit in each island. If the HVDC link, which is treated as a generating unit, is the largest supplier into an island, the System Operator allocates to Transpower, as the link's owner, a major share of the costs of the reserves it must procure for that island for that period.

“ Major upgrade projects that are important to the security of the overall power system are now underway. ”



New gas insulated switchgear (GIS) facility under construction at Otahuhu.

“ Looking ahead, our sound balance sheet and strong credit rating should ensure continuous access to debt markets to fund the ongoing capital programme at reasonable cost. ”

A consequence of Pole 1 being removed from regular service in September 2007 is greater exposure to reserve costs, which has led to a substantial and unforecast increase in HVDC reserve charges attributed to Transpower under the Electricity Governance Rules. The cost escalated to \$27.5 million in 2008/09, up from \$14.8 million in the year prior. These costs far exceed the level allowed for under the current Commerce Commission settlement and are largely beyond our control. In June 2009, the Commerce Commission declined an application by Transpower for relief from these costs.

Cross Border Leases

During the year under review, we terminated our two 1996 Cross Border Leases and restructured the 2003 Cross Border Lease, actions taken in response to the international financial crisis. These activities increased pre-tax profit by \$5.7 million. This gain reflects the net effect of recognising \$12.9 million of deferred income relating to the 1996 leases, offset by costs related to the terminations and restructuring of \$7.2 million.

Funding the Capital Programme

Funding our investment programme will require ongoing access to capital markets. Sufficient funding to meet our capital expenditure requirements in 2008/09 had been raised in the previous financial year. This prudent approach meant that the extreme costs of credit seen at the height of the international financial crisis were avoided.

Looking ahead, our sound balance sheet and strong credit rating should ensure continuous access to debt markets to fund the ongoing capital programme at reasonable cost. To reduce the extent of any deterioration in our financial metrics over this period and thus support a strong credit rating, we are maintaining

our recent policy of not declaring a dividend in respect of the 2008/09 year. Shareholding Ministers have been informed.

INVESTMENT IN INFRASTRUCTURE

We are making major capital investments in transmission infrastructure.

Pole 3 Project

Replacement of the ageing, mercury arc valve-based Pole 1 of the HVDC inter-island link with a new, thyristor-based Pole 3 is underway. The HVDC link has been a key asset in New Zealand's electricity supply since Pole 1 was commissioned in 1965.

Pole 3, a \$672 million project, was approved by the Electricity Commission in September 2008. We will award the major contract, for the HVDC converter station equipment and buildings at Benmore and Haywards, in September 2009. This will be the culmination of 18 months' planning, design and consultation by a dedicated team of Transpower and international engineers.

The project will be implemented in stages. Once commissioned in April 2012, stage one of Pole 3 will, with the existing Pole 2, restore inter-island transfer capacity to 1000 megawatts (MW). Stage two will further increase capacity to 1200 MW by 2014. Finally, a third stage involving an additional submarine cable across Cook Strait is expected to increase capacity to 1400 MW later in the next decade (subject to regulatory approval from the Electricity Commission).

Pole 3 will operate beside Pole 2 and use the existing undersea cables and overland DC transmission line. Pole 1 will continue to be maintained on limited stand-by to address security of supply concerns, until it is decommissioned in 2011. With the assistance of international experts,



“ Replacement of the ageing, mercury arc valve-based Pole 1 of the HVDC inter-island link with a new, thyristor-based Pole 3 is underway. ”



innovative and extensive remedial work has been undertaken successfully this year to expand Pole 1's northwards operating capability.

North Island Grid Upgrade (NIGU)

NIGU involves the construction of a 400 kilovolt (kV)-capable transmission line through the Waikato, from Whakamaru to Pakuranga in Auckland, and associated substations and underground cables. NIGU will provide a more secure supply of electricity to the upper North Island.

Almost all approvals for the project have now been obtained. In May 2009, the High Court rejected comprehensively a bid to overturn the Electricity Commission's decision to approve NIGU. Also in May, the Board of Inquiry published a draft decision under the Resource Management Act to approve the project as proposed. (Following comments by all submitters, a final Board of Inquiry decision was received on 18 September 2009 as this report went to print.)

As the project is important to secure Auckland supply, preparatory work has continued in parallel to the approval process. Design is well advanced, the construction contract for the overhead line has been let, and tendering for key components is underway. We have obtained access to two-thirds of the land required to complete the project (through negotiating easements or, where appropriate, purchasing land). Assuming a positive final Board of Inquiry decision, construction will start this summer, with the new line being operational (at 220 kV) by winter 2012.

We still face challenges with our relationships with landowners affected by the line. Our initial consultations on NIGU could have been better handled, a lesson we have learned and applied more successfully on later projects. We are committed to effective partnerships with communities and to respectful and fair relationships with affected landowners, but it will take time to earn back our credibility in the Waikato.

“ NIGU will provide a more secure supply of electricity to the upper North Island. ”



FIND OUT MORE ABOUT THESE PROJECTS:
www.transpower.co.nz

“...the Electricity Commission approved the NAaN project to reinforce security of supply through Auckland to Northland... and to provide greater diversity of supply in and around the city.”



“The \$141 million Wairakei Ring proposal will support the connection of up to 1000 MW of new renewable geothermal generation expected in the central North Island over the next 5 to 7 years.”



FIND OUT MORE ABOUT THESE PROJECTS:
www.transpower.co.nz

North Auckland and Northland Project

In May 2009, the Electricity Commission approved the North Auckland and Northland (NAaN) project to reinforce security of supply through Auckland to Northland, by creating a transmission ring, and to provide greater diversity of supply in and around the city. This \$473 million project involves installing 37 kilometres of 220 kV underground cable from Pakuranga to Penrose, through the CBD, and on to Albany. NAaN has an anticipated commissioning date of 2014.

The Electricity Commission originally declined our NAaN proposal in December 2008. However, after considering new and additional evidence presented at a public conference in March 2009, the Commission reversed its earlier decision.

Wairakei Ring Reinforcement

In February 2009, the Electricity Commission approved our \$141 million Wairakei Ring proposal. This involves replacing, by 2013, an existing single circuit 220 kV line between Wairakei and Whakamaru with a high capacity, double circuit line. The new line will support the connection of up to 1000 MW of new renewable geothermal generation expected in the central North Island over the next 5 to 7 years.

The final plan, submitted to the Electricity Commission in December 2008, followed an extensive consultation process with both the industry and affected communities. We are now determining exactly where the new line will go. This will involve extensive on-the-ground consultation with landowners, as well as specialist technical engineering and environmental investigations.

Other Projects

Many smaller upgrade projects are underway to improve the capability and reliability of existing grid assets, and to

meet growing load requirements.

In the South Island, these include the installation of static var compensators at Islington and Kikiwa as part of the \$70 million project to improve dynamic reactive support. In the North Island, the \$100 million 220 kV gas insulated switchgear (GIS) project at Otahuhu is well advanced, with commissioning expected on time by next winter.

Some 55 other projects, valued at \$310 million, are underway. Resourcing to complete these smaller projects on time, as well as undertake work on the major projects, continues to be a challenge.

Lower South Island Investigations

We are working with generators, lines companies, major load and other customers to resolve how we should respond to development in the lower South Island. We are investigating options, with costs ranging up to \$150 million, to increase the capacity of key transmission lines between the Clutha and Waitaki Rivers to assist with the connection of potential new renewable generation (wind) in the region. Altogether, there is over 1000 MW of new wind generation either planned or underway in the lower South Island area, although its timing and extent remain very uncertain.

In parallel, the Lower South Island Reliability project (which has involved extensive local input, through a forum chaired by Martin Walton, Chief Executive of the local lines company) is examining options for increasing transmission capacity south of Roxburgh, to meet increasing demand on the 110 kV regional network. This project would also ensure security of supply to Invercargill and Tiwai on the core 220 kV network from Roxburgh south, especially during very dry periods when Manapouri generation is low.

These projects will culminate in the submission of Grid Upgrade Plans

(GUPs) to the Electricity Commission late this year.

Accelerated Work Programme Underway

In February 2009, we embarked upon an accelerated programme of maintenance and refurbishment of existing assets.

The Accelerated Work Plan brings forward certain maintenance work required on the National Grid in the next 10 years. This includes essential work such as refurbishment of tower foundations, transmission line reconductoring, substation refurbishment and maintenance of access tracks and bridges.

Advancing these works makes sound economic sense. There are major cost savings in doing the work as part of one programme, and the current economic situation allows us to secure very cost-effective rates. It also provides employment opportunities in rural areas of New Zealand and allows our

contractors to maintain and develop their workforce to address the major build ahead.

WORKFORCE CAPABILITY

After a long period of low investment and development, we are focused on building our workforce capability.

Since its inception in 2001, the graduate training programme has resulted in 53 engineering undergraduates joining Transpower. This year, we are markedly increasing the size of the programme and expanding it to non-engineering university graduates.

We are also developing the capability and performance of our field workforce. The growing work programme, tight operating margins and use of new technologies are all significant challenges. We have initiated a major review of our contractual interface with our maintenance partners to improve our capabilities, the results of which will be implemented next year.

“...the graduate training programme has resulted in 53 engineering undergraduates joining Transpower. This year, we are markedly increasing the size of the programme and expanding it to non-engineering university graduates.”



Graduates are taken through a familiarisation process on the Graduate Recruitment Programme that has now been expanded to include non-engineering university graduates.



“ Transpower is investing in technology platforms that will allow more intelligent operation of the future transmission grid. ”



We are also well advanced on developing a trainee programme to address the ageing of our existing workforce and the need to retain key skills in the face of worldwide demand for experienced transmission workers.

SAFETY AND HEALTH

Ensuring a safe and healthy working environment for all our employees and contractors is a top priority. Our goal is zero accidents or injuries. Achieving this is a major challenge for both Transpower and the industry which services us.

A serious harm injury in September 2008, which could have resulted in the death of a Transfield employee, plus a number of other significant safety incidents demonstrate that, despite significant improvements in recent years, there are still cultural and behavioural issues with respect to safety in our workplace that need to be addressed.

We have engaged worldwide leaders DuPont to critically examine our safety culture and to provide an independent view of how our safety performance can

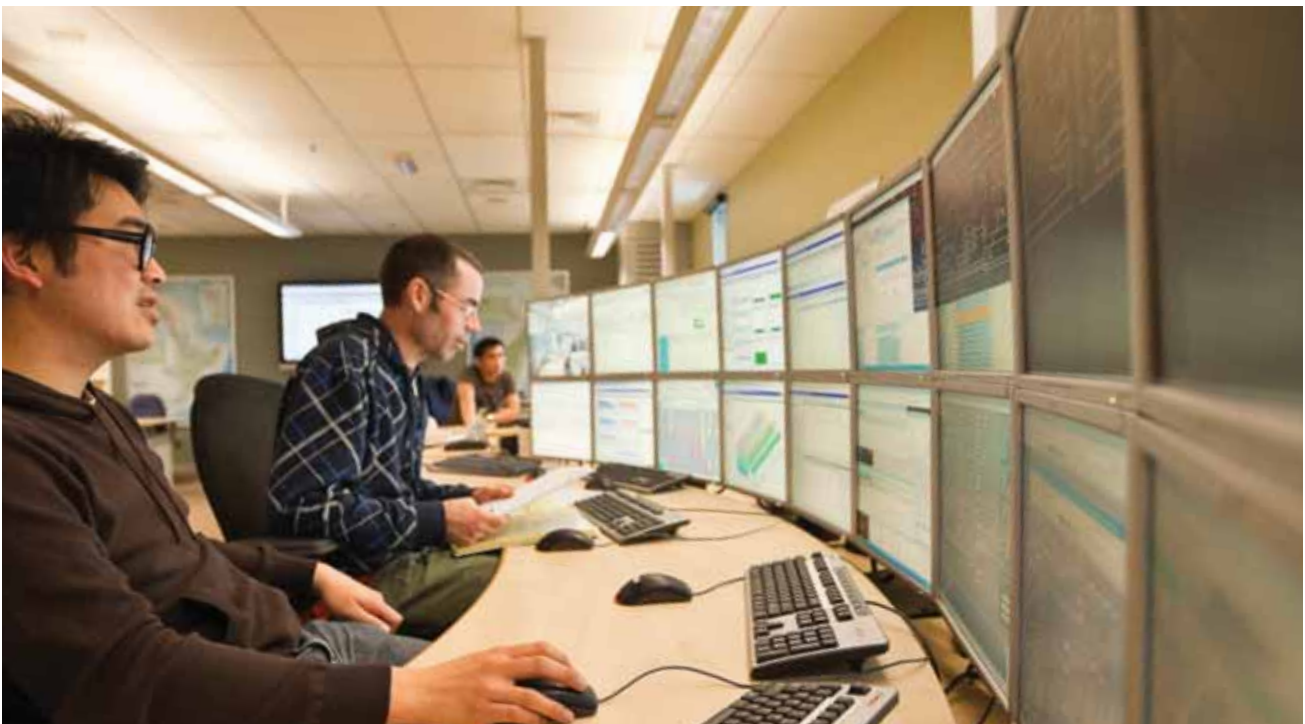
be substantially improved. Implementing this change programme will be a major focus in the coming year, and we are determined to achieve an enduring step change in safety and quality performance.

Transpower's office-based health and safety system was externally audited in May by ACC and assessed as having progressed from secondary to tertiary status (continuous improvement and best practice), which is the highest level that can be attained.

INVESTMENT IN SUPPORTING TECHNOLOGIES

Transpower is investing in technology platforms that will allow more intelligent operation of the future transmission grid. The benefits include greater ability to monitor and operate grid equipment remotely and improved utilisation of existing transmission assets.

Longer term, this will lead to lower capital outlay in both generation and transmission infrastructure to meet the increasing reliability and security



standards required by our customers. The benefits will also include greater use of intelligent demand-side response.

Demand-side Response

New Zealand has traditionally been a leader in demand-side response through our ripple control of domestic hot water loads. New technologies promise the opportunity to use demand-side response – automatic control of individual loads in customers' premises – to offer higher service with a smaller transmission asset base. We have, with the support of the Electricity Commission, completed pilot programmes in the South Island over the last two years and look to extend this work going forward.

In concert with this, we are participating in a major review of transmission pricing to ensure that appropriate incentives are placed on generators and our customers to consider transmission investment costs in their own investment and operations decisions.

Telecommunications and Networks Programme (TNP)

TNP, underway since 2007, will replace our telecommunications infrastructure, providing very fast and highly reliable real time access to our nationwide substations. This is an essential platform for operating tomorrow's grid and will be a foundation for many of our planned technology enhancements.

TNP includes the provision of dedicated fibre optic cable to our substations. Most is direct buried and is built with or leased from major telecommunication companies. The first major connection, from Hamilton to Bunnythorpe, was completed in March 2009, and the balance of the programme will be completed over the next three years. As part of the programme, in November 2008, we completed a 10-year contract with TelstraClear to connect up to 19 South Island substations to its new 950 km fibre optic network.

Market Systems Project (MSP)

The Market Systems hardware and software is, with SCADA, the key tool which the Transpower System Operator uses to ensure the grid is securely operated and electricity is dispatched efficiently and at the lowest overall cost. The previous system, developed in 1998, was inflexible, lacked key functionality and was increasingly difficult to maintain and support.

Development of a new, state of the art, MSP began in 2006, and the system became fully operational in July 2009. MSP will deliver wide-ranging benefits not only to Transpower, through enabling greater automation and maximising the use of the transmission system, but also to the wider generation, distribution and consumer sectors.

The project has been very complex and, consequently, exceeded delivery time and cost forecasts. However, the complexity of introducing new market systems has been underestimated worldwide, and New Zealand's implementation is increasingly being looked to internationally as innovative, cost-effective and successful.

The cost of the project has resulted in Transpower recording a further impairment to the value of its System Operator assets of \$6.2 million, since we do not expect that fees received from the Electricity Commission to pay for the System Operator function will allow full recovery of the MSP development cost. We are confident that there are ancillary benefits to the transmission network that fully justify the unrecovered investment.

DEVELOPMENT OF THE TRANSMISSION CODE

In 2009, we developed, in conjunction with the industry, the new Transmission Code, which defines our view of good electricity industry practice (GEIP) in key areas for planning and operation of the grid.

“ MSP will deliver wide-ranging benefits not only to Transpower, but also to the wider generation, distribution and consumer sectors. ”



The Code includes measures that recognise the need to build a grid with sufficient operating margins to allow assets to be taken out of service securely for routine maintenance. The Code is a living document that will be updated and expanded when necessary.

TRANSMISSION 2040

In August 2008, we initiated a comprehensive investigation looking at grid development over the next 30 years called Transmission 2040. Transmission 2040 will provide a long-range strategic analysis of the possible future requirements for the National Grid. This is less a forecast of future load growth or planning of longer-term line enhancements than an identification of technology and asset strategies which we need to develop and invest in now to provide options to address possible scenarios in the longer term.

“ Transmission 2040 will provide a long-range strategic analysis of the possible future requirements for the National Grid. ”



PERFORMANCE OF THE EXISTING GRID

Grid Performance

An ageing transmission asset base, increased loading on the network and the need to implement our major construction, refurbishment and replacement programme, is placing pressure on our ability to maintain system performance and reliability.

Reflecting this, we did not meet all of our network performance objectives for the year ended 30 June 2009.

Key system reliability targets were detailed in the 2008/09 Statement of

Corporate Intent. Achievement of these targets for the year was as follows.

The availability performance objective for the AC network was achieved. The availability was 98.6% compared with the target of 98.3%.

The target for unplanned interruptions was not achieved, however. There were 16.1 system minutes (versus 24.6 in the previous year) of unplanned interruptions, compared with the target of less than 9.

Two major incidents caused more than half of the system minutes lost. In both of these incidents, aged equipment was out of service for planned refurbishment or replacement when a separate item of equipment failed. We have introduced procedures to lower this risk.

Approximately one-quarter of the system minutes lost were ultimately traceable to human errors in protection setting design, switching or maintenance.

This is a problem common to international transmission companies, but one we are more exposed to because of the 'tightness' of the grid and the size of our construction programme.

The availability performance target for the HVDC link was narrowly missed. The actual availability (for Pole 2 only) was 97.2% compared with the target of 97.3%. This was due to a series of joint corrosion problems on the overhead HVDC line, accelerated by its very high loading over the last year, and a transformer fault at Benmore due to a wiring error which had remained undetected since installation in 1993. Compared to similar HVDC systems overseas, Pole 2 continues to perform at a very high standard, and we consistently rank as a top performer internationally.

Tight Grid

A major challenge is securing and co-ordinating outages to effect the replacement and upgrading work that is now underway. As loading on the grid

OPERATIONAL PERFORMANCE MEASURES	ACHIEVED TO 30 JUNE 2009	2008/09 TARGET
HVAC AVAILABILITY %	98.6	98.3
HVDC (POLE 2 ONLY) AVAILABILITY %	97.2	97.3
UNPLANNED INTERRUPTIONS (SYSTEM MINUTES) ¹	16.1	<9.0

1. A SYSTEM MINUTE IS DEFINED AS THE ENERGY IN MEGAWATT MINUTES NOT SUPPLIED FROM THE SYSTEM TO CONSUMERS DIVIDED BY THE SYSTEM MAXIMUM DEMAND IN MEGAWATTS FOR THE YEAR (6,612 MW).

TRANSPOWER'S SENIOR MANAGEMENT TEAM



1. JIM TOCHER GM INFORMATION SERVICES AND TECHNOLOGY 2. JOHN CLARKE GM GRID DEVELOPMENT 3. BOB SIMPSON CHIEF ENGINEER
4. PATRICK STRANGE CHIEF EXECUTIVE 5. STUART LOW GM PEOPLE AND PERFORMANCE 6. DAVID BREWER GM GRID PERFORMANCE
7. CYNTHIA BROPHY GM CORPORATE AFFAIRS 8. KIERAN DEVINE GM SYSTEM OPERATIONS 9. MIKE CARTER GM GRID PROJECTS
10. HOWARD CATTERMOLE GM CORPORATE SERVICES

rises, it is becoming more difficult to take parts of the grid out of service for this purpose.

However, several day-long planned outages in the far North and central North Island were carried out successfully. The maintenance and communications logistics for these outages were significant, and it is a credit to all concerned that they were completed without mishap.

Upgrading Our Asset Base

To address the deterioration in quality performance, a programme of critical asset renewal has been put in place, including the procurement of an increased number of critical spares (notably power transformers). A total of 11 strategic spare power transformers will provide cover for our fleet of three-phase supply transformers and interconnecting transformers.

A major enhancement of our asset management practices and strategies is also underway to improve the

performance of the existing asset base and to reduce the risks of asset failure. These initiatives are in response to the recommendations from the May 2008 DuPont review and the findings from international benchmarking.

SYSTEM OPERATIONS

In our role as System Operator, we are responsible for maintaining real time security of the power system and for running the real time wholesale energy market, 24 hours a day, 7 days a week. Despite a challenging year, which included the complexities of operating during the very dry start to winter 2008, maintaining system security in the absence of Pole 1 during the subsequent strong summer northwards flows across the HVDC and integrating increasing wind generation, the System Operator performed extremely well and maintained system security.

In managing an increasingly tight system, the System Operator has found it vital to co-ordinate with all parties

connected to the grid. Customer and stakeholder forums have been used extensively to ensure maintenance and project work can be carried out and the difficult and recurring issues such as security of capacity for winter peaks can be successfully managed.

Following a period of significant investment in staff training, and the major and successful roll-out of MSP, the System Operator is well placed to introduce new initiatives to enhance the operation and efficiency of New Zealand's power system. To support this, we believe certain market rule changes and developments are required and will work closely with the regulator and industry to implement these.

Winter Security

The System Operator led the electricity industry in managing a very dry start to the 2008 winter and the security of supply problems that arose. We constituted a National Winter Group to assess what generation was available (including fuel stocks) and to assess



Photograph: Soenke Dwenger

“ In 2008/09, the fund made grants totalling \$990,000 to 38 community-based projects along grid routes nationwide. A community care component is now included in all major projects. ”



expected demand. The group actively responded to a security situation that was, for a time, of significant concern. We also co-ordinated a public savings campaign on behalf of the industry, which ran until South Island lake levels rose in July 2008.

In February 2009, the System Operator recalled the National Winter Group to review the security of supply prospects for 2009. The group's report, published in May 2009, indicated the power system should be able to meet peak demand this winter.

REGULATION

We believe that there is potential for improvements in the regulatory regime and are working with industry and government to assist in this area.

The latest Government Policy Statement on Electricity Governance, issued in May 2009, signalled the introduction of a streamlined, simplified process for transmission investments under

\$20 million in value. This will save time and cost.

We have put forward proposals to improve market design and governance in support of the ministerial review of electricity market performance, launched in March 2009.

The Commerce Commission has commenced a significant review of its regulatory arrangements under Part 4 of the Commerce Act, including those for the economic regulation of electricity transmission. The Commission's proposals are expected to move the regulation of Transpower closer to the incentive-based, multi-year, revenue cap regulation utilised in more mature regulatory jurisdictions (such as the UK and Australia). We welcome this development and will engage constructively with the Commission to develop the detailed specification of the regime, which would come into force at the end of the current Administrative Settlement (30 June 2011).

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our prime corporate social responsibility is to provide a reliable transmission service while working with stakeholders to plan, deliver and operate infrastructure in a manner which mitigates the social and environmental impacts of our activities (see page 14 for CSR Targets and Actions).

We work with communities, landowners, customers, employees and shareholders to identify how to improve our performance. Targets and reporting frameworks have been established to demonstrate how these responsibilities are reflected in our activities.

Reducing Carbon Emissions

A key objective is lowering our carbon emissions. In 2007, we initiated a carbon footprint project to measure, manage and, where possible, minimise our carbon footprint. Our emissions for the 2007/08 financial year (the most recent reporting period) were 10,101 tonnes or 4.7% less, compared to 10,601 tonnes for the 2006/07 financial year.

The focus of Transpower's carbon emissions management programme continues to be on sulphur hexafluoride (SF₆) management and handling (SF₆ represents the major part of Transpower's total footprint).

ENGAGING WITH STAKEHOLDERS

We are committed to building closer relationships with landowners and communities affected by our activities.

We are working hard to lift our visibility and accessibility to landowners whose properties are affected by transmission assets, as well as to involve landowners earlier in the planning process.

We have introduced a new consultation approach with landowners in areas affected by proposed projects. This was

implemented on the Wairakei Ring Reinforcement project. Feedback from an extensive consultation process with industry and potentially affected landowners was taken into account in formulating the Wairakei proposal, prior to submission to the Electricity Commission for approval. This model will be used on all projects going forward.

Transpower's CommunityCare Fund, initiated in 2006, continues to be highly valued in the community. The fund assists those communities affected by our assets and projects, by providing funding for projects that benefit the community as a whole. In 2008/09, the fund made grants totalling \$990,000 to 38 community-based projects along grid routes nationwide. Projects ranged from stream restoration in Auckland, to the upgrade of sporting facilities in Waipa and the refurbishment of community halls in South Taranaki and Waimate.

A community care component is now included in all major projects.

We are also major sponsors of the New Zealand Landcare Trust and Federated Farmers.

ENVIRONMENTAL AND PROPERTY LEGISLATION

We are supporting the current review of the Resource Management Act 1991 (RMA) governing the consenting process for transmission. We welcome any changes to the RMA that can streamline and simplify consent processes, whilst maintaining appropriate controls for local communities.

We are also working with the Ministry for the Environment on a National Environmental Standard on Electricity Transmission (NES). The NES will help to establish clear and consistent rules nationally to govern what we can and cannot do on our existing transmission lines and clarify when we need to get resource consent. The NES will also

support the intent of the National Policy Statement on Electricity Transmission (NPS), which was released in March 2008. The NES is expected to be introduced at the same time as the RMA Phase 1 reforms.

CONCLUSION

The Board of Directors underwent a number of changes this year. Ian Donald, who has been a Transpower Director since 2003, was appointed Deputy Chair in April 2009, and three new Directors have been appointed: Dr Don Brash, Abby Foote and Mike Pohio.

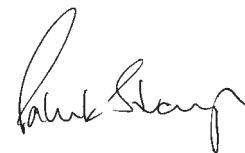
The Board expresses its thanks to those retiring from the Board during 2008/09: former Deputy Chair Paul Cochrane and Directors Mark Tume, Hon. Jim Sutton and Gregory Fortuin for their contribution to Transpower.

We would also like to thank the generators, lines companies, major users and consumers groups, for their input and support through a year with many challenges for the system, and landowners nationwide for their continued co-operation and understanding when we need to access our transmission assets.

The Directors, management and staff are working together to ensure that the National Grid continues to provide a safe, reliable and efficient supply of electricity. ■










WAYNE BROWN
CHAIRMAN



PATRICK STRANGE
CHIEF EXECUTIVE

CORPORATE SOCIAL RESPONSIBILITY (CSR) TARGETS AND ACTIONS

	2008/09 TARGET	2008/09 COMPLETED ACTIONS	2009/10 PROPOSED ACTIONS
	<p>Infrastructure</p> <p>Establish a programme to achieve sustainable reductions in the number of unplanned interruptions to supply and to improve the measurement and reporting of supply performance.</p>	<p>Phased project to improve incident capture, analysis and review (ICAR) initiated.</p> <p>Power transformer strategy to address ageing asset fleet in final draft stage.</p> <p>Review of transformer spares completed and strategic spares ordered.</p>	<p>Develop asset strategies for other main components of the grid asset fleet.</p> <p>Implement a behavioural change programme aimed at reducing operational errors.</p> <p>Seek Board approval to implement, a replacement Asset Management System.</p>
	<p>Environmental care</p> <p>Establish Environmental Management System.</p>	<p>Scoping documentation prepared for Environmental Management System.</p>	<p>Initiate programmes to secure environmental performance improvement, including improved consent compliance and greenhouse gas management.</p>
	<p>Establish a policy on undergrounding of new transmission lines in urban areas or areas of significant heritage value.</p>	<p>Actively consider the undergrounding of new transmission assets on a case-by-case basis.</p>	<p>Review economic and operational implications of draft policy, elicit stakeholder feedback and secure Board approval.</p>
	<p>Identify encroachments within transmission corridors and develop action plans to address issues identified.</p>	<p>Focus placed on preventing new development within transmission corridors by promotion of corridor management strategy through:</p> <ul style="list-style-type: none"> • submission on resource consent applications for development within transmission corridors • seeking buffer distances through implementation of the National Policy Statement on Electricity Transmission (NPS) – NPS and implementation of guidelines finalised July 09 • working with Ministry for Environment to develop a National Environmental Standard (NES). 	<p>Continued activity in the following areas:</p> <ul style="list-style-type: none"> • Submitting on resource consent applications for development within transmission corridors. • Seeking buffer distances through NPS and development of an (NES). • Line surveying to identify proactively and rectify non-compliant structures and other encroachment.

	2008/09 TARGET	2008/09 COMPLETED ACTIONS	2009/10 PROPOSED ACTIONS
	Communities Establish a procedure and targets for implementing Transpower's Commitment to Consultation policy, engaging with communities on a project-by-project basis.	Regional planning forums held in lower South Island and Taranaki. Consultation objectives incorporated into grid planning processes and successfully implemented for the Wairakei Ring project and all successive projects. Local stakeholder feedback incorporated into the regional plans in Transpower's Annual Planning Report (APR).	Regional planning forums extended to Bay of Plenty and Waikato regions. Stakeholder engagement forums held for all significant (>\$20 m) grid upgrade proposals. APR developed with stakeholder input to identify medium-term regional grid development outcomes.
	Climate change Report total direct and indirect greenhouse gas (GHG) emissions against management and mitigation targets set out in Transpower's GHG management programme. Include plans to support development of renewable generation in the 2009 Annual Planning Report (APR).	2007/08 findings published on Transpower's website. Full report filed. See www.transpower.co.nz/our-findings . Wairakei Ring (supporting renewables development in the central North Island) received EC approval February 2009. Lower South Island renewables investigation project initiated. Chapter on Facilitating Renewables and associated renewables subsections included in the 2009 APR.	2008/09 report published on Transpower's website. Complete review of SF ₆ gas handling/management procedures. Commence stakeholder engagement on options to support development of lower North Island renewables. Submit and consult on proposals for lower South Island renewables.
	Landowners Consult with landowners directly affected by Transpower's operations to establish a set of targets and work programmes for improving our relationship with landowners.	Early consultation process for new projects implemented, with landowners receiving project information at the investigation stage and invited to provide feedback. Ongoing liaison with Federated Farmers to improve landowner communication about projects and outages. Property function relocated within Grid Performance division to increase focus and accountability and improve relationship management.	Conduct benchmarking research with landowners affected by transmission assets. Review and update policy to guide the approach to landowners for access to Transpower assets.
	Customers Develop targets for responding to customer concerns and enquiries over Transpower performance.	Customer charter introduced October 2008. Review conducted in consultation with customers on the standard New Investment Contract for connection assets.	Reliability of supply to consumers enhanced through Connection Risk Management initiative. Implement revised New Investment Contract.
	Year-on-year improvement in surveyed rating of customer satisfaction.	The customer survey results (42 surveys completed) indicated a 78% satisfaction rating. The target was 79%.	Target of 3% improvement in overall customer satisfaction compared with 2008/09 result.



TOTAL REVENUE
(\$ MILLIONS)

694

Revenue increased due to average price rises of 6.3% in April 2008 and 4.5% in April 2009.



NET PROFIT AFTER TAX AND BEFORE NET FAIR
VALUE GAIN (LOSS) (\$ MILLIONS)

136

An increase in net profit due to increased revenue and a lower impairment charge on system operator assets, partially offset by higher HVDC reserve charges.



TOTAL PROPERTY, PLANT AND EQUIPMENT
(\$ MILLIONS)

2,701

The increase reflects the significant capital works programme Transpower is undertaking.

HIGHLIGHTS AND ACHIEVEMENTS

FINANCIAL	2009	2008	2007	2006	2005	2004
TOTAL REVENUE (\$M)*	694	642	591	549	581	486
NET PROFIT/LOSS AFTER TAX (\$M)**	136	108	134	97	141	59
FFO INTEREST COVERAGE (TIMES)	4.4	4.3	4.7	4.4	5.2	3.7
TOTAL DEBT (\$M)	1,225	1,113	1,490	1,542	1,515	1,581
TOTAL PROPERTY, PLANT AND EQUIPMENT (\$M)	2,701	2,533	2,356	2,205	2,077	2,091
RETURN ON AVERAGE SHAREHOLDERS' FUNDS (%)	10	8	10	7	13	6
DIVIDEND PAID PER ORDINARY PAID UP SHARE (C)	0	0	0	0.8	3.3	1.4
TOTAL DEBT/TOTAL CAPITAL (%)	0.47	0.46	0.55	0.56	0.57	0.60

* EXCLUDES WHOLESALE MARKET SERVICES REVENUE AND FINANCE REVENUE.
** EXCLUDES NET FAIR VALUE MOVEMENTS.

GRID	2009	2008	2007	2006	2005	2004
GIGAWATT HOURS (GWH) TRANSMITTED	38,816	39,725	39,128	38,732	38,705	38,019
UNPLANNED INTERRUPTIONS (SYSTEM MINUTES)						
UNDERLYING	4.9	4.7	4.1	7.2	2.3	3.6
SIGNIFICANT	11.2	19.9	4.2	30.8	1.0	0



**GIGAWATT HOURS
(GWH) TRANSMITTED**

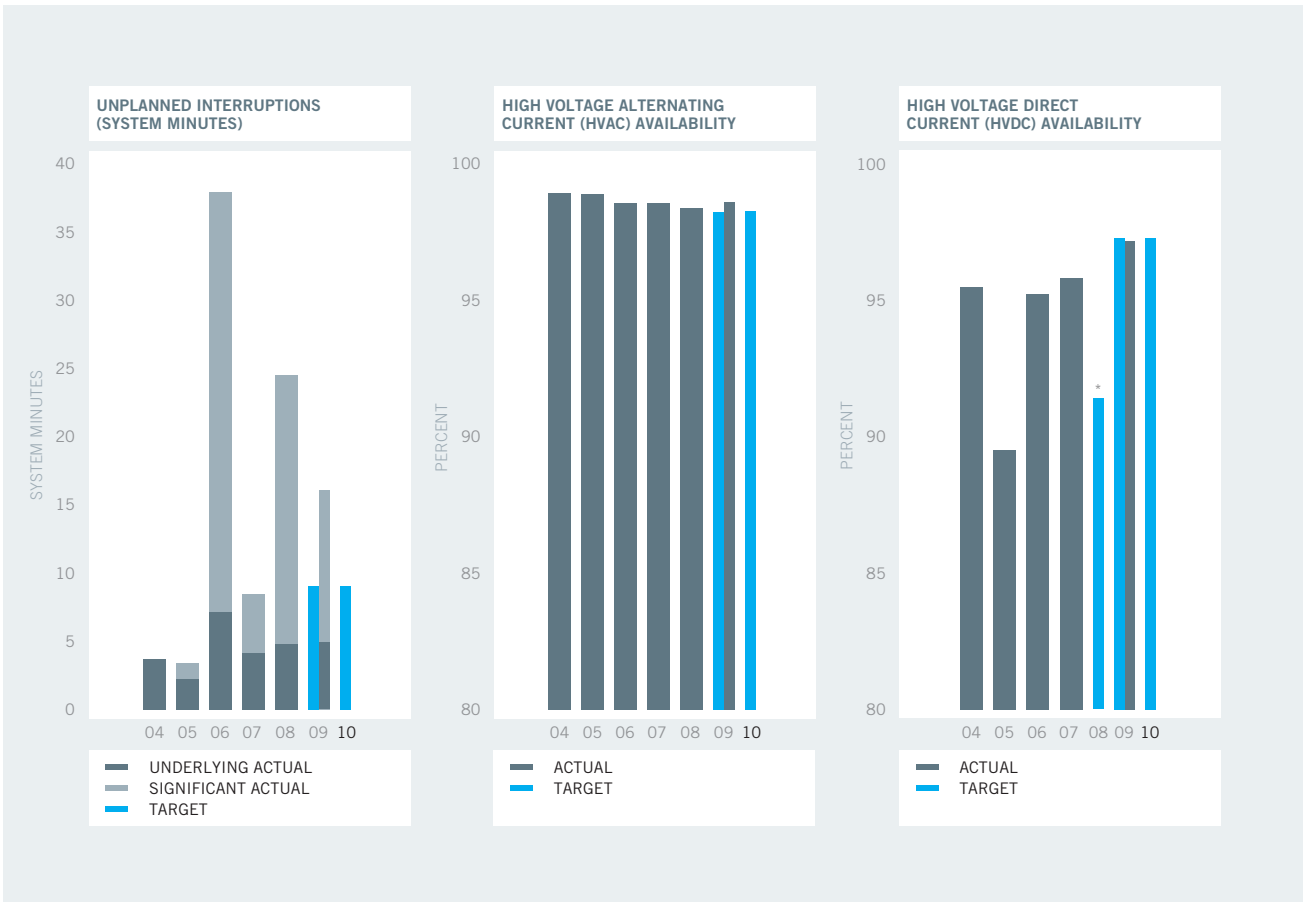
38,816

Total energy injected into the Transpower system. This is enough to supply nearly 3.9 million households with electricity for one year. (A typical household consumes around 10 MWh annually.)

UNPLANNED INTERRUPTIONS (SYSTEM MINUTES)

16.1

Interruptions to end-customers caused by unplanned events originating in the Transpower system.



08/09

STATEMENT OF CORPORATE INTENT
PERFORMANCE TARGETS

The targets for operational, financial and efficiency performance indicators, as detailed in the 2008/09 Statement of Corporate Intent, are compared below with actual results achieved for the period 1 July 2008 to 30 June 2009.

OPERATIONAL PERFORMANCE INDICATORS	ACTUAL 30 JUNE 2009	TARGET 30 JUNE 2009
HIGH VOLTAGE ALTERNATING CURRENT (HVAC) AVAILABILITY (%)	98.6	98.3
HIGH VOLTAGE DIRECT CURRENT (HVDC) (POLE 2 ONLY) AVAILABILITY (%)	97.2	97.3
UNPLANNED INTERRUPTIONS (SYSTEM MINUTES)	16.1	<9.0

THE AVAILABILITY PERFORMANCE TARGET FOR THE HVDC LINK WAS NARROWLY MISSED. THIS WAS DUE TO A SERIES OF JOINT CORROSION PROBLEMS ON THE OVERHEAD HVDC LINE AND A TRANSFORMER FAULT AT BENMORE. THE TARGET FOR UNPLANNED INTERRUPTIONS WAS NOT ACHIEVED. TWO MAJOR INCIDENTS CAUSED MORE THAN HALF OF THE SYSTEM MINUTES LOST. IN BOTH THESE INCIDENTS, AGED EQUIPMENT WAS OUT OF SERVICE FOR PLANNED REFURBISHMENT OR REPLACEMENT WHEN A SEPARATE ITEM OF EQUIPMENT FAILED.

FINANCIAL PERFORMANCE INDICATORS	ACTUAL 30 JUNE 2009	TARGET 30 JUNE 2009
AN ACCOUNTING RETURN ON TOTAL ASSETS (EARNINGS BEFORE INTEREST AND TAX DIVIDED BY AVERAGE TOTAL FUNDS EMPLOYED)	11.8	12.5
AN ACCOUNTING RETURN ON EQUITY (NET PROFIT AFTER TAX DIVIDED BY AVERAGE TOTAL SHAREHOLDERS' FUNDS)	13.3	12.6
AN ACCOUNTING RETURN ON EQUITY (ADJUSTED TO REMOVE THE EFFECT OF WORKS UNDER CONSTRUCTION)	9.7	10.3
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)	8.7	9.1

ALL OF THE FINANCIAL PERFORMANCE INDICATORS WERE ADVERSELY AFFECTED BY HIGHER HVDC RESERVE CHARGES (\$22.9 M), HIGHER MAINTENANCE COSTS (\$6.8 M) AND THE HIGHER WRITE-OFF COSTS (\$6.2 M DUE TO MSP IMPAIRMENT) THAN BUDGETED. THE ACCOUNTING RATE OF PROFIT WAS POSITIVELY INFLUENCED BY LOWER INTEREST COSTS (\$4.1 M).

EFFICIENCY PERFORMANCE INDICATORS	ACTUAL 30 JUNE 2009	TARGET 30 JUNE 2009
TOTAL DELIVERY COSTS	1.62	1.58

TOTAL DELIVERY COSTS IS TRANSMISSION REVENUE DIVIDED BY GIGAWATT HOURS TRANSMITTED. THE INCREASE OVER PLAN OF 1.62 VERSUS 1.58 IS PRIMARILY CAUSED BY REDUCED DEMAND FROM TIWAI POINT ALUMINIUM SMELTER FOLLOWING A TRANSFORMER FAILURE.

NON-FINANCIAL PERFORMANCE TARGETS	ACTUAL 30 JUNE 2009	TARGET 30 JUNE 2009
MATERIAL BREACHES OF SYSTEM OPERATOR PERFORMANCE OBLIGATIONS REPORTED ¹ TO THE ELECTRICITY COMMISSION	2	<15
ACC WORKPLACE SAFETY AUDIT STATUS	Tertiary	TERTIARY
LOST TIME INJURY FREQUENCY RATE (PER MILLION HOURS) ²	1.72	<2.1
LOST TIME INJURY SEVERITY RATE (PER MILLION HOURS) ³	97.7*	<65.5

* THE ADVERSE PERFORMANCE ON THE LOST TIME INJURY SEVERITY RATE WAS DUE TO A SERIOUS HARM INJURY IN SEPTEMBER 2008 TO A TRANSFIELD EMPLOYEE, PLUS A NUMBER OF OTHER SIGNIFICANT SAFETY INCIDENTS.

1. MATERIAL MEANS BREACHES THAT HAVE A MARKET IMPACT EXCEEDING \$20,000.

2. THE LOST TIME INJURY FREQUENCY RATE IS CALCULATED AS THE NUMBER OF LOST TIME INJURIES MULTIPLIED BY 1 MILLION DIVIDED BY THE NUMBER OF HOURS WORKED.

3. THE LOST TIME INJURY SEVERITY RATE IS CALCULATED AS THE NUMBER OF DAYS OFF WORK MULTIPLIED BY 1 MILLION DIVIDED BY THE NUMBER OF HOURS WORKED.

09/10

STATEMENT OF CORPORATE INTENT PERFORMANCE TARGETS

The performance targets for the 2009/10 period, which are detailed in the 2009/10 Statement of Corporate Intent and will be reported in next year's Annual Report, are as follows:

OPERATIONAL PERFORMANCE INDICATORS	TARGET 30 JUNE 2010
HIGH VOLTAGE ALTERNATING CURRENT (HVAC) AVAILABILITY (%)	98.3
HIGH VOLTAGE DIRECT CURRENT (HVDC) (POLE 2 ONLY) AVAILABILITY (%)	97.3
UNPLANNED INTERRUPTIONS (SYSTEM MINUTES)	<9.0

FINANCIAL PERFORMANCE INDICATORS	TARGET 30 JUNE 2010
OPERATING PROFIT MARGIN	61.5%
INTEREST COVERAGE	4.2%
RETURN ON CAPITAL EMPLOYED	7.9%
RETURN ON EQUITY	10.8%
AVERAGE TOTAL TRANSMISSION COSTS (C/KWH)	1.61
ESTIMATED ECONOMIC VALUE ADDED (\$M)	(11)

NON-FINANCIAL PERFORMANCE TARGETS	TARGET 30 JUNE 2010
MATERIAL BREACHES OF SYSTEM OPERATOR PERFORMANCE OBLIGATIONS REPORTED TO THE ELECTRICITY COMMISSION	<15
ACC WORKPLACE SAFETY AUDIT STATUS	Tertiary
LOST TIME INJURY FREQUENCY RATE (PER MILLION HOURS)	<1.3
LOST TIME INJURY SEVERITY RATE (PER MILLION HOURS)*	<35

BOARD OF DIRECTORS



1. MIKE POHIO
2. IAN DONALD
DEPUTY CHAIRMAN
3. ABBY FOOTE
4. DR DON BRASH
5. IAN FRASER
6. WAYNE BROWN
CHAIRMAN
7. ELENA TROUT
8. JOHN IRVING

DIRECTORS' REPORT TO SHAREHOLDERS

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Corporate Governance Statement

Corporate Governance Transpower is a limited liability company and State-Owned Enterprise (SOE) with its shares held on behalf of the Crown by the Minister of Finance and the Minister for State-Owned Enterprises.

The following sets out the ways in which Transpower's Board fulfils its corporate governance responsibilities.

Board Composition and Performance The shareholding Ministers appoint Transpower's Directors. Directors are non-executive and are generally appointed for terms of up to three years, although they may be reappointed for subsequent terms. There should be a balance of independence, skills, knowledge, experience and perspectives among the Directors.

Transpower provides new Directors with a detailed induction, including site visits to key assets. New Directors also receive an information pack containing key information about Transpower's business and meet with the Chief Executive and the Executive Team. At least annually, the Chairman holds strategic workshops to update the Board on current issues. New Directors are also encouraged to attend new Director workshops organised by the Crown Company Monitoring and Advisory Unit (CCMAU).

The Board is accountable to the shareholding Ministers for the performance of Transpower. CCMAU monitors and advises the shareholding Ministers on the Board's performance. Each Director's performance is evaluated by the Chairman, and the Board also evaluates its overall performance.

The Board delegates responsibility for the day-to-day management of Transpower to the Chief Executive, who, in turn, may delegate his authority to the managers of internal business divisions. The Delegated Authority Policy describes the limits of delegated authority and prescribes those matters in respect of which the Board reserves its decision-making authority.

A Director may obtain independent professional advice at Transpower's cost relating to the affairs of Transpower or to his or her other responsibilities as a Director. Before obtaining any advice, Directors must discuss the matter with the Chairman. Advice relating to the affairs of Transpower is then made available to the Board.

Board Committees Transpower's Board has established three standing committees: an Audit and Finance committee, a Network Risk Committee and a Lease Committee, each of which operates in accordance with formal criteria adopted by the Board.¹ A minimum of three Directors sit on each committee. Each committee is chaired by a Director who is not the Chairman of the Board. The agenda, papers and minutes of each committee are provided to all Directors.

Audit and Finance Committee The Board requires the Audit and Finance Committee to meet at least quarterly and to consider, review, monitor and approve:

- annual audit plans and individual internal and external audits and reviews reports
- compliance and statutory reporting/disclosure
- treasury activity
- financial reporting, risk assessments, plan and policies
- insurance programmes, including the governance and operational activities of RRL.

Network Risk Committee The Board requires the Network Risk Committee to meet at least quarterly and to consider, assess and review network risks.

Lease Committee The Board requires the Lease Committee (previously the XBL Advisory Subcommittee) to meet as frequently as is necessary to monitor and inform the Board of options for resolving and/or terminating the cross border leases Transpower has with various counterparties.

Property Committee The Board requires the Property Committee to meet as frequently as is necessary to monitor and inform the Board on property matters.

¹ A further standing committee, the People and Performance Committee (previously the Human Resources Committee), was disestablished by the Board in May 2009. The Board considered that matters to do with personnel and performance were of sufficient importance and concern to the Board that it should consider these matters as a whole rather than through a standing committee.

Corporate Governance Statement continued

Ethical Standards Transpower has adopted a Code of Ethics and Conduct, which sets out the ethical and behavioural standards by which Directors and employees are expected to conduct themselves. All employees are required to sign an acknowledgement that they have read and understood and will comply with the requirements of the Code of Ethics and Conduct.

In addition, Transpower's Directors' Interests Policy governs the disclosure of Directors' individual interests and how conflicts of interest are to be resolved and managed. The Directors' Fees and Expenses Policy governs the payment of fees and the reimbursement of expenses to Directors.

Transpower's Compliance Policy sets out the process for reporting breaches of Transpower policies and outlines how any known or suspected breaches will be dealt with. Transpower reviews all policies regularly and reports to the Board on compliance.

Annual Meeting In line with shareholder expectations for more SOE disclosure, accountability and visibility, Transpower will be holding its first Annual Meeting in Wellington on 23 October this year. The objective is to give all Transpower stakeholders the opportunity to learn more about its business performance, future growth and how it is discharging its corporate social responsibility.

Reporting and Disclosure The Board submits to Transpower's shareholding Ministers its Statement of Corporate Intent, business plan, half yearly report, including unaudited accounts, and annual report, including audited annual accounts. Transpower sends financial information monthly to the Treasury and quarterly to CCMAU and consults regularly with both parties on relevant issues. Transpower also consults with the shareholding Ministers on substantial business and operational matters and those outside the scope of Transpower's core business.

In addition to the shareholding Ministers, Transpower's stakeholders include other Ministers of the Crown and their Ministries, the Treasury, CCMAU, regulators, customers, industry and business groups, landowners and landowner groups, contractors and suppliers, and the wider public. Transpower invests considerable effort in maintaining productive relationships with its stakeholders. This includes the provision of timely and appropriate information and opportunities for feedback.

Audit The Auditor-General appoints Transpower's external auditors and sets the parameters of any assignments that they may undertake.

Risk Management Transpower recognises that managing risk is an essential and critical component of its business. The Board actively considers the strategic risks faced by Transpower and ensures Transpower has in place a framework within which major business risks can be identified, assessed, managed and reported on. The Corporate Governance Group maintains a register of key risks and the risk management actions to be undertaken in respect of those risks. This group also liaises with internal audit functions and other assurance providers and reports to the Board's Audit and Finance Committee on a bi-annual basis. Transpower's Risk Management Policy is approved by the Board and reviewed annually by the Audit and Finance Committee.

Remuneration The shareholding Ministers determine the remuneration for Directors, and this is paid in accordance with Transpower's Directors' Fees and Expenses Policy. Employees' salaries are determined in accordance with Transpower's Remuneration Policy, which is approved by the Board.

Directors' Report to the Shareholders

For the year ended 30 June 2009

The Directors take pleasure in presenting their report of Transpower New Zealand Limited (Transpower) and its subsidiaries (the Transpower Group) for the year ended 30 June 2009.

ACTIVITIES

The principal activity of the Transpower Group is the provision of high voltage electricity transmission services and the management of the assets which comprise the National Grid.

RESULTS FOR THE YEAR EXCLUDING NET FAIR VALUE MOVEMENTS	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating revenue	699,332	644,222	694,182	657,029
Operating expenses	434,044	419,916	450,235	435,097
Finance costs	79,477	65,319	147,224	180,767
Surplus from operations before tax and fair value gain (loss)	185,811	158,987	96,723	41,165
Income tax expense (credit) excluding changes in the fair value of financial instruments	50,000	51,329	23,376	12,096
Operating surplus after tax and before net fair value gain (loss)	135,811	107,658	73,347	29,069

DIVIDENDS

The Directors have proposed not to pay a dividend for the year ended 30 June 2009.

AUDITORS

In accordance with Section 19 of the State-Owned Enterprises Act 1986, the Office of the Auditor-General is required to express an audit opinion on these financial statements. Pursuant to Section 32 of the Public Audit Act 2001, the Auditor-General has appointed SRL O'Connor of Ernst & Young to undertake the audit on his behalf.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

INFORMATION ON TRANSPower DIRECTORS

Meetings of the Board of Directors

The members of the Board of Directors are listed below, together with the number of Board meetings held and attended during the period each Director was eligible to attend such meetings. Mike Pohio joined the Board with effect from 1 July 2009.

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Brown (Chairman)	11	11
Ian Donald (Deputy Chairman)**	11	10
Elena Trout	11	11
Ian Fraser	11	11
John Irving	11	11
Paul Cochrane (Deputy Chairman)*	9	9
Mark Tume*	9	9
Hon. Jim Sutton***	11	9
Gregory Fortuin****	11	10
Dr Don Brash*****	2	1
Abby Foote*****	2	2

* Resigned 30 April 2009.

** From 1 May 2009.

*** Resigned 30 June 2009.

**** Resigned 31 July 2009.

***** Appointed 1 May 2009.

Meetings of the Audit and Finance Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Ian Donald (Chairman)	5	5
Hon. Jim Sutton*	5	4
Mark Tume**	3	3
Dr Don Brash***	2	2
Abby Foote***	2	2

* Resigned 30 June 2009.

** Resigned 30 April 2009.

*** Appointed 1 May 2009.

The Audit and Finance Committee considers any matters relating to the internal and external audits of the Transpower Group. It recommends appointment of internal and external auditors and considers policy and reporting on risk and compliance. It also monitors and recommends to the Board to approve policies in relation to the Treasury function for the Transpower Group.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

Meetings of the Network Risk Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
John Irving (Chairman)	4	4
Wayne Brown	4	3
Elena Trout	4	4
Ian Fraser	4	4

The Network Risk Committee monitors and recommends to the Board to approve policies in relation to maintaining the integrity of the National Grid.

Meetings of the People and Performance Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Paul Cochrane (Chairman)*	4	4
Elena Trout	4	4
Gregory Fortuin	4	4
Ian Fraser	4	4

* Resigned 30 April 2009.

The People and Performance Committee considers material of an employment, engagement and performance nature and recommends to the Board the remuneration of the Chief Executive and the Executive Team. Because of the importance of this material, the Board considered that it would be more efficacious to dissolve the People and Performance Committee from 31 May 2009 and absorb its activities into the Board.

Meetings of the Lease Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Abby Foote (Chair)	1	1
Dr Don Brash	1	1
Ian Donald	1	1

On 21 May 2009, the Board formed the Lease Committee to deal with Transpower's remaining cross border lease.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

Information on Directors of Subsidiary Companies**Omaka Training Limited**

Patrick Strange
Howard Cattermole
John Bishop

Haywards Limited

Patrick Strange
Howard Cattermole
John Bishop

Energy Market Services Limited

Kieran Devine
Kevin Duckworth
Jim Tocher*
Tim George**

Fighting Bay Finance Limited

Patrick Strange
Howard Cattermole
John Bishop

Oteranga Bay Limited

Patrick Strange
Howard Cattermole
John Bishop

TB and T Limited

Patrick Strange
Howard Cattermole
John Bishop

Transpower Finance Limited

Ian Donald
Patrick Strange
Howard Cattermole
Mark Tume***

d-cyphaTrade Limited

Patrick Strange
Kieran Devine
Kevin Duckworth
Tim George**

Halfway Bush Finance Limited

Patrick Strange
Howard Cattermole
John Bishop

Risk Reinsurance Limited

Howard Cattermole
John Bishop
Mark Tume***
Ian Donald****
Dr Don Brash*****

* Appointed 23 March 2009.

** Resigned 17 February 2009.

*** Resigned 30 April 2009.

**** Resigned 18 June 2009.

***** Appointed 1 May 2009.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

Directors' Remuneration

Remuneration and benefits payable to Directors for services as a Director are determined in conjunction with the shareholding Ministers as follows:

PAYMENTS TO DIRECTORS OF TRANSPower NEW ZEALAND LIMITED

	DATE COMMENCED IN OFFICE	DATE CEASED IN OFFICE	2009 \$000	2008 \$000
Wayne Brown (Chairman)	1 September 2006		108	93
Ian Donald (Deputy Chairman)*	30 October 2003		57	53
Elena Trout	1 January 2005		54	52
Ian Fraser	1 May 2007		56	51
John Irving	22 November 2003		56	55
Dr Don Brash	1 May 2009		9	-
Abby Foote	1 May 2009		9	-
Paul Cochrane (Deputy Chairman)	1 May 2006	30 April 2009	55	60
Mark Tume	1 December 2002	30 April 2009	45	52
Hon. Jim Sutton	1 November 2007	30 June 2009	52	34
Gregory Fortuin	1 November 2007	31 July 2009	51	34
Susan Paterson	27 December 2000	30 April 2008	-	44
David Gascoigne	12 July 1999	31 October 2007	-	36
			552	564

* From 1 May 2009.

During the year, no Director of Transpower or the Transpower Group has received, or became entitled to receive, any benefit other than that disclosed above.

Transpower employees did not receive any specific remuneration for their services as Directors.

Directors' Interests

The following Directors have made general disclosures of interest with respect to any transaction that may be entered into with certain external organisations on the basis of their being a Chairman, Director, Board Member, Trustee, Council Member, Member, Employee or Consultant of those organisations, or holding bonds or shares.

DIRECTOR	POSITION	ORGANISATION
Wayne Brown	Chairman/Shareholder	Brown Consulting Limited
	Chairman/Shareholder	Coastlines Surf International Limited
	Chairman/Shareholder	Waahi Paraone Limited
	Chairman**	Kordia Group Limited and Subsidiaries
	Director/Shareholder	Far North Land Company Limited
	Director/Shareholder	Mortgage Company Limited
	Director/Shareholder	Alderton Construction Limited
	Director	Alderton Park Limited
	Director	Surfdistco Limited
	Director	Beachlines Holdings Limited
	Director**	Green Tick Technologies Limited
	Shareholder*	Green Tick Technologies Limited
	Mayor	Far North District Council
Paul Cochrane	Director/Shareholder	BTLI NZ Limited

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

DIRECTOR	POSITION	ORGANISATION
Ian Donald	Director	Ontario Teachers Pension Plan NZ Forest Investments Limited
	Shareholder	Contact Energy Limited
Mark Tume	Director	Welltest Holdings Limited
	Director	Ascend Capital Limited
	Director	LTFT Holdings Limited
	Director	Long Board Limited
	Director	Ngai Tahu Holdings Corporation Limited
	Director	Guardians of NZ Superannuation Fund
	Director	Risk Reinsurance Limited
	Director	Transpower Finance Limited
	Director	The New Zealand Refining Company
	Director	Infratil Limited
Ian Fraser	Shareholder	Beca Group Limited
	Director*	Windflow Technology Limited
	Director (alternate)	Beca Group Limited
	Director	Beca Projects Limited
	Director	Beca Superannuation Trustee Limited
	Director (alternate)	Beca Carter Hollings & Ferner Limited
John Irving	Member	Grey Power Energy Committee
	Member	IPENZ Power Group
	Member	Sustainable Energy Forum Executive Committee
	Consultant	World Bank
	Trustee**	Register of Engineers for Disaster Relief
	Member	Wellington Regional Economic Development Plan
	Chairman*	Institution of Engineering Technology Ltd (Auckland Branch)
Elena Trout	Shareholder	Motiti Investments Limited
	Director	Motiti Investments Limited
	Employee	Auckland Regional Transport Authority
	Member*	Chartered Professional Engineers Council
	Member*	Governing Board of the Institute of Professional Engineers NZ (IPENZ)
	Advisor*	KiwiRail Limited
Gregory Fortuin	Director**	Accident Compensation Corporation
	Chairman**	Catalyst Risk Management
	Director	Prison Fellowship of New Zealand
	Member	Whitireia Community Polytechnic Council
	Trustee	Crown Forest Rental Trust
	Honorary Consul	Republic of South Africa
	Patron	Youth Suicide Awareness Trust
	Commissioner*	Families Commission
	Member*	State Housing Appeals Authority
Hon. Jim Sutton	Chairman	Landcorp Farming Limited
	Ambassador for Trade	Ministry of Foreign Affairs and Trade

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

DIRECTOR	POSITION	ORGANISATION
Dr Don Brash	Director	ANZ National Bank Limited
	Chairman	Huljich Wealth Management Limited (and related companies)
	Director	Ocean Partners Limited (and related companies)
	Director	Oceania Dairy Limited (and related companies)
	Director	Troika Family Trust Nominees Limited
	Director	Eljean's Orchard Limited
	Director	Brash Consultancy Services Limited
	Director	Brash Forestry Limited
	Trustee	Troika Family Trust
Abby Foote	Nil	

* Appointed a Chairman, Director, Trustee, Employee, Consultant, or acquired bonds or shares.

** Ceased to be a Chairman, Director, Trustee, Employee, Consultant, Bondholder or Shareholder.

Directors' Shares

No Directors hold any interest in shares of Transpower.

Directors' Loans

There were no loans by the Transpower Group to Directors.

Directors' Insurance

The Transpower Group has arranged policies of Directors' and Officers' liability insurance, which, together with the indemnity provided by Transpower's constitution and separate Deeds of Indemnity between Transpower and individual Directors, ensure that, generally, Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines that may be imposed in respect of breaches of the law.

Directors' Use of Information

There were no notices from Directors of the Transpower Group requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

Remuneration of Employees

The number of individuals employed by the Transpower Group whose total remuneration paid was within the specified bands are as follows:

REMUNERATION BAND (\$000)	CURRENT AND FORMER EMPLOYEES
100–109	53
110–119	59
120–129	52
130–139	33
140–149	16
150–159	17
160–169	10
170–179	11*
180–189	9
190–199	10
200–209	4
210–219	4*
220–229	6
230–239	2
240–249	3
250–259	2
280–289	2
290–299	2
310–319	2
320–329	1
340–349	1
360–369	1
390–399	1
400–409	1
410–419	1
450–459	2*
460–469	1
470–479	1
520–529	1
840–849	1
Total	309

* Included in the band is one or more staff members with a redundancy and/or severance payment.

Directors' Report to the Shareholders continued

For the year ended 30 June 2009

Study Grants and Donations

During the year, the Transpower Group made donations and study grants of \$1,360,852 (2008: \$1,348,524). Donations comprise principally sponsorship of university research projects, university scholarships, polytechnics and New Zealand Landcare Trust and the CommunityCare Fund.

The Board of Directors of Transpower New Zealand Limited authorised the financial statements for issue on 20 August 2009.

For, and on behalf of, the Board



WAYNE BROWN CHAIRMAN
20 AUGUST 2009



IAN DONALD DEPUTY CHAIRMAN
20 AUGUST 2009

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Income Statement

For the year ended 30 June 2009

	NOTES	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating revenue					
Transmission revenue	2	629,880	586,941	629,880	586,941
Other revenue	2	63,826	55,270	43,326	43,729
Finance revenue	5	5,626	2,011	20,976	26,359
		699,332	644,222	694,182	657,029
Expenditure					
Transmission expenditure	4	159,117	130,872	159,117	130,872
Employee benefits	4	49,361	48,128	46,000	44,790
Other operating expenditure	4	84,905	88,886	110,582	113,818
		293,383	267,886	315,699	289,480
Earnings before interest, impairment, tax, depreciation, amortisation and changes in the fair value of financial instruments		405,949	376,336	378,483	367,549
Depreciation	13	128,187	117,803	122,146	111,604
Amortisation	14	6,274	5,427	6,190	5,213
Impairment	13	6,200	28,800	6,200	28,800
Finance costs	5	79,477	65,319	147,224	180,767
Earnings before changes in the fair value of financial instruments and tax		185,811	158,987	96,723	41,165
Gain (loss) in the fair value of financial instruments	6	(61,288)	(44,115)	(8,880)	(7,477)
Earnings before tax		124,523	114,872	87,843	33,688
Income tax expense (credit)	7	31,614	36,771	20,712	9,629
Net profit (loss)		92,909	78,101	67,131	24,059

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

Reconciliation of net profit specifying the net impact of fair value movements

Earnings before changes in the fair value of financial instruments and tax	185,811	158,987	96,723	41,165
Income tax expense (credit) excluding changes in the fair value of financial instruments	50,000	51,329	23,376	12,096
Earnings before net changes in fair values of financial instruments	135,811	107,658	73,347	29,069
Gain (loss) in the fair value of financial instruments	(61,288)	(44,115)	(8,880)	(7,477)
Income tax expense (credit) on changes in the fair value of financial instruments	(18,386)	(14,558)	(2,664)	(2,467)
Net profit (loss)	92,909	78,101	67,131	24,059

Statement of Changes in Equity

For the year ended 30 June 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Equity at the beginning of the year	1,307,489	1,229,991	922,487	899,031
Change in value of available for sale financial assets	(470)	(603)	(470)	(603)
Net income (expenses) recognised directly in equity	(470)	(603)	(470)	(603)
Net profit (loss) for the year	92,909	78,101	67,131	24,059
Total recognised income and expense for the year	92,439	77,498	66,661	23,456
Equity at the end of the year	1,399,928	1,307,489	989,148	922,487

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



Balance Sheet

As at 30 June 2009

	NOTES	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
ASSETS EMPLOYED					
Current assets					
Cash and cash equivalents		40,722	11,014	221	995
Trade and other receivables	8	61,193	32,817	191,398	343,084
Current tax asset		–	958	8,965	40,626
Investments	10	83,829	161,575	340,194	319,095
Derivatives in gain	10	162,418	77,302	–	–
Other financial assets	10	–	172	–	172
Inventories	11	6,763	3,544	6,763	3,544
		354,925	287,382	547,541	707,516
Non current assets					
Non current receivables		653	3,125	653	3,125
Investment in subsidiaries	12	–	–	740,290	490,290
Other financial assets	12	3,609	3,995	3,609	3,995
Capital work in progress	13	471,391	331,338	471,047	331,338
Property, plant and equipment	13	2,229,139	2,201,203	2,166,350	2,132,594
Intangibles	14	46,675	17,301	46,535	17,060
		2,751,468	2,556,962	3,428,484	2,978,402
Total assets employed		3,106,393	2,844,344	3,976,025	3,685,918
FUNDS EMPLOYED					
Current liabilities					
Trade and other payables	15	81,348	81,216	79,035	80,207
Current tax liability		12,919	–	–	–
Current debt	16	165,535	153,713	2,676,760	2,441,637
Derivatives in loss	16	57,253	16,572	2,903	69
Other financial liabilities	16	269	–	269	–
Deferred income	3	60,092	82,181	60,142	71,061
Provisions	17	11,564	11,694	11,170	11,441
		388,980	345,376	2,830,279	2,604,415
Non current liabilities					
Non current payables		2,723	2,279	2,723	2,279
Finance lease liabilities	18	1,419	1,495	1,332	1,495
Non current debt	19	1,164,329	1,019,898	–	–
Deferred tax	20	137,492	153,595	141,021	141,030
Provisions	17	11,522	14,212	11,522	14,212
		1,317,485	1,191,479	156,598	159,016
Total liabilities		1,706,465	1,536,855	2,986,877	2,763,431

Balance Sheet continued

As at 30 June 2009

	NOTES	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Equity					
Capital	21	1,200,000	1,200,000	1,200,000	1,200,000
Reserves	21	(851)	(381)	(851)	(381)
Accumulated surplus (deficit)	21	200,779	107,870	(210,001)	(277,132)
Total equity		1,399,928	1,307,489	989,148	922,487
Total funds employed		3,106,393	2,844,344	3,976,025	3,685,918

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 20 August 2009.

For, and on behalf of, the Board



WAYNE BROWN CHAIRMAN
20 AUGUST 2009



IAN DONALD DEPUTY CHAIRMAN
20 AUGUST 2009

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

Cash Flow Statement

For the year ended 30 June 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
CASH FLOW FROM OPERATIONS				
Cash was provided from:				
Receipts from customers	661,832	695,708	618,973	680,518
Dividends received from subsidiaries	–	–	–	10,320
Interest received	5,626	2,011	20,976	26,359
Cash was applied to:				
Payments to suppliers and employees	(286,337)	(241,839)	(310,607)	(420,292)
Tax payments	(33,840)	(48,456)	(27,082)	(23,553)
Interest paid	(97,028)	(77,075)	(164,775)	(187,538)
Net cash inflows (outflows) from operations	250,253	330,349	137,485	85,814
CASH FLOW FROM INVESTMENTS				
Cash was provided from:				
Sale of property, plant and equipment	5,265	101	5,265	101
Short term investments	1,045,730	452,728	–	–
Cash was applied to:				
Purchase of property, plant and equipment	(336,151)	(328,149)	(335,345)	(327,186)
Short term investments	(967,982)	(559,386)	(21,098)	(25,804)
Net cash inflows (outflows) from investments	(253,138)	(434,706)	(351,178)	(352,889)
CASH FLOW FROM FINANCING				
Cash was provided from:				
Increase in loans	474,528	1,571,097	212,919	268,014
Cash was applied to:				
Increase in long term investments	–	–	–	–
Dividends paid	–	–	–	–
Repayment of loans	(441,935)	(1,460,408)	–	–
Net cash inflows (outflows) from financing	32,593	110,689	212,919	268,014
Net increase (decrease) in cash held	29,708	6,332	(774)	939
Opening balance brought forward	11,014	4,682	995	56
Closing net cash carried forward	40,722	11,014	221	995
Closing net cash carried forward comprises:				
Cash and bank	40,722	11,014	221	995

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

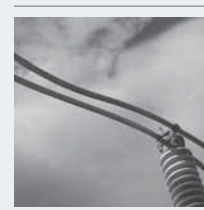
Cash Flow Statement continued

For the year ended 30 June 2009

RECONCILIATION OF NET PROFIT (LOSS) WITH NET CASH FLOW FROM OPERATIONS

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Net profit (loss)	92,909	78,101	67,131	24,059
Add (deduct) non-cash items:				
Change in fair value of financial instruments	61,288	44,115	8,880	7,477
Depreciation and amortisation	134,461	123,230	128,336	116,817
Deferred tax	(15,822)	(16,167)	272	(4,165)
Impairment	6,200	28,800	6,200	28,800
Imputed interest	5,273	4,360	4,766	3,710
Movements in working capital items:				
Decrease (increase) in trade and other receivables	(25,904)	35,918	(47,842)	120,627
Decrease (increase) in prepayments	(2,632)	(516)	(2,291)	518
Decrease (increase) in stocks of materials	(3,219)	(1,408)	(3,219)	(1,408)
(Decrease) increase in trade and other payables, interest payable and deferred income	(2,998)	38,520	(4,810)	(103,850)
(Decrease) increase in taxation payable	13,877	4,740	(6,361)	(9,503)
(Decrease) increase in provisions	(2,820)	(575)	(2,961)	(268)
Add (deduct) items classified as investing activities:				
Property, plant and equipment write-offs and loss on sale	7,191	7,347	6,935	7,116
Capitalised interest	(17,551)	(16,116)	(17,551)	(16,116)
Net cash flow from operations	250,253	330,349	137,485	173,814

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



Notes to the Financial Statements

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity and Statutory Base

Transpower New Zealand Limited (Transpower) is a State-Owned Enterprise registered in New Zealand under the Companies Act 1993. The financial statements are in New Zealand dollars and are of Transpower (the Parent) and its subsidiaries (together the Group).

Nature of Operations

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

Basis of Preparation

The financial statements have been presented in accordance with the State-Owned Enterprises Act 1986 and are prepared in accordance with the Financial Reporting Act 1993. The Financial Reporting Act 1993 requires compliance with generally accepted accounting practice (GAAP) in New Zealand.

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

Measurement Basis

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

Specific Accounting Policies

a) *Basis of Consolidation*

The Group financial statements consolidate the financial statements of subsidiaries using the purchase method. Subsidiaries are those entities controlled, directly or indirectly, by the Parent. All significant intercompany accounts and transactions are eliminated on consolidation. In the Parent's financial statements, investment in subsidiaries is carried at cost.

b) *Goodwill*

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

c) *Revenue*

The Group recognises revenue as it provides services or delivers products to customers. Two significant streams of revenue that are received up-front but are deferred over the service period are "cross border lease gains" and certain "new investment agreements".

New investment agreements are agreements between Transpower and customers regarding the building of certain customer required grid connection assets. New investment agreement revenue is recognised over the contract period. Cross border lease revenue is recognised over the minimum period in which the cross border lease applies.

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued*d) Goods and Services Tax (GST)*

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

e) Accounts Receivable

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

f) Inventories

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

*g) Investments***Regular Way Financial Asset Purchases**

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

Investment in Subsidiaries

Investment in subsidiaries is accounted for in accordance with a) above.

Fair Value Through Profit or Loss

Risk Reinsurance Limited's (Risk Reinsurance) investments are classified as fair value through profit or loss. This classification is on the basis that Risk Reinsurance has an active investment programme (held for trading). All other investments (excluding Fonterra shares, investment in subsidiaries and derivatives) are designated as fair value through profit or loss on the basis of preventing an "accounting mismatch". The Group's net debt and derivatives are managed as one integrated portfolio; therefore, measuring derivatives and net debt on different bases would create a recognition inconsistency or accounting mismatch.

Fair values of quoted investments are based on prices current at balance date. If the market for a financial asset is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments, discounted cash flow analysis and option pricing models. Where the fair value of equity instruments cannot be reliably determined, the investments are recorded at historical cost.

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

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

i) Loans and Receivables

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

j) Trade and Other Payables

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued*k) Available for Sale Financial Assets*

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

l) Property, Plant and Equipment

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

m) Capital Work in Progress

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

n) Depreciation

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

The estimated useful lives are as follows:

Transmission lines	20–75 years
Freehold buildings	30–55 years
Substation assets	8–55 years
HVDC assets	3–30 years
Communication assets	3–25 years
Administration assets	3–10 years

o) Non Current Assets Held for Sale

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

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

p) Investment Property

Investment property is property held primarily to earn rentals and/or capital gain rather than used for operational purposes. Measurement is at fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

q) Leased Assets

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued

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

Under operating leases, all the risks and benefits of ownership remain with the lessor. Operating lease payments/receipts are representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the income statement as expenses/revenue, in the period in which the benefits are incurred/received.

The Group has previously entered into a cross border lease. The Group has received an up-front gain for the cross border lease but the gain is deferred over the minimum period in which the cross border lease applies. Due to the service period, in relation to above items, being greater than one year, revenue is shown on a yield to maturity basis gross of an imputed interest expense.

r) Intangibles

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

Software	3–7 years
Easements	Indefinite

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

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

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

s) Impairment of Assets

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

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

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



Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued

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

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

t) Debt

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

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

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

u) Employee Benefits

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

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

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

Defined Contribution Plans

Contributions to defined contribution plans are expensed when incurred.

v) Taxation

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

Current Tax

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

Deferred Tax

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued

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

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

w) Foreign Currency Transactions

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

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

x) Translation of Foreign Group Entities

The financial statements of each of the Group's subsidiaries are prepared in the functional currency of that entity, being New Zealand dollars, with the exception of d-cyphaTrade Limited (d-cyphaTrade). d-cyphaTrade has a functional currency of Australian dollars with its presentational currency being New Zealand dollars. Functional currency is determined for each entity based on the primary economic environment in which it operates. Revenue and expenses are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities are translated at exchange rates current at balance date. Non monetary assets and liabilities are translated at their respective historical exchange rates. The exchange gain or loss arising on translation is recorded in the income statement.

y) Derivative Financial Instruments

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

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

z) Cash Flow Statement

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES continued**New Standards Early Adopted**

Transpower has adopted NZ IFRS 8 Operating Segments early.

New Standards Not Yet Adopted

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

NZ IAS 1 Presentation of Financial Statements – effective for annual reporting periods beginning on or after 1 January 2009.

NZ IAS 23 Borrowing Costs – effective for annual reporting purposes beginning 1 July 2009.

NZ IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – effective for annual reporting periods beginning on or after 1 January 2009.

NZ IFRS 7 Financial Instruments Disclosures – effective for annual reporting periods beginning on or after 1 January 2009.

NZ IFRS 4 Insurance Contracts – effective for annual reporting periods beginning on or after 1 January 2009.

NZ IFRIC 18 Transfers of Assets from Customers – effective for annual reporting purposes beginning 1 July 2009.

2. OPERATING REVENUE	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Transmission revenue				
HVAC interconnection	416,694	418,208	416,694	418,208
HVAC connection	131,171	103,464	131,171	103,464
HVDC	74,322	87,952	74,322	87,952
EV (rebate) charge – HVAC	(31,115)	(45,766)	(31,115)	(45,766)
EV (rebate) charge – HVDC	7,405	8,556	7,405	8,556
Other rebate – HVDC	–	(7,697)	–	(7,697)
New investment agreements	23,367	19,321	23,367	19,321
Other	8,036	2,903	8,036	2,903
	629,880	586,941	629,880	586,941
Other revenue				
Wholesale market services	22,515	22,845	22,515	22,845
Rental income	8,448	7,075	8,448	7,075
Cross border lease income	17,292	5,046	9,566	3,926
Risk Reinsurance investment income	4,670	6,015	–	–
Other	10,901	14,289	2,797	9,883
	63,826	55,270	43,326	43,729
Total operating revenue	693,706	642,211	673,206	630,670

Intercompany transactions above include:

850	7,621
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Intercompany revenue relates to income from Energy Market Services Limited (EMS), rental and lease income. 2008 other revenue also includes insurance claims payable by Risk Reinsurance of \$6,510,000.

Notes to the Financial Statements continued

For the year ended 30 June 2009

2. OPERATING REVENUE continued**Transmission Revenue**

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

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

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

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

Other Revenue**Wholesale Market Services**

Wholesale market services revenue primarily relates to revenue from System Operator services.

Rental Income

Includes rental income on various transmission land and buildings and also communications equipment. Assets are not held primarily to earn rental income.

Cross Border Lease Income

Refer to Note 3 Deferred Income for details.

Risk Reinsurance Investment Income

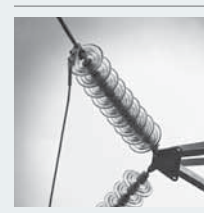
Risk Reinsurance makes investments using the insurance premiums it receives. The Group has other investments that are held for short term funding purposes as part of a net debt position. Interest revenue earned on these investments has been included in Note 5 Net Finance Costs.

Interest Received

All interest received is on investments designated as fair value through profit or loss. This includes all interest income except that earned by Risk Reinsurance. Risk Reinsurance income is classified as operating income as the investments are designated as held for trading. Investments designated as available for sale do not earn interest income.

Other

For Group, other revenue mainly consists of EMS and d-cyphaTrade revenue. For Parent, other revenue mainly consists of intercompany revenue.



	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
South Island cross border lease	27,229	31,916	27,229	31,916
HVDC cables cross border lease	–	7,219	–	–
HVDC converters cross border lease	–	6,685	–	6,685
New investment agreements	14,306	12,296	14,306	12,296
Transmission realignment	18,075	19,541	18,075	19,541
Other	482	4,524	532	623
Total deferred income	60,092	82,181	60,142	71,061

Notes to the Financial Statements continued

For the year ended 30 June 2009

3. DEFERRED INCOME continued

South Island Cross Border Lease

The majority of the South Island HVAC assets are subject to a cross border lease arrangement entered into by Halfway Bush Finance Limited and TB and T Limited in the period ended 30 June 2004. A net gain of \$34.6 million was received in 2005, which is being recognised over the minimum lease period of 26 years, with related imputed interest expense based on the Group's weighted average cost of capital (WACC) in 2005. The lease was restructured in the 2009 financial year, which resulted in a decrease in the income in advance.

HVDC Cables Cross Border Lease

The submarine (HVDC) cables were subject to a cross border lease arrangement entered into by Oteranga Bay Limited in the period ended 30 June 1996. A net gain of \$10.9 million was received in 1996. The lease was terminated in 2009 with all remaining income recognised in the period.

HVDC Converters Cross Border Lease

The HVDC converter plants at the Haywards and Benmore substations were subject to a cross border lease entered into by Haywards Limited in the period ended 30 June 1997. A net gain of \$11.4 million was received in 1997. The lease was terminated in 2009 with all remaining income recognised in the period.

New Investment Agreements

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

Transmission Realignment

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

4. EXPENDITURE ON ACTIVITIES	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Transmission expenditure				
Maintenance of HVAC substations	54,983	49,176	54,983	49,176
Maintenance of HVDC substations and cables	7,494	7,611	7,494	7,611
Maintenance of HVAC lines	38,244	34,064	38,244	34,064
Maintenance of HVDC lines	1,304	894	1,304	894
HVDC share of reserves	27,452	14,773	27,452	14,773
Other direct transmission expenditure	29,640	24,354	29,640	24,354
	159,117	130,872	159,117	130,872
Employee benefits				
Short term benefits	46,610	47,022	43,341	43,761
Defined contribution schemes	1,474	276	1,382	225
Other	1,277	830	1,277	804
	49,361	48,128	46,000	44,790
Other operating expenditure				
Information technology costs	21,232	20,672	20,215	19,544
Industry levies	8,032	12,930	8,032	12,930
Other business support costs	31,907	31,706	34,918	34,102
Operating lease and rental costs	10,447	10,188	28,513	28,296
Study grants and donations	1,361	1,349	1,361	1,348
External auditor – audit fee	315	300	315	300
External auditor – other assurance	60	18	60	18
Stock and asset write-offs	7,191	7,347	6,935	7,116
Insurance	4,284	4,359	10,157	10,147
Loss on available for sale financial assets	75	–	75	–
Bad debt write-off	1	17	1	17
	84,905	88,886	110,582	113,818
Total expenditure on activities	293,383	267,886	315,699	289,480

Intercompany transactions above include:

31,685	31,137
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Intercompany expenses relate to insurance, lease costs, accounting and metering services.

Maintenance includes inspection, servicing and repair costs.

HVDC share of reserves – The wholesale electricity market provides reserves to cover for the loss of the largest generation unit that is dispatched in any one island (North and South) in any one trading period. If these reserve quantities are in the other island, it is expected that the HVDC link will be available to carry this quantity. The cost of these reserves is charged to the Group (as grid asset owner) as their share of the HVDC at-risk quantity, also known as the HVDC share of reserves. The cost of reserves varies depending on the direction of the transfer, the poles in service, the reserves quantities potentially being carried and the price of reserves.

Other direct transmission expenditure includes investigations work that the Group conducts and the cost of running the Group's communications network. Investigations relate to feasibility study costs prior to any commencement of a capital project.

Information technology costs include such items as software licences, maintenance, application support and project investigations.

Notes to the Financial Statements continued

For the year ended 30 June 2009

4. EXPENDITURE ON ACTIVITIES continued

Other business support costs include such items as legal fees, office equipment, communications, vehicles, travel and consultants.

Operating lease and rental costs comprise the leases of the Group's administrative buildings and various communication equipment.

5. NET FINANCE COSTS	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Finance revenue				
Interest received	(5,626)	(2,011)	(20,976)	(26,359)
Finance costs				
Interest paid and associated fees	84,588	77,075	152,842	187,538
Cross border lease expenses	7,167	–	7,167	–
Capitalised interest	(17,551)	(16,116)	(17,551)	(16,116)
Imputed interest	5,273	4,360	4,766	3,710
Lease costs	–	–	–	15,955
Dividends received	–	–	–	(10,320)
	79,477	65,319	147,224	180,767
Total net finance costs	73,851	63,308	126,248	154,408

Intercompany transactions included above include:

Interest paid and associated fees	154,374	186,803
Interest received	(20,444)	(25,038)
Lease costs	–	15,955
Dividends received	–	(10,320)

Interest Paid and Associated Fees

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

Cross Border Lease Expenses

These costs relate to termination and transaction costs associated with the termination of the 1996 cross border leases and the restructure of the 2003 cross border lease.

Imputed Interest

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Accounting hedges				
Fair value movement forward exchange contracts – hedge accounted	204	3,826	204	3,826
Fair value movement hedge commitment	(440)	(3,651)	(440)	(3,651)
	(236)	175	(236)	175
Other				
Fair value movement foreign debt	(105,146)	(227,996)	–	–
Fair value movement cross currency interest rate swaps	128,381	218,462	–	–
Fair value movement foreign interest rate swaps	15,325	4,447	–	–
Fair value movement basis swaps	240	–	–	–
Fair value movement interest rate options	(250)	(112)	–	–
Fair value movement NZD interest rate swaps	(104,279)	(33,926)	–	–
Fair value movement forward exchange contracts – not hedge accounted	(3,037)	–	(3,037)	–
Fair value movement investments	427	418	–	73
Fair value movement NZD debt	7,287	(5,583)	(5,607)	(7,725)
	(61,052)	(44,290)	(8,644)	(7,652)
Total fair value gain (loss)	(61,288)	(44,115)	(8,880)	(7,477)

Intercompany transactions included above include:

Fair value movement investments	–	73
Fair value movement NZD debt	(5,607)	(7,725)

The above fair value movements are as a result of the Group designating these instruments at fair value through profit or loss or as fair value hedges. Refer to Note 9 Financial Instrument Designation for further information.

The Group experiences net fair value movements principally through movements in underlying interest rates. The Group generally seeks to fix interest rates to provide certainty of interest rate costs. This means that, prima facie, a decrease in market interest rates will result in the Group sustaining fair value losses and conversely an increase in market interest rates will result in fair value gains. The significant drop in the yield curve caused by the financial crisis has resulted in the Group sustaining significant fair value losses. These losses (or conversely any gains arising) do not represent underlying cash flows. Offsetting the drop in the yield curve has been an increase in credit spreads.

Credit Spread Impact

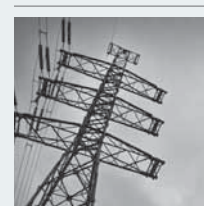
The impact of credit risk on the fair value (gain) loss was a \$70 million gain in 2009 (2008: nil). The change is due to the significant increase in credit spreads due to the financial crisis.

Foreign Purchases

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

Debt and Investments

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



Notes to the Financial Statements continued

For the year ended 30 June 2009

7. INCOME TAX EXPENSE	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current tax expense				
Current period	47,063	51,579	18,542	12,025
Adjustment for prior periods	373	1,359	1,898	1,769
	47,436	52,938	20,440	13,794
Deferred tax expense				
Origination and reversal of temporary differences	(15,822)	(16,167)	272	(4,165)
Change in unrecognised temporary differences	-	-	-	-
Recognition of previously unrecognised tax losses	-	-	-	-
	(15,822)	(16,167)	272	(4,165)
Total income tax expense (credit)	31,614	36,771	20,712	9,629
Reconciliation of effective tax				
Operating surplus before tax	124,524	114,872	87,843	33,688
Income tax at 30 cents	37,357	34,462	26,353	10,106
Adjust for effect of rate at 33 cents 1 July 2007 to 31 March 2008	-	4,713	-	2,278
Tax effect of:				
Non deductible expenses	514	147	490	135
Tax exempt income	-	(414)	-	(3,820)
Recognition of previously unrecognised tax losses	-	-	-	-
Current year losses for which no deferred tax asset was recognised	-	-	-	-
Change in unrecognised temporary differences	-	-	-	-
Under/(over) provided in prior periods	(6,257)	(2,137)	(6,130)	930
Total income tax expense (credit)	31,614	36,771	20,712	9,629
Income tax recognised directly in equity				
Available for sale financial assets	(281)	(258)	(281)	(258)
Total income tax recognised directly in equity	(281)	(258)	(281)	(258)

8. TRADE AND OTHER RECEIVABLES	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade receivables	55,141	30,389	55,665	35,765
Impairment of trade receivables	-	(992)	-	(982)
Intercompany receivables	-	-	129,187	304,046
Prepayments	6,052	3,420	6,546	4,255
Total trade and other receivables	61,193	32,817	191,398	343,084

Intercompany balances (included above)

Intercompany receivables	129,187	304,046
Prepayments	1,578	1,411

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

9. FINANCIAL INSTRUMENT DESIGNATION	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE THROUGH PROFIT OR LOSS	HEDGE ACCOUNTING			
	(ACCOUNTING MISMATCH)	(HELD FOR TRADING)	(FAIR VALUE METHOD)	AVAILABLE FOR SALE	LOANS AND RECEIVABLES	OTHER LIABILITIES
Current assets						
Cash and cash equivalents					X	
Trade and other receivables					X	
Investments		X				
Hedge commitments			X			
Intercompany investment	X					
Non current assets						
Investment in subsidiaries	n/a	n/a	n/a	n/a	n/a	n/a
Other financial assets (Fonterra shares)				X		
Current liabilities						
Trade and other payables						X
Current debt	X					
Intercompany debt	X					
Current portion of non current debt	X					
Non current liabilities						
Bonds	X					
Euro Medium Term Notes	X					
US Private Placement	X					
Derivatives						
Interest rate swaps		X				
Interest rate options		X				
Basis swaps		X				
Cross currency interest rate swaps		X				
Forward exchange contracts – not hedge accounted		X				
Forward exchange contracts – hedge accounted			X			

Fair Value Through Profit or Loss (Accounting Mismatch)

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

Hedge Commitments

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

9. FINANCIAL INSTRUMENT DESIGNATION continued**Investment in Subsidiaries**

The Group accounts for its investment in subsidiaries in accordance with NZ IAS 27, which gives entities a choice between accounting for the investments at cost or as a financial instrument in accordance with NZ IAS 39. The Group has elected to account for these at cost.

Fonterra Shares

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

10. OTHER CURRENT FINANCIAL ASSETS	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Investments				
Risk Reinsurance investments				
– Call deposits	900	11,618	–	–
– Promissory notes	995	25,232	–	–
– Term investments	31,173	–	–	–
– Floating rate notes	12,147	12,271	–	–
– Corporate bonds	15,042	12,502	–	–
Other investments	23,572	99,950	–	–
Intercompany investment	–	–	340,194	319,095
	83,829	161,575	340,194	319,095
Derivatives in gain				
Interest rate swaps	162,418	77,302	–	–
Other financial assets				
Hedge commitments	–	172	–	172
Total other current financial assets	246,247	239,049	340,194	319,267

Intercompany balances (included above)

Intercompany investment	340,194	319,095
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Intercompany investments are repayable on demand and have an interest rate of 3.46% (2008: 8.52%).

Financial Instrument Designation

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

Investments

Investments are made in financial instruments issued by organisations with credit levels of A or above at 30 June 2009 (2008: A) with the exception of a \$5 million investment in a financial instrument issued by Auckland International Airport Limited (S+P rating of A-).

Notes to the Financial Statements continued

For the year ended 30 June 2009

10. OTHER CURRENT FINANCIAL ASSETS continued**Derivatives in Gain**

Derivatives are used to manage financial risk. Refer to Note 23 Financial Instruments for further information. The gain on derivatives represents the unrealised gain at balance date. The Group anticipates that the derivatives will be held until maturity, and it is unlikely that settlement at the reported fair values will occur. Refer to Note 16 Other Current Financial Liabilities for derivatives that are in loss.

Hedge Commitments

The Group hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The "hedge commitment" represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (forward exchange contract) is shown separately in Note 16 Other Current Financial Liabilities. Although all forward exchange contracts are used for reducing foreign currency exposure on foreign purchases, not all forward exchange contracts qualify for hedge accounting.

11. INVENTORIES	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Substations	6,021	2,406	6,021	2,406
Transmission lines	427	259	427	259
Communications	184	813	184	813
HVDC	19	49	19	49
Other	112	17	112	17
Total inventories	6,763	3,544	6,763	3,544
Inventories expensed during the period	3,756	3,387	3,756	3,387

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

12. OTHER NON CURRENT FINANCIAL ASSETS	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Investment in subsidiaries	–	–	740,290	490,290
Other financial assets				
Fonterra shares	3,609	3,995	3,609	3,995
Total non current financial assets	3,609	3,995	743,899	494,285

Financial Instrument Designation

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

Investment in Subsidiaries

Transpower accounts for its investment in subsidiaries in accordance with NZ IAS 27. Transpower has elected to account for its subsidiaries at cost. During 2009 Transpower Finance Ltd issued \$250 million in \$1 shares to Transpower NZ Ltd.

Fonterra Shares

Refer to Note 9 Financial Instrument Designation for background information on these shares.



Notes to the Financial Statements continued

For the year ended 30 June 2009

13. PROPERTY, PLANT AND EQUIPMENT	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS
GROUP	\$000	\$000	\$000
At 30 June 2009			
Cost	1,122,520	72,891	1,215,995
Accumulated depreciation	(189,488)	(22,326)	(240,641)
Net book value	933,032	50,565	975,354
At 30 June 2008			
Cost	1,105,731	71,264	1,104,137
Accumulated depreciation	(152,662)	(18,581)	(195,138)
Net book value	953,069	52,683	908,999
30 June 2009 reconciliation			
Opening net book value (1 July 2008)	953,069	52,683	908,999
Additions	41,056	1,734	119,043
Disposals/Transfers	(23,762)	(75)	(4,560)
Impairment	–	–	–
Depreciation	(37,331)	(3,777)	(48,128)
Closing net book value	933,032	50,565	975,354
30 June 2008 reconciliation			
Opening net book value (1 July 2007)	846,156	56,303	894,322
Additions	142,369	148	61,520
Disposals/Transfers	(1,172)	(12)	–
Impairment	–	–	–
Depreciation	(34,284)	(3,756)	(46,843)
Closing net book value	953,069	52,683	908,999

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

Included within the above asset classes are certain assets that are subject to cross border leases.

The net value of these assets is \$551,194,000 (2008: \$696,646,000).

Land and buildings are contained within the above classes and have a net book value of \$255,423,760 (2008: \$253,940,000).

Transpower does not have any investment properties at 30 June 2009 (2008: nil).

Impairment

Transpower's System Operator assets have been impaired by \$35.0 million with \$6.2 million in the 2009 year (2008: \$28.8 million). The impairment expense has been recorded in the income statement as a separate line item.

The System Operator assets form a separate cash-generating unit and are classified as "other" for segmental reporting.

The System Operator manages the power system and wholesale electricity market in real time. The System Operator has embarked on a project to rationalise and substantially upgrade its market systems – the Market Systems Project. The Market Systems Project went live on 21 July 2009.

It is not expected that the future net revenues for the System Operator service will be sufficient to recover the full cost of the System Operator assets, including the Market Systems Project.

HVDC SUBSTATIONS AND SUBMARINE CABLES	COMMUNICATIONS	ADMINISTRATION ASSETS	CAPITAL WORK IN PROGRESS	TOTAL
\$000	\$000	\$000	\$000	\$000
323,853	107,430	82,002	471,391	3,396,082
(144,642)	(49,080)	(49,375)	–	(695,552)
179,211	58,350	32,627	471,391	2,700,530
319,888	98,237	74,039	331,338	3,104,634
(128,179)	(37,950)	(39,583)	–	(572,093)
191,709	60,287	34,456	331,338	2,532,541
191,709	60,287	34,456	331,338	2,532,541
4,585	10,162	8,512	146,572	331,664
(303)	(228)	(41)	(319)	(29,288)
–	–	–	(6,200)	(6,200)
(16,780)	(11,871)	(10,300)	–	(128,187)
179,211	58,350	32,627	471,391	2,700,530
206,254	44,067	32,684	276,150	2,355,936
1,735	25,937	9,105	85,601	326,415
–	(377)	(33)	(1,613)	(3,207)
–	–	–	(28,800)	(28,800)
(16,280)	(9,340)	(7,300)	–	(117,803)
191,709	60,287	34,456	331,338	2,532,541

The impairment expense has been estimated using the “value in use” method using a discount rate of 11.1% (pre tax). The impairment expense is based on discussions with the Electricity Commission in respect of the future fees for the System Operator service and the forecast costs to complete the Market Systems Project.

North Island Grid Upgrade

On 5 July 2007, the Electricity Commission approved the line proposed between Whakamaru and South Auckland. Transpower to date, including property purchases, has capitalised \$251.7 million (2008: \$212.4 million) in respect of the North Island Grid Upgrade (NIGU).

In August 2007 Minister Hodgson, acting on behalf of the Acting Minister for the Environment, “called in” Transpower’s notices of requirement and applications for resource consent for the NIGU project. The Minister then appointed an independent Board of Inquiry to hear and consider submissions and make decisions on the proposal. The Board of Inquiry announced its interim decision to approve the NIGU line on 27 May 2009.

Notes to the Financial Statements continued

For the year ended 30 June 2009

13. PROPERTY, PLANT AND EQUIPMENT continued	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS
PARENT	\$000	\$000	\$000
At 30 June 2009			
Cost	1,122,520	72,891	1,215,995
Accumulated depreciation	(189,489)	(22,326)	(240,641)
Net book value	933,031	50,565	975,354
At 30 June 2008			
Cost	1,105,731	71,264	1,104,137
Accumulated depreciation	(152,662)	(18,581)	(195,138)
Net book value	953,069	52,683	908,999
30 June 2009 reconciliation			
Opening net book value (1 July 2008)	953,069	52,683	908,999
Additions	41,056	1,732	119,043
Disposals/Transfers	(23,763)	(73)	(4,560)
Impairment	–	–	–
Depreciation	(37,331)	(3,777)	(48,128)
Closing net book value	933,031	50,565	975,354
30 June 2008 reconciliation			
Opening net book value (1 July 2007)	846,156	56,303	894,322
Additions	142,369	148	61,520
Disposals/Transfers	(1,172)	(12)	–
Impairment	–	–	–
Depreciation	(34,284)	(3,756)	(46,843)
Closing net book value	953,069	52,683	908,999

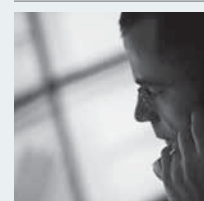
Administration assets include computer hardware, plant, equipment, furniture and motor vehicles.

Included within the above asset classes are certain assets that are subject to cross border leases.

The net book value of these assets is \$523,102,000 (2008: \$628,355,000).

Land and buildings are contained within the above classes and have a net book value of \$255,423,760 (2008: \$253,940,000).

HVDC SUBSTATIONS AND SUBMARINE CABLES	COMMUNICATIONS	ADMINISTRATION ASSETS	CAPITAL WORK IN PROGRESS	TOTAL
\$000	\$000	\$000	\$000	\$000
226,565	107,430	80,920	471,047	3,297,368
(109,836)	(49,080)	(48,599)	–	(659,971)
116,729	58,350	32,321	471,047	2,637,397
222,600	98,237	73,174	331,338	3,006,481
(99,183)	(37,950)	(39,035)	–	(542,549)
123,417	60,287	34,139	331,338	2,463,932
123,417	60,287	34,139	331,338	2,463,932
4,586	10,162	8,295	146,227	331,101
(303)	(228)	(45)	(318)	(29,290)
–	–	–	(6,200)	(6,200)
(10,971)	(11,871)	(10,068)	–	(122,146)
116,729	58,350	32,321	471,047	2,637,397
132,163	44,067	32,281	275,498	2,280,790
1,735	25,937	8,779	86,227	326,715
–	(377)	(21)	(1,587)	(3,169)
–	–	–	(28,800)	(28,800)
(10,481)	(9,340)	(6,900)	–	(111,604)
123,417	60,287	34,139	331,338	2,463,932



Notes to the Financial Statements continued

For the year ended 30 June 2009

13. PROPERTY, PLANT AND EQUIPMENT continued	GROUP		PARENT	
	2009	2008	2009	2008
Capital work in progress can be split into the following classes:	\$000	\$000	\$000	\$000
HVAC transmission lines	89,380	75,475	89,380	75,475
HVDC transmission lines	593	512	593	512
HVAC substations	215,685	178,415	215,685	178,415
HVDC substations and submarine cables	16,264	10,065	16,264	10,065
Communications	42,183	19,915	42,183	19,915
Administration assets	48,238	18,588	48,238	18,588
Software intangible assets	946	12,107	601	12,107
Other intangible assets	58,100	16,261	58,101	16,261
	471,391	331,338	471,047	331,338
During the year the following borrowing costs were capitalised:				
HVAC transmission lines	3,330	5,423	3,330	5,423
HVDC transmission lines	14	–	14	–
HVAC substations	7,207	5,965	7,207	5,965
HVDC substations and submarine cables	720	476	720	476
Communications	1,638	584	1,638	584
Administration assets	2,821	932	2,821	932
Software intangible assets	12	2,259	12	2,259
Other intangible assets	1,808	477	1,808	477
	17,551	16,116	17,551	16,116

These costs were capitalised at the weighted average cost of debt of 7.34% (2008: 7.5%).

Property available for sale

There are no properties classified as available for sale.

Notes to the Financial Statements continued

For the year ended 30 June 2009

14. INTANGIBLES	EASEMENTS	SOFTWARE	TOTAL
GROUP	\$000	\$000	\$000
At 30 June 2009			
Cost	35,869	46,944	82,813
Accumulated amortisation	–	(36,138)	(36,138)
Carrying value	35,869	10,806	46,675
At 30 June 2008			
Cost	11,172	35,993	47,165
Accumulated amortisation	–	(29,864)	(29,864)
Carrying value	11,172	6,129	17,301
2009 reconciliation			
Opening carrying value	11,172	6,129	17,301
Additions/Transfers	24,697	10,951	35,649
Disposals	–	–	–
Impairment	–	–	–
Amortisation	–	(6,274)	(6,274)
Closing carrying value	35,869	10,806	46,675
2008 reconciliation			
Opening carrying value	9,275	5,613	14,888
Additions	1,897	6,012	7,909
Disposals	–	(69)	(69)
Impairment	–	–	–
Amortisation	–	(5,427)	(5,427)
Closing carrying value	11,172	6,129	17,301

Notes to the Financial Statements continued

For the year ended 30 June 2009

14. INTANGIBLES continued

	EASEMENTS	SOFTWARE	TOTAL
PARENT	\$000	\$000	\$000
At 30 June 2009			
Cost	35,869	45,752	81,621
Accumulated amortisation	–	(35,086)	(35,086)
Carrying value	35,869	10,666	46,535
At 30 June 2008			
Cost	11,172	34,784	45,956
Accumulated amortisation	–	(28,896)	(28,896)
Carrying value	11,172	5,888	17,060
2009 reconciliation			
Opening carrying value	11,172	5,888	17,060
Additions	24,697	10,968	35,665
Disposals	–	–	–
Impairment	–	–	–
Amortisation	–	(6,190)	(6,190)
Closing carrying value	35,869	10,666	46,535
2008 reconciliation			
Opening carrying value	9,275	5,577	14,852
Additions	1,897	5,548	7,445
Disposals	–	(24)	(24)
Impairment	–	–	–
Amortisation	–	(5,213)	(5,213)
Closing carrying value	11,172	5,888	17,060

	GROUP		PARENT	
Future contractual commitments	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Easements	197	156	197	156
Software	435	3,412	435	3,412

Easements

Easements are deemed to have an indefinite useful life because:

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

Software

The amortisation of software occurs over 3–7 years.

Notes to the Financial Statements continued

For the year ended 30 June 2009

15. TRADE AND OTHER PAYABLES	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade creditors	74,580	75,243	72,597	74,504
Employee entitlements	6,571	5,827	6,298	5,557
Current portion of external finance leases	197	146	140	146
Total trade and other payables	81,348	81,216	79,035	80,207

16. OTHER CURRENT FINANCIAL LIABILITIES	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current debt				
Call borrowing	165,535	–	–	–
Intercompany debt	–	–	2,676,760	2,441,637
Current portion of non current debt	–	153,713	–	–
	165,535	153,713	2,676,760	2,441,637
Derivatives in loss				
Cross currency interest rate swaps	53,988	16,391	–	–
Forward exchange contracts	2,903	69	2,903	69
Interest rate options	362	112	–	–
	57,253	16,572	2,903	69
Other financial liabilities				
Hedge commitments	269	–	269	–
Total other current financial liabilities	223,057	170,285	2,679,932	2,441,706

Intercompany balances (included above)

Intercompany debt	2,676,760	2,441,637
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Financial Instrument Designation

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

Intercompany Debt

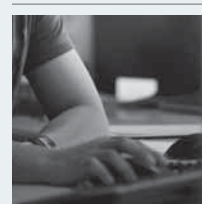
Intercompany investments are repayable on demand and have an interest rate of 3.46% (2008: 8.52%).

Derivatives in Loss

Derivatives are used to manage financial risk. Refer to Note 23 Financial Instruments for information. The loss on derivatives represents the unrealised loss at balance date. The Group anticipates that the derivatives will be held until maturity and it is unlikely that settlement at the reported fair values will occur. Refer to Note 10 Other Current Financial Assets for derivatives that are in gain.

Hedge Commitments

The Group hedges against foreign currency fluctuations on certain foreign purchases through the use of forward exchange contracts. The hedge commitment represents the non derivative fair value movement on the commitment to buy the goods, i.e. before the goods or an invoice are received. The fair value of the derivative (forward exchange contract) is shown separately in Note 10 Other Current Financial Assets. Although all forward exchange contracts are used for reducing foreign currency exposure on foreign purchases, not all forward exchange contracts are hedge accounted.



Notes to the Financial Statements continued

For the year ended 30 June 2009

17. PROVISIONS	EMPLOYEE BENEFITS	RESTRUCTURING	DISMANTLING	LEGAL	TOTAL
GROUP	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2008	4,992	111	18,949	1,854	25,906
Provisions made during the period	4,874	694	–	–	5,568
Provisions used during the period	(4,759)	(109)	(1,666)	(1,854)	(8,388)
Provisions reversed during the period	–	–	–	–	–
Balance at 30 June 2009	5,107	696	17,283	–	23,086
Current portion of provisions	5,107	696	5,761	–	11,564
Non current portion of provisions	–	–	11,522	–	11,522
Balance at 30 June 2009	5,107	696	17,283	–	23,086
PARENT	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2008	4,739	111	18,949	1,854	25,653
Provisions made during the period	4,480	694	–	–	5,174
Provisions used during the period	(4,506)	(109)	(1,666)	(1,854)	(8,135)
Provisions reversed during the period	–	–	–	–	–
Balance at 30 June 2009	4,713	696	17,283	–	22,692
Current portion of provisions	4,713	696	5,761	–	11,170
Non current portion of provisions	–	–	11,522	–	11,522
Balance at 30 June 2009	4,713	696	17,283	–	22,692

Employee Benefits

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

Restructuring

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

Dismantling

In September 2007, Transpower stood down the HVDC Pole 1 (Pole 1) due to the low probability, high consequence risks that the continued operation of the ageing technology posed. Pole 1 has subsequently been modified and is available for limited operation under certain operating conditions.

Transpower recognises site restoration and rehabilitation liabilities where Transpower believes an obligation exists and costs can reasonably be estimated.

Pole 1 contains mercury and Transpower has estimated the decommissioning cost based on engineering advice. The decommissioning timeframe is uncertain, with management's best estimate being within the next 2–3 years. Actual decommissioning costs may vary from the figures indicated.

Notes to the Financial Statements continued

For the year ended 30 June 2009

18. NON CURRENT FINANCE LEASE LIABILITY	GROUP		PARENT	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
One to five years	583	520	496	520
Greater than five years	836	975	836	975
	1,419	1,495	1,332	1,495
Reconciliation to lease payments:				
Total future minimum lease payments	3,079	3,104	2,935	3,104
Interest expense	(1,463)	(1,463)	(1,463)	(1,463)
Total lease liability recognised	1,616	1,641	1,472	1,641
This is represented by:				
Current lease liability	197	146	140	146
Non current lease liability	1,419	1,495	1,332	1,495
	1,616	1,641	1,472	1,641

19. NON CURRENT DEBT	GROUP		PARENT	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Bonds	289,872	246,230	-	-
Euro Medium Term Notes	710,704	783,786	-	-
US Private Placement	163,753	143,595	-	-
	1,164,329	1,173,611	-	-
Less current portion of long term debt	-	(153,713)	-	-
Total long term debt	1,164,329	1,019,898	-	-
One to five years	353,127	329,305	-	-
Greater than five years	811,202	690,593	-	-
Total long term debt	1,164,329	1,019,898	-	-

A portion of the increase in debt relates to the movement of fair values in that debt due to changes in interest rates and exchange rates.

There were no defaults or breaches on loans during the year ended 30 June 2009 (30 June 2008: no defaults or breaches).

Financial Instrument Designation

Refer to Note 9 Financial Instrument Designation for how the above instruments have been designated.

Notes to the Financial Statements continued

For the year ended 30 June 2009

19. NON CURRENT DEBT continued

Bonds

The Bonds are issued in New Zealand dollars and have a nominal value of \$300 million, with maturities between 2010 and 2020 and yields ranging from 6.95% to 7.78%.

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

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

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

Euro Medium Term Notes

Notes have been issued in Swiss francs, Japanese yen and Canadian dollars with nominal values of CHF 300 million (\$425.1 million converted at 30 June 2009 exchange rate of 0.7057 and \$343.9 million as amended by cross currency interest rate swaps), JPY 5 billion (\$80.0 million converted at 30 June 2009 exchange rate of 62.46 and \$98.4 million as amended by cross currency interest rate swaps) and CAD 125 million (\$165.7 million converted at 30 June 2009 exchange rate of 0.7543 and \$153.6 million as amended by cross currency interest rate swaps). Maturities are between 2011 and 2014 with yields ranging from 1.37% to 4.61%.

Under the Euro Medium Term Note programme Transpower Finance may from time to time issue notes guaranteed by Transpower. The aggregate principal amount of the notes outstanding will not at any time exceed USD 1,000,000,000 (\$1,532,332,000) as at 30 June 2009, (USD 1,000,000,000 (\$1,310,960,000) as at 30 June 2008) or equivalent in other currencies.

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

19. NON CURRENT DEBT continued

Australian Medium Term Notes

Under the Australian Medium Term Note programme, Transpower Finance may issue notes guaranteed by Transpower. The aggregate amount of the notes outstanding may not exceed AUD 750,000,000 (\$930,290,000) as at 30 June 2009 (AUD 750,000,000 (\$946,005,000) as at 30 June 2008).

There were no Australian Medium Term notes outstanding as at 30 June 2009 (30 June 2008: nil).

US Private Placement

Bonds were issued for a nominal amount of USD 100 million (\$153.2 million converted at 30 June 2009 exchange rate of 0.6526 and \$164.5 million as amended by cross currency interest rate swaps) with maturities in 2016 and 2019 and yields ranging from 5.59% to 5.74%. Bonds are issued by Transpower Finance under a Note and Guarantee Agreement dated 27 September 2004. The Bonds are guaranteed by Transpower (the "Guarantor"), Fighting Bay Finance Limited, Haywards Limited, Oteranga Bay Limited, Omaka Training Limited, Halfway Bush Finance Limited and TB and T Limited (the "Subsidiary Guarantors"). The Guarantor and Subsidiary Guarantors have unconditionally guaranteed payment of the principal, interest and other amounts owing under the Agreement.



Notes to the Financial Statements continued

For the year ended 30 June 2009

19. NON CURRENT DEBT continued**Non Current Debt Analysis**

MATURITY	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS
	\$000	\$000	\$000	\$000	\$000
Period ended					
30 June 2009	–	100,000	245,761	–	–
Effective interest rate	–	7.58%	3.55%	–	–
30 June 2008	155,693	–	100,000	230,125	–
Effective interest rate	1.39%	–	7.58%	3.72%	–

The above represents the Group's debt principal cash flows. The effective interest rates are prior to any amendment through financial derivatives. The effective interest rates as amended by financial derivatives is disclosed in Note 23(f).

20. DEFERRED TAX

	BALANCE 1 JULY 2007	RECOGNISED IN PROFIT OR LOSS
GROUP	\$000	\$000
Depreciation timing differences	162,492	(1,075)
Fair value of net debt and derivatives	33,905	(13,234)
Revenue deferral	(12,166)	(5,266)
Dismantling provision	(6,600)	915
Impairment	–	(8,640)
Other	(7,611)	11,133
Total deferred tax	170,020	(16,167)

	BALANCE 1 JULY 2007	RECOGNISED IN PROFIT OR LOSS
PARENT	\$000	\$000
Depreciation timing differences	151,226	10,923
Fair value of net debt and derivatives	3,181	(2,243)
Revenue deferral	(9,862)	(5,407)
Dismantling provision	(6,600)	915
Impairment	–	(8,640)
Other	7,508	287
Total deferred tax	145,453	(4,165)

There are no unrecognised deferred tax balances (2008: nil).

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

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

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

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

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

Impairment relates to the System Operator Assets. Refer to Note 13 Property, Plant and Equipment for background.

FIVE TO SIX YEARS	SIX TO SEVEN YEARS	SEVEN TO EIGHT YEARS	EIGHT TO NINE YEARS	NINE TO TEN YEARS	TEN TO ELEVEN YEARS	ELEVEN TO TWELVE YEARS	TOTAL
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
425,136	–	38,308	–	–	314,925	–	1,124,130
3.49%	–	5.59%	–	–	6.55%	–	4.80%
–	391,185	–	34,155	–	–	252,466	1,163,624
–	3.49%	–	5.59%	–	–	6.46%	4.31%

RECOGNISED IN EQUITY	BALANCE 30 JUNE 2008	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	BALANCE 30 JUNE 2009
\$000	\$000	\$000	\$000	\$000
–	161,417	12,915	–	174,332
–	20,671	(26,081)	–	(5,410)
–	(17,432)	5,460	–	(11,972)
–	(5,685)	500	–	(5,185)
–	(8,640)	(1,860)	–	(10,500)
(258)	3,264	(6,756)	(281)	(3,773)
(258)	153,595	(15,822)	(281)	137,492

RECOGNISED IN EQUITY	BALANCE 30 JUNE 2008	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	BALANCE 30 JUNE 2009
\$000	\$000	\$000	\$000	\$000
–	162,149	11,402	–	173,551
–	938	(2,658)	–	(1,720)
–	(15,269)	3,512	–	(11,757)
–	(5,685)	500	–	(5,185)
–	(8,640)	(1,860)	–	(10,500)
(258)	7,537	(10,624)	(281)	(3,368)
(258)	141,030	272	(281)	141,021

Notes to the Financial Statements continued

For the year ended 30 June 2009

20. DEFERRED TAX continued**Imputation Credit Memorandum Account**

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Balance at the beginning of the year	259,402	211,384	258,740	207,293
Imputation credits on dividends received	–	4	–	2,610
Net tax payments/transfers made/ refunds received	30,909	48,014	31,100	48,837
Imputation credits attached to dividends paid to shareholders	–	–	–	–
Balance at the end of the year	290,311	259,402	289,840	258,740

Dividend Withholding Payments

There were no dividend withholding payments during the year (2008: none).

21. CAPITAL AND RESERVES

	CONTRIBUTED CAPITAL	RETAINED EARNINGS	AVAILABLE FOR SALE RESERVE	TOTAL EQUITY
GROUP	\$000	\$000	\$000	\$000
Balance at 1 July 2007	1,200,000	29,769	222	1,229,991
Fair value movement on Fonterra shares	–	–	(861)	(861)
Deferred tax recognised directly in equity	–	–	258	258
Total recognised income and expense	–	78,101	–	78,101
Balance at 30 June 2008	1,200,000	107,870	(381)	1,307,489
Fair value movement on Fonterra shares	–	–	(826)	(826)
Deferred tax recognised directly in equity	–	–	281	281
Total recognised income and expense	–	92,909	75	92,984
Balance at 30 June 2009	1,200,000	200,779	(851)	1,399,928

	CONTRIBUTED CAPITAL	RETAINED EARNINGS	AVAILABLE FOR SALE RESERVE	TOTAL EQUITY
PARENT	\$000	\$000	\$000	\$000
Balance at 1 July 2007	1,200,000	(301,191)	222	899,031
Fair value movement on Fonterra shares	–	–	(861)	(861)
Deferred tax recognised directly in equity	–	–	258	258
Total recognised income and expense	–	24,059	–	24,059
Balance at 30 June 2008	1,200,000	(277,132)	(381)	922,487
Fair value movement on Fonterra shares	–	–	(826)	(826)
Deferred tax recognised directly in equity	–	–	281	281
Total recognised income and expense	–	67,131	75	67,206
Balance at 30 June 2009	1,200,000	(210,001)	(851)	989,148

Notes to the Financial Statements continued

For the year ended 30 June 2009

21. CAPITAL AND RESERVES continued**Capital**

Transpower has contributed paid in capital of \$1,200,000,000 (2008: \$1,200,000,000) issued and fully paid ordinary shares, which confer on the holders the right to vote at any annual general meeting of Transpower. This consists of 1,200,000,000 fully paid \$1 shares. The shares have no par value. All ordinary shares rank equally.

Dividends

There were no dividends paid or declared during the period (2008: nil).

Management of Capital

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

Available for Sale Reserve

This reserve comprises the cumulative net change in the fair value of available for sale financial assets until the investment is derecognised.

22. SEGMENT REPORTING

The Group has only one reportable (business) segment, being transmission. The Group does not have any reportable geographical segments. The transmission segment concerns the transmission of electricity from the point of generation to the point of connection. The balance of the Group's business is reported as "Other". The balance of "Other" is made up of various segments with different risk characteristics.

The material portion of the "Other" balance is made up of the following:

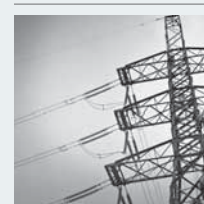
- 1 **System Operator** – the provision of real time services to ensure the short term security of the New Zealand electricity system.
- 2 **EMS** – established in 1998 as a separate legal entity to provide reconciliation and metering services.
- 3 **d-cyphaTrade** – established as a separate company on 1 August 2007, previously part of EMS. The company, operating in Australia, provides services to the Australian electricity derivatives market. It does not take positions in the market.
- 4 **Risk Reinsurance** – established in 2001 to provide insurance services to the Group.

Segment results, assets and liabilities are allocated using the ACAM method (avoidable cost allocation methodology). This methodology is used to prepare the financial statements of the Transpower lines (transmission) business. These financial statements are required by the Commerce Commission's Electricity Information Disclosure Requirements 2004. The ACAM methodology is required by, and explained in, the Commerce Commission's "Electricity Information Disclosure Handbook".

Major customers

External customers that contribute 10% or more of total Group revenue are:

CUSTOMER	% OF GROUP REVENUE – 2009	SEGMENT
Vector Limited	13.68	Transmission



Notes to the Financial Statements continued

For the year ended 30 June 2009

22. SEGMENT REPORTING continued	TRANSMISSION		OTHER	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Income Statement				
Operating revenue – external customers	632,097	589,459	61,609	52,752
Operating revenue – intersegment	–	6,771	4,670	12,000
Net finance costs	63,096	48,430	10,755	14,878
Depreciation and amortisation	131,064	120,469	3,397	2,761
Impairment	–	–	6,200	28,800
Fair value gain (loss) on financial instruments	(61,245)	(44,534)	(43)	419
Income tax expense (credit)	23,965	40,440	7,649	(3,669)
Net profit (loss)	76,944	91,129	15,965	(13,028)
Balance Sheet				
Total assets	4,616,130	4,744,158	121,269	100,510
Capital expenditure	336,824	322,630	488	16,212

23. FINANCIAL INSTRUMENTS

(a) Financial Risks

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

These financial risks comprise:

Interest Rate Risk

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

Currency Risk

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

Credit Risk

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

Liquidity Risk

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

ELIMINATIONS		TOTAL	
2009	2008	2009	2008
\$000	\$000	\$000	\$000
–	–	693,706	642,211
–	–	4,670	18,771
–	–	73,851	63,308
–	–	134,461	123,230
–	–	6,200	28,800
–	–	(61,288)	(44,115)
–	–	31,614	36,771
–	–	92,909	78,101
(1,631,006)	(2,000,324)	3,106,393	2,844,344
–	–	337,312	338,842

23. FINANCIAL INSTRUMENTS continued**(b) Financial Risk Management Policies**

The key financial risk management policies are as follows:

Interest Rate Risk Management Policy

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

Currency Risk Management Policy

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

Credit Risk Management Policy

The Group's policy is to establish credit limits with counterparties that are either a bank, a financial institution or a special purpose derivative products company. These net credit limits are not to exceed 20% of Group shareholders' funds or 15% of the shareholders' funds of the counterparty as shown in the most current audited annual report. If the counterparty is a New Zealand corporate, the credit limit is not to exceed \$40,000,000.

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

For those counterparties with whom the Group has a Collateral Support Agreement (CSA), the counterparty credit limit is defined as the maximum exposure threshold dictated by the CSA.

The concentration of credit risk with respect to trade receivables is high due to the small number of customers comprising the Group's customer base. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 2009 (2008: nil).

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued*Liquidity Risk Policy*

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

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

(c) Financial Instruments that Manage Currency Risk, Interest Rate Risk and Liquidity Risk

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

Term Debt

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

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

- a 364 day Standby Facility for \$250,000,000 which was not in use at 30 June 2009 or 30 June 2008.
- a three year Standby Facility for \$250,000,000, effective 2 July 2008, which was not in use at 30 June 2009.
- a two year Revolving Cash Advance Facility for \$200,000,000, effective 23 March 2009, which was not in use at 30 June 2009.

Term Investments

The 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.

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued*Cross Currency Interest Rate Swaps*

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

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

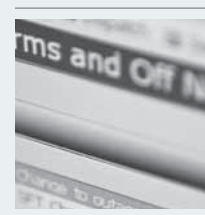
	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Pay leg				
Within one year	–	166,938	–	–
One to two years	–	–	–	–
Two to five years	251,963	251,963	–	–
Greater than five years	508,382	508,382	–	–
Total pay leg	760,345	927,283	–	–
Receive leg				
Within one year	–	(153,534)	–	–
One to two years	–	–	–	–
Two to five years	(245,761)	(224,130)	–	–
Greater than five years	(578,369)	(517,544)	–	–
Total receive leg	(824,130)	(895,208)	–	–

Interest Rate Swaps

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

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

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within one year	170,000	139,500	–	–
One to two years	100,000	70,000	–	–
Two to five years	211,500	266,500	–	–
Greater than five years	3,354,500	2,782,132	–	–
Total interest rate swaps	3,836,000	3,258,132	–	–



Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued*Basis Swaps*

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

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

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within one year	–	–	–	–
One to two years	–	–	–	–
Two to five years	–	–	–	–
Greater than five years	25,000	–	–	–
Total basis swaps	25,000	–	–	–

Interest Rate Options

The Group enters into interest rate options to manage interest rate re-pricing risk. The Group purchases interest rate options to manage the impact on finance costs arising from floating rate debt if interest rates were to rise in the future. In the normal course of interest rate management, the sale of interest rate options is restricted by the requirement to simultaneously purchase an interest rate option.

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

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within one year	–	–	–	–
One to two years	–	–	–	–
Two to five years	–	–	–	–
Greater than five years	100,000	100,000	–	–
Total interest rate options	100,000	100,000	–	–

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued*Foreign Exchange Forward Contracts*

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

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

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within one year	55,297	19,310	55,297	19,310
One to two years	–	35,493	–	35,493
Two to five years	–	–	–	–
Greater than five years	–	–	–	–
Total foreign exchange forward contracts	55,297	54,803	55,297	54,803

(d) Maximum Credit Risk Exposure

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

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Cross currency interest rate swaps	136,937	52,830	–	–
Interest rate swaps	21,170	77,302	–	–
Basis swaps	240	–	–	–
Interest rate options	–	–	–	–
Foreign exchange forward contracts	34	935	34	935
Total	158,381	131,067	34	935

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

(e) Fair Value and Classifications

All financial instruments, except loans, accounts payable and receivables, are carried at fair value in the Balance Sheet. Refer to Note 9 Financial Instrument Designation for the designation of the above instruments.

Fair value represents the amount that 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 Group used discounted cash flow techniques to calculate the market value of its investments, debt and financial instruments. The applicable interest rate used for discounting is based on the swap curve.

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued**(f) Interest Rate Repricing Analysis**

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

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

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

The amounts in the tables below are at amortised cost.

GROUP 2009	EFFECTIVE INTEREST RATE	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
		\$000	\$000	\$000	\$000	\$000
Assets						
Cash	0.31%	40,722	–	–	–	40,722
Short term investments	3.33%	56,470	–	–	–	56,470
Long term investments	5.93%	12,000	2,000	8,000	4,000	26,000
		109,192	2,000	8,000	4,000	123,192
Liabilities						
Debt	3.56%	(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
		(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
Derivatives						
Interest rate swaps		2,662,576	18,000	(209,500)	(2,471,076)	–
Basis swaps		–	–	–	25,000	25,000
Interest rate options		–	–	–	100,000	100,000
		2,662,576	18,000	(209,500)	(2,346,076)	125,000
Repricing profile		2,605,605	(80,000)	(453,463)	(3,050,458)	(978,316)

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

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued

GROUP 2008	EFFECTIVE INTEREST RATE	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
		\$000	\$000	\$000	\$000	\$000
Assets						
Cash	7.15%	11,014	–	–	–	11,014
Short term investments	8.33%	136,674	–	–	–	136,674
Long term investments	7.93%	–	–	14,000	10,000	24,000
		147,688	–	14,000	10,000	171,688
Liabilities						
Debt	8.62%	(166,938)	–	(351,963)	(658,382)	(1,177,283)
		(166,938)	–	(351,963)	(658,382)	(1,177,283)
Derivatives						
Interest rate swaps		2,183,368	(70,000)	(146,500)	(1,966,868)	–
Interest rate options		–	–	–	100,000	100,000
		2,183,368	(70,000)	(146,500)	(1,866,868)	100,000
Repricing profile		2,164,118	(70,000)	(484,463)	(2,515,250)	(905,595)

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

PARENT

The debt and other financial instruments are primarily with Group subsidiaries and reprice within one year. The effective interest rates on Transpower's financial instruments are cash 1.40% (2008: 7.15%), investments 3.46% (2008: 8.52%) and debt 3.46% (2008: 8.52%).



Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued**(g) Liquidity Analysis**

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

GROUP 2009	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$000	\$000	\$000	\$000	\$000
Non derivative financial assets					
Trade and other receivables	61,193	653	–	–	61,846
	61,193	653	–	–	61,846
Non derivative financial liabilities					
Trade and other payables	81,348	2,723	–	–	84,071
Current tax liability	12,919	–	–	–	12,919
Finance lease liabilities	197	583	836	–	1,616
External borrowings					
Principal	(130,000)	(100,000)	(245,761)	(778,369)	(1,254,131)
Interest payments	(52,894)	(49,394)	(120,192)	(138,349)	(360,828)
	(88,430)	(146,088)	(365,117)	(916,718)	(1,516,353)
Derivatives					
Derivative contracts – receipts	92,672	94,799	540,214	905,126	1,632,811
Derivative contracts – payments	(120,611)	(134,423)	(692,466)	(968,349)	(1,915,849)
	(27,939)	(39,624)	(152,252)	(63,223)	(283,038)

Notes to the Financial Statements continued

For the year ended 30 June 2009

23. FINANCIAL INSTRUMENTS continued

GROUP 2008	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$000	\$000	\$000	\$000	\$000
Non derivative financial assets					
Trade and other receivables	32,817	3,125	–	–	35,942
Current tax asset	958	–	–	–	958
	33,775	3,125	–	–	36,900
Non derivative financial liabilities					
Trade and other payables	81,216	2,279	–	–	83,495
Finance lease liabilities	146	520	975	–	1,641
External borrowings					
Principal	(155,693)	–	(330,125)	(677,806)	(1,163,624)
Interest payments	(47,030)	(47,025)	(115,008)	(144,371)	(353,434)
	(121,361)	(44,226)	(444,158)	(822,177)	(1,431,922)
Derivatives					
Derivative contracts – receipts	306,993	169,819	779,470	1,157,685	2,413,967
Derivative contracts – payments	(349,891)	(183,350)	(810,075)	(1,091,389)	(2,434,705)
	(42,898)	(13,531)	(30,605)	66,296	(20,738)

(h) Sensitivity Analysis*Currency Risk*

Group policy (see section (b) Financial Risk Management Policies of this note) is to hedge all foreign denominated debt and committed foreign purchases greater than \$1 million (New Zealand dollar equivalent).

All foreign debt is transferred back into New Zealand dollars through cross currency interest rate swaps and foreign purchases in excess of \$1 million have forward exchange contracts.

Interest Rate Risk

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

Fair Value Movement Risk

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

A parallel shift in the yield curve by 1% would create the following fair value movements based on net debt held at 30 June 2009:

- 1% parallel upward shift – fair value gain of \$105.4 million (30 June 2008: \$77.7 million).
- 1% parallel downward shift – fair value loss of \$114.6 million (30 June 2008: \$84.1 million).

Credit Spread Movement Risk

The impact of credit risk on the fair value (gain) loss was a \$70 million gain in 2009 (2008: nil).

A 10 basis point increase in credit spreads is estimated to result in a fair value gain of \$5.8 million.

A 10 basis point decrease in the credit spread is estimated to result in a fair value loss of \$5.8 million.

Notes to the Financial Statements continued

For the year ended 30 June 2009

24. OPERATING LEASE COMMITMENTS	GROUP		PARENT	
	2009	2008	2009	2008
COMMITMENTS IN RESPECT OF NON-CANCELLABLE OPERATING LEASES PAYABLE:	\$000	\$000	\$000	\$000
Within one year	6,407	7,061	6,407	7,061
One to two years	3,453	6,407	3,453	6,407
Two to five years	9,189	9,584	9,189	9,584
Later than five years	2,824	5,882	2,824	5,882
Total operating lease commitments	21,873	28,934	21,873	28,934

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

25. CAPITAL COMMITMENTS	GROUP		PARENT	
	2009	2008	2009	2008
CAPITAL COMMITMENTS IN RESPECT OF CONTRACTS FOR CAPITAL EXPENDITURE:	\$000	\$000	\$000	\$000
Within one year	64,934	101,483	64,934	101,483
One to two years	–	–	–	–
Total capital commitments	64,934	101,483	64,934	101,483

26. CONTINGENCIES

(i) Guarantees

Cross Border Lease

The Group has a cross border lease in respect of the majority of the AC transmission assets in the South Island.

When the lease was entered into the Group received a fee. The Group is amortising the fee from this cross border lease as revenue over the life of the underlying transaction, with the imputed interest shown in finance costs. The unamortised portion of the net fee is held in deferred income. The value of the assets to which the cross border lease applies is shown in Note 13 Property, Plant and Equipment.

The Group has given guarantees and certain undertakings in accordance with a limited guarantee dated 22 December 2003 in respect of the South Island AC assets.

In respect of the 2003 lease transaction, the recent downturn in financial markets has impacted the credit ratings of various financial institutions that are counterparties to the financial arrangements. As a result, Transpower, in its role as guarantor, has undertaken a restructure of certain parts of the transaction.

The Group's remaining exposures are as follows:

- If a financial institution's credit rating deteriorates to a point where the Group is required to replace that institution with a more highly rated institution, the Group would be exposed to the cost required to replace that institution.
- If a financial institution defaults on its obligations to a counterparty to the transaction and funds deposited with that financial institution cannot be recovered fully, the Group would be exposed to the level of funds deposited.

The likelihood of the occurrence of a) or b) is considered remote.

Notes to the Financial Statements continued

For the year ended 30 June 2009

26. CONTINGENCIES continued*Debt*

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

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

(ii) New Zealand Aluminium Smelter Ltd

The aluminium smelter owned by New Zealand Aluminium Smelter (NZAS) Ltd suffered a transformer failure on 9 November 2008. The transformer was owned by NZAS Ltd. As a result of that failure, a force majeure notice was issued to Meridian Energy Ltd (Meridian) on 10 November 2008.

On 24 March 2009, Meridian notified Transpower that if a force majeure event is established, Meridian would wish to invoke a clause in its contract in relation to the transmission charges paid by Meridian to Transpower relating to the New Zealand Aluminium Smelter.

Transpower does not believe that the transformer failure is a force majeure failure. Meridian and NZAS are proceeding to arbitration. Transpower may seek to join the arbitration.

In the event that the Arbitrator finds the transformer failure is a force majeure event, Transpower may be required to repay transmission charges to Meridian of approximately \$8 million to the end of June 2009.

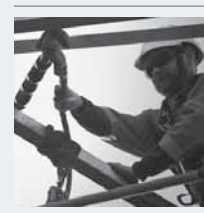
(iii) Economic Gain (Loss) Account

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

The net balance of the EV account at 30 June 2008 was \$6.6 million to the credit of the customer. The balance at 30 June 2008 is comprised of an AC customer credit balance of \$98.2 million and a HVDC customer debit balance of \$91.6 million. The 30 June 2009 EV figures are expected to be finalised by 30 September 2009.

(iv) Various Other Lawsuits, Claims and Investigations

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



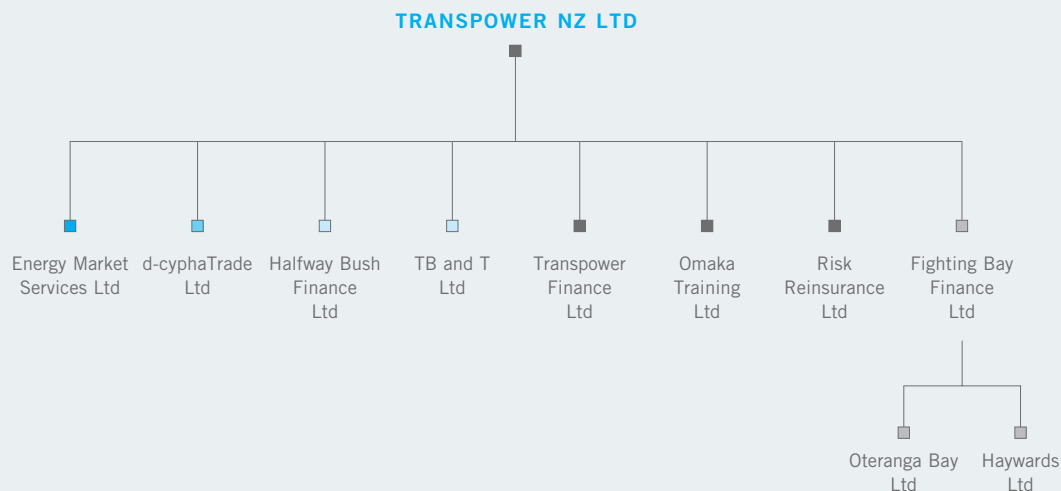
Notes to the Financial Statements continued

For the year ended 30 June 2009

27. GROUP ENTITIES

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

As at balance date the subsidiaries are as follows:



- Provides reconciliation and metering services.
- Provides services to the market for electricity derivatives in Australia.
- Party to a cross border lease over the majority of the South Island HVAC assets.
- Party to a cross border lease of HVDC converter plant (Haywards), HVDC submarine cables (Oteranga Bay).
- Transpower Finance Ltd – main finance company.
- Omaka Training Ltd – shell company. Omaka is a department of Transpower that provides training of external/internal parties.
- Risk Reinsurance Ltd – captive insurance company registered in Cayman Islands, established to provide insurance for the Transpower Group.

28. RELATED PARTIES

Transactions with Key Personnel

The Group did not conduct any business with key personnel.

Key Personnel Compensation

Key personnel received the following compensation for their services to the Group.

	GROUP		PARENT	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Directors' fees	552	564	552	564
Key management personnel	4,412	4,221	4,412	4,221
Defined contribution schemes	125	16	125	16
Termination benefits	-	117	-	117

Notes to the Financial Statements continued

For the year ended 30 June 2009

28. RELATED PARTIES continued

Intercompany Transactions

The subsidiaries identified in Note 27 are related parties of Transpower. Transactions with these parties are disclosed in the relevant notes.

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

Insurance

Risk Reinsurance Ltd insures certain grid assets of the Group. Certain asset classes such as transmission lines are not insured. This is because they are either not economic to insure and/or the risk of loss is not considered material. Risk Reinsurance Ltd is a wholly owned subsidiary of the Parent and is incorporated in the Cayman Islands. Risk Reinsurance Ltd reinsures to parties external to the Group to reduce some of its risk.

Premiums

In 2008/09, the Parent paid \$9.2 million to Risk Reinsurance in insurance premiums (2008: \$9.2 million). In 2008/09, Risk Reinsurance reinsured some of the risk, paying premiums of \$3.3 million, of which \$0.6 million is prepaid at June 2009.

Current Claims

At June 2009, there is an unpaid claims liability of \$1.5 million (2008: \$6.5 million) relating to events during 2007/08. The payment of this claim will be made by Risk Reinsurance and is not claimable from the reinsurers external to the Group. There are sufficient liquid assets in Risk Reinsurance to pay this claim. This claim is expected to be paid within the next year.

29. SUBSEQUENT EVENTS

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

30. SIGNIFICANT ESTIMATES OR JUDGEMENTS

Judgements

A significant judgement made in applying the Group's accounting policies was in relation to the impairment made on Transpower's System Operator assets for \$35 million (2008: \$28.8 million). For background information on this issue, refer to Note 13 Property, Plant and Equipment.

Estimations

A key estimate and assumption made regarding future events was in relation to a dismantling provision. This provision has a balance at 30 June 2009 of \$17.3 million (2008: \$18.9 million). The nature and uncertainty on this provision is discussed in Note 17 Provisions.

Audit Report



■ Chartered Accountants

*To the Readers of Transpower New Zealand Limited and Group's Financial Statements
For the year ended 30 June 2009*

The Auditor-General is the auditor of Transpower New Zealand Limited (the company) and group. The Auditor-General has appointed me, SRL O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the company and group, for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 34 to 85:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of:
 - the company and group's financial position as at 30 June 2009; and
 - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 20 August 2009, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

Audit Report continued

We did not examine every transaction, nor did we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the area of other assurance services which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.



SRL O'Connor

Ernst & Young

On behalf of the Auditor-General

Wellington, New Zealand

BOARD OF DIRECTORS

CHAIRMAN
WAYNE BROWN

DEPUTY CHAIRMAN
IAN DONALD

DIRECTORS
DR DON BRASH
ABBY FOOTE
IAN FRASER
JOHN IRVING
MIKE POHIO (APPOINTED JULY 2009)
ELENA TROUT

EXECUTIVE MANAGEMENT TEAM

CHIEF EXECUTIVE
PATRICK STRANGE

CHIEF ENGINEER
BOB SIMPSON, APPOINTED NOVEMBER 2008

GENERAL MANAGER CORPORATE AFFAIRS
CYNTHIA BROPHY

GENERAL MANAGER CORPORATE SERVICES
HOWARD CATTERMOLE

GENERAL MANAGER GRID DEVELOPMENT
JOHN CLARKE, APPOINTED AUGUST 2009

GENERAL MANAGER GRID INVESTMENT
TIM GEORGE, RESIGNED MARCH 2009

GENERAL MANAGER GRID PERFORMANCE
DAVID BREWER, APPOINTED NOVEMBER 2008

GENERAL MANAGER GRID PROJECTS
MIKE CARTER, APPOINTED OCTOBER 2008

GENERAL MANAGER INFORMATION SERVICES AND TECHNOLOGY
JIM TOCHER

GENERAL MANAGER PEOPLE AND PERFORMANCE
STUART LOW

GENERAL MANAGER SYSTEM OPERATIONS
KIERAN DEVINE

ADDRESS OF OFFICES

WELLINGTON
TRANSPower HOUSE, 96 THE TERRACE
PO BOX 1021, WELLINGTON 6140
TELEPHONE 64 4 495 7000
FACSIMILE 64 4 495 7100

AUCKLAND
LEVEL 5, BUILDING 2
CENTRAL PARK CORPORATE CENTRE
666 GREAT SOUTH ROAD
PO BOX 17-215, GREENLANE, AUCKLAND 1546
TELEPHONE 64 9 589 2300
FACSIMILE 64 9 589 2310

PALMERSTON NORTH
LEVEL 5, IRD BUILDING
CORNER ASHLEY STREET
& FERGUSON STREET
PO BOX 640, PALMERSTON NORTH 4440
TELEPHONE 64 6 357 0919
FACSIMILE 64 6 357 0917

CHRISTCHURCH
LEVEL 3, 6 SHOW PLACE
ADDINGTON
PO BOX 21-154, EDGEWARE, CHRISTCHURCH 8143
TELEPHONE 64 3 339 9800
FACSIMILE 64 3 338 1290



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