

The date of this Prospectus is 2 November 2011



## Transpower New Zealand Limited

*(incorporated with limited liability in New Zealand)*

**U.S.\$1,000,000,000**

**Euro Medium Term Note Programme**

**Due from one month to 30 years from the date of original issue**

This Prospectus supersedes the Prospectus dated 2 November 2010 prepared in connection with the Programme (as defined below). Under the Euro Medium Term Note Programme described in this Prospectus (the "Programme"), Transpower New Zealand Limited ("Transpower" or the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$1,000,000,000 (or the equivalent in other currencies).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (as defined on page 5) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market.

Notes will be in bearer form and will initially be represented by a temporary Global Note or a permanent Global Note (each a "Global Note"). Global Notes may be deposited on the issue date with a common depository on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "Summary of Provisions Relating to the Notes while in Global Form".

Unless otherwise specified in the applicable Final Terms, Notes to be issued under the Programme by Transpower New Zealand Limited with an initial maturity of 12 months or more will be rated A1 by Moody's Investors Service Ltd ("Moody's") and AA- by Standard & Poor's (Australia) Pty Ltd ("Standard & Poor's") and Notes with a maturity of less than 12 months will be rated P-1 by Moody's and A-1+ by Standard & Poor's. The outlook on both the Moody's and Standard & Poor's rating is stable. Standard & Poor's is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (the "CRA Regulation"). The Issuer has been ascribed a stand alone credit rating of A- by Standard & Poor's and a senior unsecured rating of A1 by Moody's. Standard & Poor's Credit Market Services Europe Limited, which is established in the European Union and is registered under the CRA Regulation, disclosed the intention to endorse credit ratings of Standard & Poor's. Moody's is a rating agency established in the European Union and is registered under the CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating assigned to Notes issued under the Programme. Subordinated Notes will have such rating, if any, as is assigned to them by the relevant rating organisation as specified in the relevant Final Terms.

Whether or not a rating in relation to any Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the relevant rating organisation.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes.**

**Arranger**  
**DEUTSCHE BANK**

**BofA Merrill Lynch**  
**Credit Suisse**  
**J.P. Morgan**  
**UBS Investment Bank**

**Citigroup**  
**Deutsche Bank**  
**Mizuho International plc**

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive") and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and associated companies taken as a whole (the "Transpower Group") which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealers or the Arranger (each as defined in "Overview of the Programme"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "Subscription and Sale".

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer, or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger or the Dealers that any recipient of this Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with the issue of any Tranche (as defined in “Overview of the Programme”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “U.S.\$” or “U.S. dollars” are to the lawful currency of the United States of America, to “£”, “Sterling” or “Pounds Sterling” are to the lawful currency of the United Kingdom, to “¥” or “Yen” are to the lawful currency of Japan, to “NZ\$” or “New Zealand dollars” are to the lawful currency of New Zealand and to “€” or “euro” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

### **Supplementary Prospectus**

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87G of the Financial Services and Markets Act 2000, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87G of the Financial Services and Markets Act 2000.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to the information contained in this Prospectus which is capable of affecting the assessment of any Notes whose inclusion in this Prospectus or removal is necessary, for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

### **Presentation of Financial Information**

The Issuer’s audited consolidated financial statements are prepared in accordance with generally accepted account practice in New Zealand and 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).

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## OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this document.

<b>Issuer</b>	Transpower New Zealand Limited
<b>Description</b>	Euro Medium Term Note Programme of Transpower New Zealand Limited
<b>Size</b>	Up to U.S.\$1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
<b>Arranger</b>	Deutsche Bank AG, London Branch
<b>Dealers</b>	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, J.P Morgan Securities Ltd., Merrill Lynch International, Mizuho International plc and UBS Limited.

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

<b>Trustee</b>	The Law Debenture Trust Corporation p.l.c.
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<b>Issuing and Paying Agent</b>	Citibank, N.A., London Branch
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<b>Method of Issue</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms to this document (the “Final Terms”).
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<b>Issue Price</b>	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
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<b>Form of Notes</b>	The Notes may be issued in bearer form only. Each Tranche of Notes will initially be represented by a temporary Global Note if (i) Definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Overview of the Programme – Selling Restrictions”); otherwise such Tranche will be represented by a permanent Global Note.
<b>Clearing Systems</b>	Clearstream, Luxembourg, and Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
<b>Initial Delivery of Notes</b>	On or before the issue date for each Tranche, the Global Note representing the Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
<b>Currencies</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
<b>Maturities</b>	Subject to compliance with all relevant laws, regulations and directives, any maturity between one month and 30 years.
<b>Specified Denomination</b>	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii), unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).
<b>Fixed Interest Rate Notes</b>	Fixed interest will be payable in arrear on the date or dates specified in the relevant Final Terms.

**Floating Rate Notes**

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin; or
- (iii) on such other basis as agreed between the Issuer and the Relevant Dealer.

Interest periods will be specified in the relevant Final Terms.

**Zero Coupon Notes**

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

**Dual Currency Notes**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the relevant Final Terms.

**Index Linked Notes**

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Early Redemption**

Except as provided in "Optional Redemption" below, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Notes – Redemption, Purchase and Options".

**Optional Redemption**

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

**Redemption by Instalments**

The Final Terms issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

The Final Terms issued in respect of each issue of Notes will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Other Notes**

Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note which the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms or Supplemental Prospectus.

**Status of Notes**

Senior Notes will constitute unsubordinated and unsecured obligations of the Issuer all as described in “Terms and Conditions of the Notes – Status”. Subordinated Notes will constitute unsecured obligations of the Issuer, and the payment obligations of the Issuer will be subordinated, pursuant to a deed supplemental to the Trust Deed, in the manner described in the relevant Final Terms, all as described in “Terms and Conditions of the Notes – Status”.

**Negative Pledge**

See “Terms and Conditions of the Notes – Negative Pledge”.

**Cross Default**

See “Terms and Conditions of the Notes – Events of Default”.

## Ratings

Unless otherwise specified in the applicable Final Terms, Notes to be issued under the Programme by Transpower New Zealand Limited with an initial maturity of 12 months or more will be rated A1 by Moody's and AA- by Standard & Poor's and Notes with a maturity of less than 12 months will be rated P-1 by Moody's and A-1+ by Standard & Poor's. The outlook on both the Moody's and Standard & Poor's rating is stable. The Issuer has been ascribed a stand alone credit rating of A- by Standard & Poor's and a senior unsecured rating of A1 by Moody's. Standard & Poor's is not established in the European Union and has not applied for registration under the CRA Regulation. Standard & Poor's Credit Market Services Europe Limited, which is established in the European Union and is registered under the CRA Regulation, disclosed the intention to endorse credit ratings of Standard & Poor's. Moody's is established in the European Union and is registered under the CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating assigned to Notes issued under the Programme. Subordinated Notes will have such rating, if any, as is assigned to them by the relevant rating organisation as specified in the relevant Final Terms. Whether or not a rating in relation to any Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

## **Withholding Tax**

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of New Zealand except as stated in the Notes and as summarised below. No additional amounts will be payable with respect to any withholding or deduction for or on account of New Zealand resident withholding tax, except as summarised in the “New Zealand Taxation” section below. Additional amounts (subject as provided below) will be payable with respect to any withholding or deduction for or on account of New Zealand non-resident withholding tax. However, in relation to holders of Notes or Coupons who are not resident in New Zealand and do not carry on business in New Zealand through a fixed establishment in New Zealand, the Issuer intends to ensure (for so long as it does not incur any increased cost or detriment from so doing) that the rate of New Zealand non-resident withholding tax applicable to any payment of interest (as defined in Condition 7) to such holders of Notes or Coupons is zero per cent. by registering the Programme with the New Zealand Inland Revenue Department and paying the appropriate “approved issuer levy”. The “approved issuer levy” regime will not apply to Notes or Coupons beneficially held by persons who are not resident in New Zealand and do not carry on business through a fixed establishment in New Zealand but who derive interest under such Notes or Coupons jointly with one or more persons (one or more of whom is a New Zealand tax resident). In such circumstances, subject to any applicable double tax treaty, the New Zealand non-resident withholding tax imposed will equate to the applicable rate of New Zealand resident withholding tax, and no additional amounts will be payable to any holder of such Notes or Coupons with respect to any withholding or deduction. A more detailed description of the above is set out in “Terms and Conditions of the Notes – Taxation”.

## **Governing Law**

English.

## **Listing**

Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market or as otherwise specified in the relevant Final Terms. Unlisted Notes may also be issued.

## **Selling Restrictions**

United States, EEA, United Kingdom, New Zealand and Japan. See “Subscription and Sale”.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

The Issuer considers its key risks relating to the Notes to be:

- (a) *Regulatory risk:* the Issuer's business is subject to significant regulatory oversight (see "Regulatory Framework" for further detail on the regulatory framework within which the Issuer operates). Regulatory risks that could significantly affect the financial position of the Issuer include changes to the regulatory framework, determinations made pursuant to the regulatory framework or the Issuer's failure to operate in compliance with the regulatory framework and/or regulatory determinations;
- (b) *Commodity risk:* the risk associated with commodity price movements, which, along with currency risk (below), determine the NZ Dollar cost of commodity expenditure. Commodities (for example, copper, aluminium and steel) are used in the construction of the Issuer's transmission assets;
- (c) *Currency risk:* the risk associated with exchange rate movements, which determine the NZ Dollar cost of foreign currency denominated expenditures, assets and liabilities;
- (d) *Liquidity risk:* the risk associated with an inability to meet monetary obligations in an orderly and timely manner. This might result from the Issuer or other members of the Transpower Group not maintaining adequate funding facilities or being unable to renew or replace existing facilities when they mature;
- (e) *Counterparty risk:* the risk associated with counterparties, transmission customers, other debtors of the Issuer or other members of the Transpower Group failing to meet their obligations to the Issuer and other members of the Transpower Group;
- (f) *Economic downturn risk:* risks associated with adverse economic conditions or a downturn in the sectors to which the Issuer is exposed;
- (g) *Solvency risk:* the risk of not being able to pay debts as they fall due. This risk could be increased as a result of other borrowings of the Issuer;
- (h) *Interest rate risk:* the risk associated with fluctuations in present and future finance costs and revenues of the Issuer arising from the interaction of interest rate movements with the Issuer's debt portfolio and funds advanced to other members of the Transpower Group;

- (i) *Infrastructure risk*: the risks associated with a failure to ensure the security of electricity supply (which includes risks associated with a failure to ensure transmission capacity matches demand) and the risk of infrastructure assets requiring unforeseen major maintenance, or being damaged or destroyed by fire, earthquake or other event;
- (j) *Development risks*: the risks associated with the Issuer's planned grid investment projects or other infrastructure development work. These risks include the risks of defaults by contractors, cost and time overruns, including the impact of overruns on cost recovery from transmission customers, delays in obtaining resource consents or other regulatory approvals (or the risk of failing to obtain those approvals), construction works impacting on the smooth operation of the National Grid (see "Planned Grid Investment Projects" for further detail on the planned grid investment projects) and the risk of regulatory determinations affecting the viability of planned grid upgrades because the costs of the upgrades cannot be recovered fully from transmission customers; and
- (k) *Competitive risks*: the risks associated with competition in various aspects of the Issuer's business.

To manage and mitigate some of the effects of these risks:

- The Issuer engages in consultation with the Commerce Commission, the Electricity Authority and other relevant Government agencies in order to promote an evolving regulatory regime that is consistent with the Issuer's strategic objectives of maintaining security of supply while receiving an economic return on investment. Over time, the regulatory framework applying to transmission has moved towards the conventional arrangements used in similar overseas jurisdictions, partly in response to submissions made by the Issuer.
- In addition, the Issuer consults with its transmission customers (on both the load and generation sides) to ensure the required capacity and load growth are factored into the Issuer's grid planning at an early stage. The Issuer has an extensive suite of standards and specifications pertaining to equipment supply, installation and maintenance. Long-term performance and incentive based contracts with maintenance providers have been established to ensure that condition-based maintenance is consistently carried out on all infrastructure assets in accordance with the Issuer's service specifications, and within recommended timeframes.
- The Issuer and other members of the Transpower Group operate within the constraints of certain treasury policies. The liquidity risk is managed by ensuring that adequate liquid assets and funding sources are available at all times to meet both short and long term commitments. In addition, the Issuer avoids concentrations of debt maturing over a short period of time, and appropriate cash flow reporting mechanisms are maintained to monitor the Issuer's estimated liquidity position. The Issuer uses interest rate swaps and options to manage interest rate repricing risk, and cross currency interest rate swaps to mitigate currency risk. Counterparty risk is mitigated by only entering into financial instruments with counterparties that meet certain credit rating standards and through the use of exposure limits.
- In order to mitigate construction risk, all potential significant contractors are subject to a thorough review of company capability, present and previous work history, financial status, key personnel, references, systems and procedures. The construction contracts entered into also often include provisions for the Issuer to claim liquidated damages as a remedy for recovering damages resulting from delays. Payment for construction work is normally based on construction progress claims or milestones being achieved. In most cases, contractors are liable for damage caused while performing contracts. In the event that this does not apply, the Issuer has its own insurance to cover potential damage. Any

outages or constraints are co-ordinated with the System Operator and affected transmission customers to minimise disruption to the greatest extent possible. Safety and environmental risks are minimised as much as possible to reduce the likelihood of an incident affecting construction.

- The Issuer is the owner of New Zealand's only national high voltage electricity transmission system. Due to the high entry cost that would face any competitor and the integrated nature of the National Grid, the Issuer's position in the electricity industry, as a monopoly transmission asset owner, is unlikely to change materially in the reasonably foreseeable future.

### **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

#### **Notes may not be a suitable investment for all investors**

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

## **Risks related to the structure of a particular issue of Notes**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

### ***Notes subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### ***Index Linked Notes and Dual Currency Notes***

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

### ***Partly-paid Notes***

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

### ***Foreign currency bonds expose investors to foreign-exchange risk as well as to issuer risk***

By purchasing foreign currency bonds, investors are exposed to the risk of changing foreign exchange rates. This risk is in addition to any performance risk that relates to the issuer or the type of bond being issued.

This presents certain risks relating to currency conversions if the purchaser's financial activities are denominated principally in a currency or currency unit other than the Specified Currency. This includes the risk that exchange rates may significantly change (including changes due to the devaluation of the Specified Currency or revaluation of the purchaser's currency and the risk that authorities with jurisdiction over the purchaser's currency may impose or modify exchange controls). An appreciation in the value of the purchaser's currency relative to the Specified Currency would decrease (a) the purchaser's currency-equivalent yield on the Notes, (b) the purchaser's currency-equivalent value of the principal payable on the Notes and (c) the purchaser's currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected.

### ***Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

### ***Notes issued at a substantial discount or premium***

The market value of securities issued at a substantial discount or premium to their nominal amount tends to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### ***The Issuer's obligations under Subordinated Notes are subordinated***

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the claims of Senior Creditors (as defined in "Terms and Conditions of the Notes" herein). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

### ***Investments in Index Linked Notes entail significant risks and may not be appropriate for investors lacking financial expertise***

Index Linked Notes are debt securities which do not provide for predetermined redemption amounts and/or interest payments but amounts due in respect of principal and/or interest which will be dependent upon the performance of an index, which itself may have substantial inherent credit, interest rate or other risks. An investment in Index Linked Notes entails significant risks that are not associated with similar investments in a conventional fixed or floating rate debt security. The Index Linked Notes should only be purchased by investors who are, or who are purchasing under the guidance of, financial institutions or other professional investors that are in a position to understand the special risks that an investment in these instruments involves. These risks include, among other things, the possibility that:

- such index or indices may be subject to significant changes, whether due to the composition of the index itself, or because of fluctuations in value of the indexed assets;

- the resulting interest rate will be less (or may be more) than that payable on a conventional debt security issued by the Issuer at the same time;
- the repayment of principal can occur at times other than that expected by the investor;
- the holder of an Index Linked Note could lose all or a substantial portion of the principal of such Note (whether payable at maturity or upon redemption or repayment), and, if the principal is lost, interest may cease to be payable on the Index Linked Note;
- the risks of investing in an Index Linked Note encompass both risks relating to the underlying indexed securities or commodities and risks that are unique to the Note itself;
- any Index Linked Note that is indexed to more than one type of underlying asset, or on formulas that encompass the risks associated with more than one type of asset, may carry levels of risk that are greater than Notes that are indexed to one type of asset only;
- it may not be possible for investors to hedge their exposure to these various risks relating to Index Linked Notes; and
- a significant market disruption could mean that the index on which the Index Linked Notes are based ceases to exist.

In addition, the value of Index Linked Notes on the secondary market is subject to greater levels of risk than is the value of other Notes. The secondary market, if any, for Index Linked Notes will be affected by a number of factors, independent of the creditworthiness of the Issuer and the value of the applicable currency, commodity, stock, interest rate or other index, including the volatility of the applicable currency, commodity, stock, interest rate or other index, the time remaining to the maturity of such Notes, the amount outstanding of such Notes and market interest rates. The value of the applicable currency, commodity, stock or interest rate index depends on a number of interrelated factors, including economic, financial and political events, over which the Issuer has no control. Additionally, if the formula used to determine the amount of principal, premium and/or interest payable with respect to Index Linked Notes contains a multiplier or leverage factor, the effect of any change in the applicable currency, commodity, stock, interest rate or other index will be increased. The historical experience of the relevant currencies, commodities, stocks, interest rates or indices should not be taken as an indication of future performance of such currencies, commodities, stocks, interest rates or other indices during the term of any Index Linked Note. Additionally, there may be regulatory and other ramifications associated with the ownership by certain investors of certain Index Linked Notes.

Various transactions by the Issuer could impact the performance of any Index Linked Notes, which could lead to conflicts of interest between the Issuer and holders of its Index Linked Notes.

### **Risks related to Notes generally**

Set out below is a brief description of certain risks relating to the Notes generally:

#### ***Modification, waivers and substitution***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 10(c) of the Terms and Conditions of the Notes.

### ***European Monetary Union***

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Notes denominated in Sterling may become payable in euro (ii) the law may allow or require such Notes to be re-denominated into euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed.

### ***EU Savings Directive***

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires member states of the European Union ("Member States") to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other similar income may request that no tax be withheld) unless during such period they elect otherwise. A number of non-EU countries and territories have adopted similar measures.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment under the Directive (or any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive), neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, in relation to Definitive Notes, the Issuer is required, as provided in Condition 6(d) of the Notes, to maintain a Paying Agent with a specified office in a Member State that is not obliged to withhold or deduct tax pursuant to any such Directive or any such law.

### ***Change of law***

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

### ***Integral multiples of less than €100,000***

Although Notes which are admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum Specified Denomination of €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes), it is possible that the Notes may be traded in the clearing systems in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

### ***Risks related to the market generally***

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### ***The secondary market generally***

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

#### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### ***Interest rate risks***

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

#### ***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

**Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series and, subject further to simplification by deletion of non-applicable provisions, will be endorsed on such Notes, details of the relevant Series being shown on the relevant Notes and in the relevant Final Terms. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes which may be issued under the Programme.

References herein to the "Notes" shall be references to the Notes of this Series. The Notes are constituted by an Amended and Restated Trust Deed dated 2 November 2011 (the "Trust Deed", which expression shall include any amendment or supplement thereto) and made between Transpower New Zealand Limited (the "Issuer") and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). The Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the interest coupons (if any) relating to them (the "Coupons"). Copies of the Trust Deed and of the Amended and Restated Agency Agreement dated 2 November 2011 (the "Agency Agreement", which expression shall include any amendment or supplement thereto) and made between the Issuer, the Trustee, Citibank, N.A., London Branch as issuing and paying agent (the "Issuing and Paying Agent"), the other paying agents (the "Paying Agents", which expression shall include the Issuing and Paying Agent) and the calculation agent (the "Calculation Agent" and, together with the Paying Agents, the "Agents"), and of the relevant Final Terms are available for inspection during usual business hours at the specified office of the Trustee, for the time being at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Agents. Copies of the Final Terms relating to unlisted Notes will only be available for inspection by a Noteholder upon proof satisfying the relevant Agent or the Trustee, as the case may be, as to identity. The Noteholders, the holders of the coupons (if any) (the "Couponholders") and the holders of Receipts are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the relevant Final Terms which are applicable to them. The Noteholders, the Couponholders, and the holders of, where applicable, talons for further Coupons (the "Talons") and, where applicable, receipts for the payment of instalments of principal (the "Receipts"), are entitled to the benefit of, are bound by and deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

### **1 Form, Denomination and Title**

The Notes are serially numbered and in bearer form in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

The Notes are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Title to the Notes and the Receipts, Coupons and Talons shall pass by delivery. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, "Noteholder" means the bearer of any Note and the Receipts relating to it, "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Note, Receipt, Coupon or Talon and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

All capitalised terms which are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes.

## **2 Status**

### **(a) Status of Senior Notes:**

Senior Notes (being those Notes that specify their status as Senior) and the Receipts and Coupons relating thereto constitute unsubordinated and (without prejudice to the provisions of Condition 3) unsecured obligations of the Issuer and rank pari passu and rateably without any preference among themselves and (subject to any applicable statutory exceptions and without prejudice as aforesaid) the payment obligations of the Issuer under the Notes and the Receipts and Coupons rank equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

### **(b) Status of Subordinated Notes:**

Subordinated Notes (being those Notes that specify their status as Subordinated) and the Receipts and Coupons relating thereto constitute unsecured obligations of the Issuer and the payment obligations of the Issuer shall be subordinated in the manner described hereon.

## **3 Negative Pledge**

So long as any Senior Notes, Receipts or Coupons remain outstanding (as defined in the Trust Deed):

- (i) the Issuer will not create or permit to subsist any Security (as defined below) (except for a Permitted Security (as defined below)), upon the whole or any part of its undertaking, assets or revenues present or future to secure any of its Relevant Debt (as defined below), or any guarantee or indemnity given by it in respect of any Relevant Debt; and
- (ii) the Issuer will (1) procure that none of its Subsidiaries (as defined below) will create or permit to subsist any Security (except for a Permitted Security) and (2) use all reasonable endeavours to ensure that no other Person (as defined below) creates or permits to subsist any Security (except for a Permitted Security), (in each such case) upon the whole or any part of the undertaking, assets or revenues present or future of the Subsidiary or other Person, as the case may be, to secure any of the Issuer's Relevant Debt, or any guarantee or indemnity in respect of any of the Issuer's Relevant Debt;

unless, at the same time or prior thereto, either (1) the Issuer's obligations under the Senior Notes, Receipts, Coupons and Trust Deed (A) are secured equally and rateably therewith to the satisfaction of the Trustee or (B) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or (2) the prior written consent of the Trustee (after, if required by the Trustee, approval by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders) is obtained.

"Permitted Security" means:

- (i) any Security created or permitted to exist over the whole or any part of any person's right, title or interest in any goods to secure Relevant Debt created, incurred or assumed on concessional terms, in connection with the supply of those goods or any material part of them, where such Relevant Debt arises from credit made available by (or which is entitled to the benefit of any guarantee provided by) any governmental or other agency or export-import bank or export-import credit insurer or from or arranged by a provider of those goods or any material part of them; or
- (ii) any Security created to secure any Relevant Debt in connection with the purchase of an asset, or the maintenance or repair or improvement of an asset, where the Security is created over the asset purchased, maintained, repaired or improved and/or over any related or connected asset and the principal amount of any Relevant Debt so secured does not exceed such purchase price or the cost of such maintenance or repair or improvement (as the case may be); or
- (iii) any Security created or permitted to exist to secure Relevant Debt in connection with a capital project of the Issuer and/or one of its Subsidiaries (or any joint venture, partnership or similar venture in which any of them is or are participant(s)) where, in any such case, the financier's right of action to enforce repayment of the principal amount of that Relevant Debt and/or the payment of financing charges thereon is limited to a right of action or claim against the capital project so financed and/or any of the assets, revenues, contracts, licences, consents and similar rights derived from or relating to such capital project, or against the interests of the Issuer and/or relevant Subsidiary in any of the foregoing; or
- (iv) any other Security so long as the aggregate principal amount of the Relevant Debt so secured by any such Security permitted to be created or to exist by this paragraph (iv) does not exceed 5 per cent. of the consolidated Total Assets (as defined below) of the Transpower Group (as defined below), provided that for the purposes of this paragraph (iv) the principal amount of any Relevant Debt secured by a Security shall be deemed to be zero if the only assets of the Transpower Group which are subject to such Security are assets which (1) do not form part of or are not taken into account in determining the consolidated Total Assets of the Transpower Group as shown in the most recently published consolidated audited accounts of Transpower; or (2) in the case of assets acquired after the end of the financial period to which the most recently published consolidated audited accounts of Transpower relate, would not form part of or be taken into account in determining such Total Assets if such a consolidated balance sheet were prepared immediately following such acquisition.

"Person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust or State.

“Relevant Debt” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other similar securities which are for the time being, or are intended to be, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities markets, having an original maturity of more than one year from its date of issue.

“Security” means:

- (i) any mortgage, pledge, encumbrance by way of security, lien, charge, assignment by way of security or hypothecation; or
- (ii) any title retention, preferential right, trust arrangement or other agreement or arrangement the legal effect of any of which is the creation of security similar to those referred to in paragraph (i);

but, for the avoidance of doubt, does not include (a) bailments or (b) the rights of resumption conferred by Sections 27 to 27D of the State-Owned Enterprises Act 1986 (as inserted by the Treaty of Waitangi (State Enterprises) Act 1988) or any memorial recording such rights or (c) any rights or obligations (whether arising by operation of law, by contract or otherwise) of, or in the nature of, set-off, netting, combination, consolidation or retention of accounts, banker’s lien or analogous rights or obligations in relation to or affecting any credit balances or other financial obligations.

“Subsidiary” shall mean the following:

- (i) a company shall be deemed to be a “Subsidiary” of the Issuer if but only if the Issuer:
  - (a) controls the composition of the board of that company; or
  - (b) is in a position to exercise, or control the exercise of, more than one-half of the maximum number of votes that can be exercised at a meeting of that company; or
  - (c) holds more than one-half of the issued shares of that company, other than shares that carry no right to participate beyond a specified amount in a distribution of either profits or capital; or
  - (d) is entitled to receive more than one-half of every dividend paid on shares issued by that company, other than shares that carry no right to participate beyond a specified amount in a distribution of either profits or capital; or
  - (e) that company is a subsidiary of a company that is a Subsidiary of the Issuer.

For the purposes of this definition, the composition of the board of directors of a company shall be deemed to be controlled by another company if, but only if, that other company by the exercise of some power exercisable by it can appoint or remove all the directors of the company or such number of directors as together hold a majority of the voting rights at a meeting of the board of the company;

- (ii) any Subsidiaries regarded as such in accordance with NZ GAAP (as defined in Condition 4(l)(ii)) from time to time.

It is difficult for the Trustee to monitor compliance with certain of the above obligations. The Issuer has undertaken in the Trust Deed to deliver to the Trustee, in accordance with the provisions of the Trust Deed, certificates stating whether or not any Permitted Security has

been created and, if so, giving details of the same. The Trustee shall be entitled, in the absence of manifest error, to rely on such certificate and shall not be obliged to enquire further as to the creation or otherwise of any Permitted Security.

This Condition 3 shall not apply in respect of Subordinated Notes.

#### **4 Interest and Other Calculations**

##### **(a) Interest on Fixed Rate Notes:**

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with condition 4(h).

##### **(b) Interest on Floating Rate Notes and Index Linked Interest Notes:**

- (i) Interest Payment Dates: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with condition 4(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) Business Day Convention: If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day which is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) Rate of Interest for Floating Rate Notes: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

##### **(A) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin (if any). For the purposes of this subparagraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to

the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
  - (1) the offered quotation; or
  - (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) Rate of Interest for Index Linked Interest Notes: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

**(c) Zero Coupon Notes:**

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 5(b)(i)).

**(d) Dual Currency Notes:**

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

**(e) Partly Paid Notes:**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

**(f) *Accrual of Interest:***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (after as well as before judgment) at the Rate of Interest in the manner provided in this Condition 4 to the Relevant Date (as defined in Condition 7).

**(g) *Margin, Maximum/Minimum Rate of Interest, Instalment Amounts and Redemption Amounts and Rounding:***

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes "unit" means the lowest amount of such currency which is available as legal tender in the country of such currency.

**(h) *Calculations:***

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

**(i) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:***

The Calculation Agent shall as soon as practicable after the relevant time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts

for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Issuer, the Trustee, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination, in accordance with Condition 13. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 9, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) or the Trustee shall (in the absence of manifest error, wilful default or bad faith) be final and binding upon all parties.

**(j) Determination or calculation by Trustee:**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

**(k) Definitions:**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centres or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “Calculation Period”):

- (i) if “Actual/Actual” or “Actual/Actual-ISDA” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (v) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vi) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

- (vii) if “Actual/Actual ICMA” is specified hereon,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“Determination Date” means the date specified as such hereon or, if none is so specified, the Interest Payment Date.

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.”

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and which is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

“Total Assets” means the aggregate of the book values (determined in accordance with the principles and practices applied in the most recently published audited consolidated balance sheet of Transpower with only such changes (if any) thereto as may have been approved by the Auditors (as defined in the Trust Deed)) of the assets of the Transpower Group (on a consolidated basis) as at any time and from time to time valued and disclosed in (other than solely by noting to) the most recently published audited consolidated balance sheet of the Transpower Group.

“Transpower Group” means the Issuer and its Subsidiaries from time to time.

**(I) Accounting Basis:**

- (i) Subject to paragraph (ii) below, references in the Conditions to all or any of the accounts (audited or unaudited, consolidated or unconsolidated, as the case may be) of the Issuer or any of its Subsidiaries or any group of them shall be to such accounts prepared in accordance with NZ GAAP and references to any calculation, determination or other matter which is to be based upon or referable to or disclosed by such accounts shall be construed accordingly.
- (ii) If the method or basis of accounting (the “initial accounting treatment”) adopted or proposed to be adopted by the Issuer or (as the case may be) any of its Subsidiaries for any matter or transaction at the time such matter occurred or such transaction was entered into complied with NZ GAAP applicable at that time, and the accounts prepared as at any subsequent date employ a different method or basis of accounting for such matter or transaction which complies with NZ GAAP applicable at that subsequent date, then for the purpose of Condition 3 and all the definitions contained in Condition 4(k) relevant to the application of Condition 3:
  - (a) such matter or transaction may continue to be accounted for in accordance with the initial accounting treatment; and

- (b) the accounts at such subsequent date may be adjusted as necessary to reflect the initial accounting treatment in respect of such matter or transaction, and the Issuer shall not be deemed to be in breach of Condition 3 as a result of any such change in the method or basis of accounting for such matter or transaction.

For the purpose of these Conditions “NZ GAAP” means, at any time, New Zealand generally accepted accounting practice applicable to Transpower at such time.

**(m) Calculation Agent:**

The Issuer will procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer will (with the prior approval of the Trustee (such approval not to be unreasonably withheld or delayed)) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) which is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

**5 Redemption, Purchase and Options**

**(a) Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 5 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to the Issuer’s or any Noteholder’s option in accordance with Condition 5(d) or (e), each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to the Issuer’s or any Noteholder’s option in accordance with Condition 5(d) or (e), each Note will be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

**(b) Early Redemption:**

(i) Zero Coupon Notes:

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9, shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 4(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes:

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount unless otherwise specified hereon.

**(c) Redemption for taxation reasons:**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 5(b) above) (together with interest accrued to the date fixed for redemption), if:

- (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (including becoming obliged to pay additional amounts in respect of New Zealand non-resident withholding tax which may be, or may become, applicable to the Notes) as a result of any change in, or amendment to, the laws or regulations of New Zealand or any political subdivision or any authority thereof or

therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

- (ii) such obligation cannot be avoided by the Issuer paying (if it is not already doing so) New Zealand approved issuer levy at a rate not exceeding the rate of the levy being charged at the date of the Trust Deed under section 86J of the Stamp and Cheque Duties Act 1971 of New Zealand on the payments or interest (as “interest” is defined for New Zealand tax law purposes);

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or the Issuer would be unable to relieve itself of the obligation to pay any additional amounts in respect of payments of principal or interest (as “interest” is defined for New Zealand tax law purposes) by paying the approved issuer levy (whichever is the earlier) were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Officers (as defined in the Trust Deed) of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (i) above in which event it shall be conclusive and binding on the Noteholders and Couponholders.

***(d) Redemption at the Option of the Issuer and Exercise of Issuer’s Options:***

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days’ irrevocable notice to the Noteholders (or such other notice period as may be specified hereon), redeem, or exercise the Issuer’s option (as may be described hereon) in relation to all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer’s option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of the Issuer’s option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange requirements.

***(e) Redemption at the Option of Noteholders and Exercise of Noteholders’ Options:***

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Issuer (or such other notice period as may be specified hereon), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders’ option which may be set out hereon (which must be exercised on an Option Exercise Date) the holder must deposit such Note with any Paying Agent at its specified office, together with a duly completed option exercise notice

("Exercise Notice") in the form obtainable from any Paying Agent within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

**(f) Partly Paid Notes:**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

**(g) Purchases:**

The Issuer and any of their Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price.

**(h) Cancellation:**

All Notes purchased by or on behalf of the Issuer or any of their Subsidiaries may be surrendered for cancellation by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## **6 Payments and Talons**

**(a) Method of Payment:**

Payments of principal and interest will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 6(e)(vi)) or Coupons (in the case of interest, save as specified in Condition 6(e)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "Bank" means a bank in the principal financial centre of such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

**(b) Payments in the United States:**

Notwithstanding the foregoing, if any Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States and its possessions with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by the imposition of exchange controls or other similar restrictions on payment in full or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

**(c) Payments subject to Law:**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 7. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

**(d) Appointment of Agents:**

The Issuing and Paying Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time to vary or terminate the appointment of the Issuing and Paying Agent, the Paying Agents and the Calculation Agent and to appoint additional or other Agents, provided that the Issuer will at all times maintain (i) an Issuing and Paying Agent, (ii) one or more Calculation Agent(s) where the Conditions so require, (iii) a Paying Agent having a specified office in a major European city approved by the Trustee which, so long as the Notes are listed on the Official List and admitted to trading on the London Stock Exchange's Regulated Market and the rules of the UK Listing Authority so require, shall be London, (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed and (v) to the extent not otherwise satisfied pursuant to (i) to (iv) above, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to any such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. dollars in the circumstances described in paragraph (b) above.

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 13.

**(e) Unmatured Coupons and Receipts and Unexchanged Talons:**

- (i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption, Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of ten years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).
- (ii) If the relative Notes so provide, upon the due date for redemption of any Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Note which provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where

any Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note.

**(f) Talons:**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 8).

Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprising the relevant Coupon sheet shall mature.

**(g) Non Business Days:**

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

**7 Taxation**

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of New Zealand or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes, Receipts or Coupons (as the case may be) in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to (a) any withholding or deduction for or on account of New Zealand resident withholding tax; or (b) any payment in respect of any Note, Receipt or Coupon:

- (a) Other connection: to, or to a third party on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of any holder, or any beneficial owner of any interest in, or rights in respect of, such Note, Receipt or Coupon having some connection (whether present or

past) with New Zealand (including by reason of being a beneficial owner of, or having an interest in, a Note, Receipt or Coupon jointly with another person who is resident in New Zealand for income tax purposes) otherwise (except as just provided) than merely by the holding of, or having an interest in, or rights in respect of, such Note, Receipt or Coupon; or

- (b) Lawful avoidance of withholding: to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority or, if appropriate, to the Issuer or the Issuing and Paying Agent in the place where the relevant Note, Receipt or Coupon is presented for payment; or
- (c) Presentation more than 30 days after the Relevant Date: presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the thirtieth such day; or
- (d) Payment to individuals: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) Payment by another Paying Agent: (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, "Relevant Date" in respect of any Note, Receipt or Coupon means the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 13 that, upon further presentation of the Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes (but not to extend to the excess of the redemption amount over the issue price of any Note, and provided that a premium may be interest as defined under New Zealand taxation legislation), all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it and interest as defined under New Zealand taxation legislation for withholding tax purposes, and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

#### **New Zealand non-resident withholding tax:**

Under current New Zealand taxation law, the Issuer is required to deduct New Zealand non-resident withholding tax at the applicable rate in the case of any payments of interest to a holder of a Note, Receipt or Coupon who is not resident in New Zealand for income tax purposes and not carrying on business in New Zealand through a fixed establishment in New Zealand (a "New Zealand Non-Resident Holder"). The Issuer may, and intends to, relieve itself of such obligation by using a procedure which permits borrowers such as the Issuer to reduce

the applicable rate of non-resident withholding tax to zero per cent. That procedure involves the Issuer paying on its own account an approved issuer levy to the New Zealand revenue authorities (which is currently equal to 2 per cent. of such payments of interest). However, the approved issuer levy regime will not apply where a New Zealand Non-Resident Holder derives interest under such Note, Receipt or Coupon jointly with one or more persons, and one or more of those persons is resident in New Zealand for income tax purposes. In such circumstances, subject to any applicable double tax treaty, the rate of New Zealand non-resident withholding tax imposed on the New Zealand Non-Resident Holder will equate to the applicable rate of New Zealand resident withholding tax.

**New Zealand resident withholding tax:**

The Issuer is required by law to deduct New Zealand resident withholding tax from the payment of interest to the holder of any Note, Receipt or Coupon, if:

- (a) such holder is a resident of New Zealand for income tax purposes or otherwise is a person the payment of interest to whom will be subject to New Zealand resident withholding tax (a "New Zealand Holder"); and
- (b) at the time of such payment the New Zealand Holder does not hold a valid RWT exemption certificate (as that term is defined in the New Zealand Income Tax Act 2007) for New Zealand resident withholding tax purposes.

Prior to any Interest Payment Date or the Maturity Date, a New Zealand Holder:

- (a) must notify the Issuer, the Issuing and Paying Agent or a Paying Agent (i) that the New Zealand Holder is the holder of a Note, Receipt or Coupon and (ii) whether it derives beneficially interest under a Note, Receipt or Coupon jointly with any other person; and
- (b) must notify the Issuer, the Issuing and Paying Agent or a Paying Agent of any circumstances, and provide the Issuer or the relevant Paying Agent with its New Zealand tax file number and any information (including a copy of a valid RWT exemption certificate), that may enable the Issuer to make the payment of interest to the New Zealand Holder without deduction on account of New Zealand resident withholding tax.

The New Zealand Holder must notify the Issuer, prior to any Interest Payment Date or the Maturity Date, of any change in the New Zealand Holder's circumstances from those previously notified that could affect the Issuer's payment obligations in respect of any Note, Receipt or Coupon. By accepting payment of the full face amount of a Note, Receipt or Coupon (including a Note, Receipt or Coupon under which a person, who is a New Zealand Non-Resident Holder, derives beneficially interest jointly with one or more persons, and one or more of those persons is a resident of New Zealand for income tax purposes) or any interest thereon on any Interest Payment Date or the Maturity Date, a New Zealand Holder agrees to indemnify the Issuer for all purposes in respect of any liability the Issuer may incur for not deducting any amount from such payment on account of New Zealand resident withholding tax and (in the case of a Note, Receipt or Coupon under which a resident of New Zealand for income tax purposes derives beneficially interest jointly with one or more New Zealand Non-Resident Holders) New Zealand non-resident withholding tax applicable to such New Zealand Non-Resident Holder.

Whilst the Notes are held in Euroclear or Clearstream, Luxembourg, or any other clearing system, neither Euroclear, Clearstream, Luxembourg nor any such other clearing system nor any depository for any clearing system as a holder of the Notes shall be responsible to the Issuer, the Registrar, any Paying Agent, its account holders credited with such Notes (nor shall be required to enquire as to the identity of any such account holders) or any other person with regard to the collection or preparation of certificates, or otherwise in connection with this Condition 7.

## **8 Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

## **9 Events of Default**

If any of the following events (“Events of Default”) occurs:

- (a) Non-Payment: default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) Breach of Other Obligations: the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not, in the opinion of the Trustee, remedied within 90 days after notice of such default shall have been given to the Issuer by the Trustee at its specified office by any Noteholder; or
- (c) Cross-Default: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds NZ\$10,000,000 or its equivalent in any other currency; or
- (d) Enforcement Proceedings: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries for an amount exceeding in aggregate NZ\$10,000,000 or its equivalent in any other currency and is not discharged or stayed within 90 days; or
- (e) Security Enforced: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries over all or a material part of their respective assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the same is not removed or discharged or contested in good faith by appropriate proceedings within 14 days; or
- (f) Insolvency: any of the Issuer or its Subsidiaries is (or is deemed or presumed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, commences negotiations for or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (g) Dissolution: an order is made or an effective resolution passed for the liquidation or dissolution of the Issuer or any of its Subsidiaries or the Issuer or any of its Subsidiaries ceases or through an official action of its board of directors threaten in writing to cease

to carry on all or a substantial part of its business or operations, in each case except (1) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are distributed or transferred to or otherwise vested in the Issuer or another of its Subsidiaries or (2) with the approval of the Trustee or by an Extraordinary Resolution of the Noteholders; or

- (h) Authorisation and Consents: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of New Zealand is not taken, fulfilled or done; or
- (i) Illegality: it is unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed; or
- (j) Analogous Events: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

then, provided the Event(s) of Default have not been remedied, the Trustee at its discretion may in respect of the Notes, and if so requested in writing by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Notes shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable, provided that in the case of paragraphs (b) and (d) to (g) and, in the case of Subsidiaries only, paragraphs (c) and (j), the Trustee shall have certified to the Issuer and the Noteholders that in its opinion such event is materially prejudicial to the interests of the Noteholders.

In relation to Subordinated Notes, this Condition 9 or parts thereof, may be disapplied and/or amended in the relevant Final Terms.

## **10 Meetings of Noteholders and Modifications**

### ***(a) Meetings of Noteholders:***

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Notes (including these Conditions insofar as the same may apply to such Notes or any provision of the Trust Deed). Such a meeting may be convened by the Issuer or the Trustee, and the Trustee (subject to being indemnified to its satisfaction against all costs and expenses thereby occasioned) shall upon written request of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding convene a meeting. The quorum for any meeting to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons holding or representing holders of Notes whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest thereon, (ii) to reduce or cancel the nominal amount or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the Interest Amount in respect thereof, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such

Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps which as specified in the Conditions may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, or (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present or represented at the meeting at which such resolution was passed) and on all Couponholders (if any).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

***(b) Modification and Waiver:***

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interest of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

***(c) Substitution:***

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business in place of the Issuer or any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, subject to the provisions of the Trust Deed, to a change of the law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

***(d) Entitlement of the Trustee:***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 10) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders.

**11 Replacement of Notes, Receipts, Coupons and Talons**

If a Note, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange regulations, at the specified office of the Paying Agent in London on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note,

Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

## **13 Notices**

Notices to the Noteholders will be valid if published in a leading national newspaper of general circulation in London (which is expected to be the Financial Times). If, in the opinion of the Trustee, any such publication is not practicable, notice will be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the Noteholders in accordance with this Condition.

## **14 Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified by the relevant Noteholders and/or secured and/or prefunded to its satisfaction against all proceedings, claims and demands to which it may be liable and against all costs, charges, liabilities and expenses which may be incurred by it in connection with such enforcement, including the cost of its management's time and/or other internal resources, calculated using its normal hourly rates in force from time to time. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## **15 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

## **16 Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount

received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

## **17 Governing Law and Jurisdiction**

### **(a) Governing Law:**

The Notes, the Receipts, the Coupons, the Talons and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### **(b) Jurisdiction:**

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England.

### **(c) Service of Process:**

The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer).

### **(d) Contracts (Rights of Third Parties) Act 1999:**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### Initial Issue of Notes

Upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes which are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes which are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note in respect of each amount so paid.

### Exchange

1. *Temporary Global Notes.* Each temporary Global Note will be exchangeable on or after its Exchange Date free of charge to the holder:
  - (i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “Overview of the Programme – Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and
  - (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes (as defined in “Delivery of Notes” below).
2. *Permanent Global Notes.* Each permanent Global Note will be exchangeable on or after its Exchange Date in whole and, for so long as such permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, in part for Definitive Notes free of charge to the holder if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (as defined in “Notices” below) and any of Euroclear or Clearstream, Luxembourg or such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3. *Partial Exchange.* For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable for Definitive Notes in part on one or more occasions if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.
4. *Delivery of Notes.* On or after any Exchange Date the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note which is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. In this Prospectus, "Definitive Notes" means, in relation to any Global Note, the definitive Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts which have not already been paid on the Global Note and a Talon), security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in Schedule 2 to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.
5. *Exchange Date.* "Exchange Date" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

### **Amendment to Conditions**

The temporary Global Notes and permanent Global Notes contain provisions which apply to the Notes which they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of the material provisions:

1. *Payments.* No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership. All payments in respect of Notes represented by a Global Note will be made to, or to the order of, its holder against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global

Note, of which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 6(d)(v) and Condition 7(e) will apply to the Definitive Notes only.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 6(g) (Non-Business Days).

2. *Prescription.* Claims against the Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).
3. *Meetings.* For the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a temporary or permanent Global Note shall be treated as having one vote in respect of each integral currency unit of Specified Currency of the Notes.
4. *Cancellation:* Cancellation of any Note represented by a permanent Global Note which is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant nominal Global Note.
5. *Purchase:* Notes represented by a permanent Global Note may only be purchased by the Issuer or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.
6. *Issuer's Option:* Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders (subject to paragraph 9 below) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).
7. *Noteholders' Options:* Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation.
8. *Trustee's Powers:* In considering the interests of Noteholders while any Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note.

9. *Notices:* So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

### **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. For so long as any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). In the event that any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may be entitled to forfeit such Notes and shall not have any further obligation to their holder in respect of them.

## **USE OF PROCEEDS**

Proceeds from issues of Notes will be used primarily for general working capital requirements, capital expenditure requirements, and to refinance existing indebtedness of the Transpower Group.

## TRANSPower NEW ZEALAND LIMITED

### Description

The Issuer is a state-owned enterprise ("SOE") as defined in the State-Owned Enterprises Act 1986 ("SOE Act") and is 100% owned by Her Majesty the Queen in right of New Zealand (the "Crown"). Crown ownership is exercised through two shareholding ministers, the Minister for State-Owned Enterprises and the Minister of Finance, who appoint the Issuer's Board of Directors. The Crown does not guarantee any of the obligations of the Issuer or the other members of the Transpower Group.

Pursuant to the SOE Act, the Issuer's Board of Directors is required annually to prepare a Statement of Corporate Intent setting out, for the next three years, the Issuer's objectives, the nature and scope of its activities to be performed and certain financial and accounting related information.

The principal objective of the Issuer, in common with other SOEs, is to operate as a successful business and, to this end, be as profitable and efficient as comparable businesses that are not owned by the Crown, be a good employer and be an organisation that exhibits a sense of social responsibility.

In addition to being an SOE, the Issuer is a limited liability company incorporated under the laws of New Zealand. The Issuer was incorporated on 9 March 1988 under the Companies Act 1955 and was reregistered under the Companies Act 1993 ("Companies Act") on 2 October 1996. Its registration number is 372941.

The registered office of Transpower New Zealand Limited is Level 7, Transpower House, 96 The Terrace, Wellington, New Zealand. The telephone number is +64 4 495-7000.

### Subsidiaries

As at the date of this Prospectus, the Transpower Group, of which the Issuer is the parent company, consists of the following subsidiaries:

<b>Subsidiaries<sup>(1)</sup></b>	<b>30 June 2011 Holding</b>
Transpower Finance Limited.....	100%
TB and T Limited.....	100%
Risk Reinsurance Limited.....	100%
Halfway Bush Finance Limited.....	100%
d-cyphaTrade Limited <sup>(2)</sup> .....	100%

Notes:

<sup>(1)</sup> NZ Power Cayman 2003-1 Limited ("NZ Power") is wholly owned by Genesis (Capital) Limited and is not owned by any member of the Transpower Group. As discussed on Page 52 below, it is consolidated into the Transpower Group for financial reporting purposes only.

<sup>(2)</sup> Energy Market Services Limited was established in 1998, and changed its name to d-cyphaTrade Limited on 1 August 2007. Its principal activity is the promotion of exchange traded electricity derivatives in Australia.

Apart from Risk Reinsurance Limited (which is incorporated in the Cayman Islands), all subsidiaries are incorporated in New Zealand under the Companies Act. All subsidiaries are direct subsidiaries of the Issuer and are limited liability companies.

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

Risk Reinsurance Limited provides insurance services to the Transpower Group and d-cyphaTrade Limited promotes exchange-traded electricity derivatives in Australia.

All debt financing prior to 2011 was undertaken by Transpower Finance Limited. However, consistent with a strategy to simplify the group's corporate structure and the structure of its debt documentation, future borrowing is intended to be undertaken by Transpower.

NZ Power Cayman 2003-1 Limited (a Cayman Island company), which was established specifically in connection with a now largely terminated cross-border lease transaction, is wholly owned by Genesis (Capital) Limited (a Cayman Island company) and is not owned by any member of the Transpower Group. NZ Power Cayman 2003-1 Limited is consolidated into the Transpower Group as it is a subsidiary for financial reporting purposes.

None of the subsidiaries of the Issuer guarantees the obligations of the Issuer in respect of the Notes.

## **Business Description**

The Issuer plays two complementary roles central to the operation and development of New Zealand's electricity power system. It is the owner and the operator of the high voltage electricity transmission system ("National Grid") and the provider of co-ordination and security (System Operator) functions for the power system.

The National Grid – which is the physical link between generators, distributors<sup>1</sup> and direct connect customers – consists of more than 11,800 km of high voltage alternating current ("HVAC") transmission lines and a high voltage direct current ("HVDC") link which crosses the Cook Strait by submarine power cables, linking the South Island and the North Island electricity systems. The cables are crucial to New Zealand's electricity supply, primarily transferring electricity northward, although they also have the capability to transfer electricity southward.

The Issuer is also the System Operator, responsible for the real-time co-ordination of supply and demand for the New Zealand power system. The Issuer signed a contract for System Operator services with the Electricity Authority, which commenced on 1 July 2009 and is for a minimum five year period.

## **Competition**

The Issuer is the owner of New Zealand's only national high voltage electricity transmission system. Due to the high entry cost that would face any potential competitor, the substantial economies of scale exhibited by transmission assets and the integrated nature of the National Grid, the Issuer's position in the electricity industry, as a monopoly transmission asset owner, is unlikely to change materially in the reasonably foreseeable future.

## **Regulatory Framework**

The Issuer is required to operate within the Commerce Commission's and the Electricity Authority's regulatory frameworks. These are described in more detail below.

### *Commerce Commission ([www.comcom.govt.nz](http://www.comcom.govt.nz))*

The Commerce Commission is the New Zealand regulatory authority responsible for the supervision and administration of general competition law set out in the Commerce Act 1986, and has been granted certain specific functions relating to electricity utilities. The Commerce Commission also enforces a number of pieces of legislation that, through regulation, aim to provide the benefits of competition in markets where effective competition does not exist; these include the telecommunications, dairy, electricity, gas pipelines and airport markets. The Commerce Commission administers a price/revenue control regime applying to electricity transmission and distribution businesses.

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<sup>1</sup> Also known as "distribution network service providers", "electricity distribution businesses" and "lines companies".

The Commerce Commission is an independent Crown entity established under the Commerce Act. The Commerce Commission is not subject to direction from the Government when carrying out its enforcement and regulatory control activities, although it must have regard to Government economic policy statements. Its purpose is to promote economic efficiency in competitive and regulated markets for the long term benefit of New Zealanders.

The Commerce Commission regulates the Issuer's revenue and service standards. This regulation is designed to allow the Issuer to earn an economic return on its investments but to restrict the Issuer's ability to extract monopoly profits. Since 1 November 2010, the Commerce Commission has also assumed responsibility for approving all of the Issuer's capital expenditure. Prior to this date, the Issuer's major capital expenditure proposals were approved by the former Electricity Commission.

Since 1 April 2011, the Issuer has been subject to individual price-quality regulation under subpart 7 of Part 4 of the Commerce Act. There are currently two Commerce Commission determinations under Part 4 of the Commerce Act applying to the Issuer: the Commerce Act (Transpower Input Methodologies) Determination 2010 ("IM Determination") and the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 ("IPP Determination"). These determinations govern the Issuer's costs of capital, asset valuation, the allocation of costs between different business functions, the treatment of taxation, quality standards, annual compliance monitoring and information requirements and in what circumstances any individual price-quality path may be reconsidered. The terms of an incremental rolling incentive scheme for operating expenditure are also specified. These determinations can be viewed on-line at [www.comcom.govt.nz](http://www.comcom.govt.nz).

Important features of the individual price-quality path regulatory framework for electricity transmission are:

- the Issuer's maximum allowable revenue for each year of each regulatory control period ("RCP") is calculated using a building blocks approach incorporating a WACC-based capital charge, operating expenditure, tax, depreciation and other adjustments;
- RCP1 is four years (expiring 31 March 2015) and RCP2 will be five years (expiring 31 March 2020). RCPs cannot be longer than five years or shorter than four years;
- capital projects are divided into minor and major categories. For the first year of RCP1 (1 April 2011 to 31 March 2012) the threshold between the major and minor categories will be NZ\$1.5 million. For all subsequent years of RCP1, commencing 1 April 2012, the Commerce Commission has determined that the threshold will be NZ\$5 million, although this could be amended by the Issuer's capital expenditure input methodology to be determined by the Commerce Commission by 1 February 2012. The level of approved minor capital expenditure for the first year of RCP1 is NZ\$208.6 million;
- major capital expenditure projects are subject to individual approval, and substitution of approved amounts between different projects is not allowed;
- full substitution within the minor project category is allowed, including between years within a given RCP, except the 2011/2012 year, to which a number of transitional provisions apply;
- the Commerce Commission will undertake full prior reviews of the Issuer's proposed operating expenditure and minor capital expenditure prior to the start of each RCP. The reviews are designed to approve a level of efficient expenditure for each year of the RCP, to be included when calculating its maximum allowable revenue, and against which compliance will be assessed;

- the present HVAC economic value account balance of NZ\$82.4 million must be returned to customers, and the present HVDC economic value account balance of NZ\$106.7 million must be recovered from customers, by the end of RCP2 (31 March 2020); and
- the Issuer will be subject to a penalty / reward scheme that applies to the quality standards set by the Commerce Commission from the beginning of RCP2 (1 April 2015).

On 1 November 2011, the Commerce Commission announced the forecast maximum revenues that the Issuer is permitted to earn for the three year period commencing on 1 April 2012, namely NZ\$783.8 million for the year ending 31 March 2013, NZ\$906.4 million for the year ending 31 March 2014 and NZ\$958.9 million for the year ending 31 March 2015. The level of forecast maximum revenues determines the total amount that the Issuer can charge its transmission customers.

In accordance with section 54S of the Commerce Act, the Commerce Commission must determine an input methodology for the Issuer's capital expenditure proposals by no later than 1 November 2011 (but the Minister of Commerce may, on written request from the Commerce Commission, extend this deadline once by up to three months and such an extension is expected). Until this new input methodology comes into force, the Issuer's grid upgrade plan proposals will continue to be approved in accordance with the provisions of Part F of the former Electricity Governance Rules 2003, which continue in force solely for this purpose.

The IM Determination requires the Issuer to calculate its revenue using a post tax nominal weighted average cost of capital ("WACC") of 7.19%. The Issuer believes, based on advice from several independent experts, that this figure understates the Issuer's actual cost of capital. For this reason, the Issuer is seeking judicial review of the Commerce Commission's WACC determination and has also appealed the determination on its merits under section 52Z of the Commerce Act 1986 ("Commerce Act"). The judicial review hearing began on 10 October 2011. The merits appeal hearing, which will take place if the WACC determination is not declared unlawful through the judicial review, is currently scheduled for March 2012.

Every 0.1 per cent change to the allowable rate of return has approximately NZ\$3 million per annum impact on the Issuer's net profit after tax.

#### *Electricity Authority ([www.ea.govt.nz](http://www.ea.govt.nz))*

On 1 November 2010, the Electricity Industry Act 2010 ("Electricity Industry Act") created a new independent Crown entity, the Electricity Authority, to replace the former Electricity Commission and oversee the electricity sector. The Electricity Authority's objective is to promote competition in, reliable supply by, and the efficient operation of the electricity industry for the long term benefit of consumers.

Other changes that were introduced by the Electricity Industry Act include:

- transferring most of the provisions of the former Electricity Regulations 2003 and Electricity Governance Rules 2003 to a new Electricity Industry Participation Code 2010 ("Code") to be administered and amended by the Electricity Authority;
- streamlining the sector by transferring some functions of the former Electricity Commission to bodies other than the Electricity Authority, including:
  - transferring jurisdiction for approving the Issuer's grid investments to the Commerce Commission, and;
  - transferring responsibility for energy efficiency programmes to the Energy Efficiency and Conservation Authority; and

- placing greater responsibility on the Issuer (as System Operator) for emergency management and provision of information and forecasting on security of supply.

### ***Benchmark Agreement***

The benchmark agreement (“Benchmark Agreement”) is incorporated in the Code by reference and serves as a default transmission agreement between the Issuer and transmission customers when not superseded by particular agreements between the Issuer and individual transmission customers.

The Benchmark Agreement places obligations on the Issuer to make connection assets available to designated transmission customers at specified levels of capacity and service. The Benchmark Agreement ensures that the Issuer has revenue enforceability under the Code by referring to the transmission pricing methodology contained in Schedule 12.4 of the Code (“Transmission Pricing Methodology”). The Issuer’s liability under the Benchmark Agreements is capped at NZ\$5 million for any single event or related set of events, and NZ\$20 million in any twelve month period irrespective of the number of events. The Code also incorporates an “Outage Protocol” which goes some way to mitigating the risk of liability resulting from unplanned loss of supply events.

### ***Other Government Agencies***

Several other agencies have important roles in relation to the electricity sector:

- *Ministry of Economic Development (“MED”) (www.med.govt.nz)*: MED is the Government’s policy adviser for the energy sector, including the electricity sector. The Minister of Energy sets the Government Policy Statements which set out the Government’s expectations for policy in the energy sector.
- *Energy Efficiency and Conservation Authority (“EECA”) (www.eeca.govt.nz)*: EECA promotes energy efficiency, energy conservation and renewable energy.
- *Ministry of Consumer Affairs (“MCA”) (www.consumeraffairs.govt.nz)*: The MCA is part of the MED. The Electricity Authority is required to consult with the MCA on issues that affect small electricity consumers.
- *Ministry for the Environment (“ME”) (www.mfe.govt.nz)*: ME advises and assists the Minister for the Environment with his or her responsibilities under the Resource Management Act 1991. Existing and new parts of the National Grid need to meet the environmental requirements set out in this Act.

### **Outlook**

As a result of the IPP and IM Determinations, the form of the regulatory framework applying to the Issuer is now much more certain than in the past. In addition, the transfer of regulatory oversight of grid investment to the Commerce Commission has, appropriately, placed accountability for the economic regulation of the Issuer under a single, independent regulatory agency (although some areas of policy overlap remain – for example, the Electricity Authority retains responsibility for the grid reliability standards, which approved grid investments must satisfy).

The Benchmark Agreement, Transmission Pricing Methodology and related provisions of Part 12 of the Code provide for the legal enforceability of the Issuer’s transmission charges, provided they are calculated in accordance with the methodology. Those of the Issuer’s customers which formerly had no clearly enforceable contracts with the Issuer for the provision of transmission services (i.e. the majority of its customers) now have legally enforceable transmission agreements with the Issuer based on the Benchmark Agreement.

## **Planned Grid Investment Projects**

### *Reinforcing the Grid*

The Issuer has embarked on a significant investment programme, both building new capacity and refurbishing and replacing its aging asset base. Current projections are to spend approximately NZ\$5 billion over the next decade to ensure the grid continues to provide a secure platform for New Zealand's growth, with over NZ\$3 billion of that expected to be spent in the next five years.

During 2010/11, capital expenditure (excluding North Island Grid Upgrade Project ("NIGUP") land purchases) was NZ\$733 million (2009/10: NZ\$533 million), compared with a plan of NZ\$724 million. Capital investment is likely to peak in 2011/12 at around NZ\$870 million. A summary of the Issuer's largest grid upgrade projects is provided below.

There are three key major grid enhancement upgrade projects currently underway (in addition to many smaller projects), requiring approximately NZ\$2 billion of the aforementioned capital expenditure, to ensure security of supply, as follows:

- The NZ\$824 million NIGUP – providing a more secure and diverse supply into the Auckland region (with scheduled completion by September 2012);
- The NZ\$473 million North Auckland and Northland Project ("NAaN") – reinforcing security of supply through Auckland to Northland (commissioning in mid 2013); and
- The NZ\$672 million HVDC Inter-Island Link Pole 3 (commissioning of Stage 1 in December 2012).

In addition to the major build and refurbishment programmes underway, a number of new technology platforms are being implemented that will allow more intelligent future operation of the transmission grid. The benefits include greater ability to monitor and operate grid equipment remotely and improved utilisation of existing transmission assets.

## **Major Projects**

### ***North Island Grid Upgrade Project***

The NIGUP is one of the largest transmission projects ever undertaken in New Zealand. It is vitally important to meet the growing electricity demand in the upper North Island.

The key components of the NIGUP are:

- a new 186 km overhead transmission line between Whakamaru and Brownhill Road in southeast Auckland capable of 400 kV but initially operated at 220 kV;
- new 220 kV underground cables connecting from Brownhill Road to Pakuranga substation and, at a later date, additional cables to Otahuhu substation;
- a new substation at Brownhill Road to connect the overhead lines to the underground cables;
- a new substation at Whakamaru, 800 metres north of the existing substation;
- dismantling the 110 kV Arapuni-Pakuranga ("ARI-PAK A") overhead transmission line; and
- a new 220 kV substation at the existing Pakuranga substation site.

Construction work began in February 2010. The first towers were erected in April 2010 with commissioning expected in September 2012.

The Issuer, as part of the NIGUP, has purchased approximately NZ\$210 million of properties along the line route. The majority of the properties were purchased to enable easements to be placed over the property. Following the registration of easements, the properties are being resold progressively.

Due to a downturn in the economy and the property market specifically, the Issuer is likely to sustain a loss on the sale of these property holdings and has sustained a loss on those sold to date. In the year to 30 June 2011, an impairment of NZ\$19.7 million has been made in relation to these properties. This is additional to the impairment of NZ\$30 million made in the year ended 30 June 2010.

The value of property held at 30 June 2011 along this route is approximately NZ\$100 million. This is net of the impairments and the easements and related costs which have been transferred to the NIGUP project. The impairments have not been charged to the project and are not recoverable from customers.

#### ***North Auckland and Northland Project***

The Issuer is carrying out a project to reinforce its transmission network through Auckland and into North Auckland by installing a 220 kV underground cable connection between Pakuranga and Penrose and between Penrose and Albany, as well as association substation equipment.

The new cable link will provide an alternate electricity supply route to North Auckland and Northland, which presently relies on just one double circuit high capacity line between Otahuhu and Henderson for most of its power needs.

#### ***HVDC Inter-Island Link Project (Pole 3)***

The Issuer is constructing and installing new AC/DC converter equipment at Benmore (South Island) and Haywards (North Island) substations to replace obsolete plant and to support an increase in the capacity of the HVDC inter-island link.

The new converter equipment, known as Pole 3, will replace the 45-year old Pole 1 equipment at both substations with state of the art thyristor valve units, which are similar to the existing Pole 2. The HVDC Pole 3 project, costing NZ\$672 million, will be completed in two stages resulting in an increase in the capacity of the overall HVDC link to 1,000 MW from 2012 and 1,200 MW from 2014. Pole 3 will operate alongside Pole 2, commissioned in 1992, and will use the existing undersea cables and overland DC transmission line linking Benmore and Haywards. The major contract for the new pole has been awarded, and construction is underway.

Commissioning is scheduled in December 2012. The Issuer's engineers have managed to extend the availability of Pole 1 for northbound transfer and Pole 1 is expected to continue to be available to support Pole 2 in this limited mode until July 2012, when it will be decommissioned as part of the project.

#### ***Wairakei to Whakamaru Replacement Transmission Line Project***

The Issuer is carrying out a project to build a new double circuit 220 kV transmission line between Wairakei and Whakamaru to connect new generation being built in the area. This project will involve 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 1,000 MW of new renewable geothermal generation expected in the central North Island over the next 5 to 7 years.

### *Lower South Island Development and Other Projects*

The Issuer is investigating options, with costs ranging up to NZ\$170 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. In parallel, the Lower South Island Reliability Project is examining options for increasing transmission capacity south of Roxburgh, to meet increasing demand on the 110 kV regional network.

Many smaller upgrade projects are also underway to improve the capability and reliability of existing grid assets, and to meet growing load requirements. More than 50 other smaller projects are underway.

For more information on the Issuer's existing and future investment in the National Grid go to [www.gridnewzealand.co.nz](http://www.gridnewzealand.co.nz).

### **Debt Maturity**

The profile of debt maturities (as at 30 June 2011)<sup>(1)</sup> for the Transpower Group is:

	<b>NZ\$ millions</b>
Short-Term Debt .....	256.8
Current Portion of Non-current Debt.....	236.7
NZ Power Non-current Debt .....	103.9
Non-current Debt.....	1,315.4
Total.....	<u>1,912.8</u>

Note:

<sup>(1)</sup> These figures have been extracted without material adjustment from the audited financial statements of the Transpower Group for the twelve months ended 30 June 2011.

### *Capital Structure*

On 5 July 2011, the Board of Directors of the Issuer ("Board") advised that it had completed a review of its dividend policy.

The review assessed a range of factors, key among them being the highly regulated nature of the Issuer's revenue and cash flows, and its current capital structure. The review concluded that the Issuer's ongoing capital expenditure program can continue to be funded prudently, while at the same time recommencing dividend payments to the Crown from 2011/2012 financial year.

Under the Issuer's dividend policy, funds surplus to the Issuer's financing and operating requirements will be distributed annually to the Issuer's shareholders. The level of surplus funds will be determined by having regard to: a sustainable financial structure, with a focus on funds from operations/interest coverage group capital expenditure and working capital requirements, economic regulation and forecast macroeconomic conditions.

Subject to the above considerations, target distribution over time is expected to average between 65% and 75% of free cash flow, after deduction of replacement and refurbishment capital expenditure.

Previously, the Issuer had signalled that no dividend payments would be made before the 2012/2013 financial year.

## Management and Employees

Transpower is currently structured into eight groups, each headed by a General Manager who reports to the Chief Executive. The groups are:

- Corporate Affairs
- Corporate Services
- Grid Development
- Grid Performance
- Grid Projects
- Information Services and Technology
- People and Performance
- System Operations

As at 14 September 2011, Transpower had approximately 700 employees.

### Directors

<b>Director</b>	<b>Position</b>	<b>Other important positions held externally</b>
Ian Fraser	Director	New Zealand Social Infrastructure Fund Limited
	Consultant	Beca Projects Limited
Abigail Foote	Director	Stevenson Group Limited
	Commissioner	New Zealand Gambling Commission
Michael Pohio	Chief Executive	Tainui Group Holdings Limited and Four Subsidiaries
	Officer	
Mark Verbiest	Director	NZL Group Limited
	Director	AMP NZ Office Limited
	Director	Freightways Limited
	Chairman (Designate)	Telecom Corporation of New Zealand Limited
	Director	Government Superannuation Fund Authority
	Director	Financial Markets Authority
	Director	Southern Cross Medical Care Society (and related companies)
Maury Leyland	Chairman	Willis Bond Capital Partners Limited (and Director of related companies)
	Trustee	Southern Cross Health Trust
	Consultant	Simpson Grierson
	Consultant	New Zealand Treasury
Don Huse	Employee	Fonterra Co-operative Group Limited
	Director (Designate)	Telecom Corporation of New Zealand Limited
Keith Tempest	Director	AMP NZ Office Limited
	Director	Cavalier Corporation Limited
	Director	OTPP New Zealand Forest Investments Limited (and related companies)
Keith Tempest	Director	Sydney Airport Corporation Limited (and related companies)
	Trustee	Karori Sanctuary Trust
	Trustee	South Auckland Health Foundation
Keith Tempest	Director	Port of Tauranga Limited

<b>Directors</b>		
<b>Director</b>	<b>Position</b>	<b>Other important positions held externally</b>
Alastair Scott	Director	Crown Fibre Holdings Limited
	Director	New Zealand Bus Limited
	Director	Ultrafast Broadband Limited
	Director	GAP Business Solutions Limited
	Chairman	Crown Health Financing Authority
	Director	Matahiwi Vineyard Limited
	Director	Henergy Cage-Free Limited
	Member	Massey University Council

The business address of each of the directors is Transpower House, 96 The Terrace, P.O. Box 1021, Wellington, New Zealand.

The telephone number is +64 4 495-7000.

There are no potential conflicts of interest between the duties to Transpower of the persons named above and their private interests or duties. The Board of Directors of Transpower has established procedures for managing any conflicts of interest that may arise between the directors' duties to Transpower and their external positions, including those listed above.

#### **Directors' Shares**

No Directors hold any interest in shares of Transpower.

#### **Directors' Loans**

There were no loans by the Transpower Group to Directors.

#### **Legal Proceedings**

The following provides a brief description of the legal proceedings or arbitrations against the Issuer pending as at the date of this Prospectus.

#### **Cost of Capital Appeal**

The IM Determination requires the Issuer to calculate its revenue using a post tax nominal WACC of 7.19%.

The Issuer is seeking judicial review of the Commerce Commission's WACC determination and has also appealed the determination on its merits under section 52Z of the Commerce Act. The judicial review hearing began on 10 October 2011. The merits appeal hearing, which will take place if the WACC determination is not declared unlawful through the judicial review is currently scheduled for March 2012.

No other material legal proceedings or arbitrations against Transpower were pending at the date of this Prospectus.

#### **Material Contracts**

Except as disclosed elsewhere in this Prospectus, no contracts have been entered into that are material to the Issuer's ability to meet their obligations to Noteholders, in respect of the Notes being issued.

## **Other Material Matters**

### **HVDC Reserve Charges**

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 the Issuer, as the link's owner, a major share of the costs of the reserves that it must procure for that island for that period.

The IM Determination published on 22 December 2010 defines (as from 1 July 2011) instantaneous reserves availability charges as recoverable costs except when such charges are incurred as a result of the HVDC link being out of service for more than 14 days. In these situations, unrecoverable instantaneous reserves availability charges are limited to 1% of Transpower's total forecast maximum allowed revenue for the year in which the event causing the HVDC link to be out of service commenced. It is expected that when Pole 3 is commissioned in 2012, instantaneous reserves availability costs attributed to the HVDC link will reduce significantly, because of the ability of each pole to cover the risk presented by the other.

Transpower continues to be exposed to the risk of under-frequency event charges, when the HVDC link is deemed to be the cause of an under-frequency event. An under-frequency event is an aggregate loss of injection of electricity in excess of 60MW that causes the frequency on the grid, or any part of the grid, to fall below 49.25HZ. Event charges are defined by the IPP Determination to be operating expenditure. The Commerce Commission has approved NZ\$800,000 per annum for event charges as part of Transpower's approved operating expenditure. Transpower intends to capitalise any event charges associated with the commissioning of Pole 3 of the HVDC link as part of the cost of the project.

### **Cross Border Lease**

The Issuer has largely terminated a cross border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result, the majority of the risks associated with the cross border lease have now been eliminated. The principal risk remaining relates to the credit risk on UBS AG, London Branch ("UBS AG"). The Issuer effectively guarantees a deposit with UBS AG (with a principal amount of approximately US\$75 million), and has an obligation to replace the deposit with UBS AG with a deposit with another entity, if UBS AG's credit rating from Standard & Poor's falls below A- or its credit rating from Moody's falls below A3. UBS AG is currently rated A+ by Standard & Poor's and Aa3 by Moody's.

## NEW ZEALAND TAXATION

A deduction on account of New Zealand resident withholding tax will be made from the payment of interest (as defined in Condition 7) under a Note, Receipt or Coupon to a person if:

- (a) such person is a resident of New Zealand for income tax purposes or is otherwise a person, the payment of interest (as defined in Condition 7) to whom will be subject to New Zealand resident withholding tax (a "New Zealand Holder"); and
- (b) at the time of such payment, the New Zealand Holder does not hold a valid RWT exemption certificate for New Zealand resident withholding tax purposes.

Prior to any interest payment date or the maturity date of any of the Notes, any New Zealand Holder, as required under the Conditions:

- (a) must notify the Issuer, the Issuing and Paying Agent or a Paying Agent (i) that the person is a New Zealand Holder in relation to a Note, Receipt or Coupon and (ii) whether it derives beneficially interest under a Note, Receipt or Coupon jointly with any other person; and
- (b) must notify the Issuer, the Issuing and Paying Agent or a Paying Agent of any circumstances, and provide the Issuer, the Issuing and Paying Agent or a Paying Agent with its New Zealand tax file number and any information (including a copy of a valid RWT exemption certificate) that may enable the Issuer to make the payment of interest to the New Zealand Holder without deduction on account of New Zealand resident withholding tax.

The New Zealand Holder must notify the Issuer, prior to any interest payment date or the maturity date of Notes of any change in the New Zealand Holder's circumstances from those previously notified that could affect the Issuer's withholding, deduction or payment obligations in respect of a Note, Receipt or Coupon.

Under the terms of the Notes, the Issuer is not obliged to make any additional payments where a deduction on account of New Zealand resident withholding tax is made or required.

Although New Zealand law requires a deduction on account of non-resident withholding tax to be made from the payment of interest under a Note, Receipt or Coupon to a person who is not resident in New Zealand for income tax purposes and not carrying on business in New Zealand through a fixed establishment in New Zealand (a "non-New Zealand Holder"), the Issuer intends (for so long as they do not incur any increased cost or detriment from so doing) to reduce the applicable rate of non-resident withholding tax to zero per cent. by registering the Programme with the New Zealand Inland Revenue Department and paying, on their own account, an approved issuer levy which is currently equal to 2 per cent. of the relevant interest payment.

Where a person who is a non-New Zealand Holder, derives interest under a Note, Receipt or Coupon jointly with one or more persons, and one or more of those persons is resident in New Zealand for income tax purposes, the approved issuer levy regime will not apply to the non-New Zealand Holder and (subject to any applicable double tax treaty) the New Zealand non-resident withholding tax imposed will equate to the applicable rate of New Zealand resident withholding tax. Under the terms of the Notes, the Issuer is not obliged to make any additional payments to such non-New Zealand Holders where a deduction on account of New Zealand non-resident withholding tax is made.

Pursuant to the terms of the Notes, by accepting payment of the full face amount of any Note, Receipt or Coupon or any interest thereon on its maturity date or any interest payment date, a New Zealand Holder agrees to indemnify the Issuer for all purposes in respect of any liability that the Issuer may incur for not deducting any amount from such payment on account of New Zealand resident withholding tax and (in the case of a Note, Receipt or Coupon under which a person, who is a non-New Zealand Holder, derives beneficially interest jointly with one or more persons, and one or more of those persons is resident in New Zealand) New Zealand non-resident withholding tax applicable to such non-resident person.

Neither the Issuer or any of the Dealers makes any comment about the treatment for taxation purposes of payments or receipts in respect of the Notes. Each investor contemplating acquiring Notes under the Programme is advised to consult a professional adviser in connection with the consequences (including the withholding tax consequences) relating to the acquisition, retention and disposition of Notes.

## **UNITED KINGDOM TAXATION**

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and Her Majesty's Revenue and Customs ("HMRC") practice and are not intended to be exhaustive. They assume that the Issuer is not resident in the United Kingdom and that it does not act through a permanent establishment in the United Kingdom in relation to the Notes. Noteholders and investors contemplating acquiring Notes under the Programme are advised to consult a professional adviser in connection with the consequences relating to the acquisition, retention and disposal of Notes.

### **Interest on the Notes**

On the basis that interest on the Notes is not expected to have a United Kingdom source, there should be no United Kingdom withholding tax in respect of payments of interest on the Notes.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on the redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HMRC regarding the identity of the payee or person entitled to the interest or other amounts and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of such Notes HMRC published practice indicates that HMRC will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2012.

### **EU Directive on the Taxation of Savings Income**

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to (or for the benefit of) an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other similar income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## **SUBSCRIPTION AND SALE**

### **Summary of Dealer Agreement**

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 2 November 2011 (as supplemented and amended from time to time) (the "Dealer Agreement") between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers which are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of the Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of, and continuing responsibilities relating to, the Programme and the Dealers for certain of their activities in connection with the Programme. The commission in respect of Notes issued on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes and the Dealers have agreed to indemnify the Issuer against certain losses arising from a Dealer failing to subscribe and pay for any Notes after agreeing to subscribe and pay for such Notes. The Dealer Agreement entitles the Dealers to terminate any agreement which they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### **Selling Restrictions**

#### **United States**

The Notes have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Issuing and Paying Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on

offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each issuance of index, commodity or currency-linked Notes will be subject to such additional U.S. selling restrictions as the Relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or subscription of such Notes. Each Relevant Dealer has agreed that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure

in each Relevant Member State, the expression “2010 PD Amending Directive” means Directive 2010/73/EU and the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

### **United Kingdom**

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) in relation to any Notes which have a maturity of less than one year from the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21 (1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **New Zealand**

Each Dealer has represented and agreed that the Notes, Receipts, Talons or Coupons may not be offered, sold or delivered, directly or indirectly nor may any offering memorandum, any Final Terms or advertisement in relation to any offer of Notes, Receipts, Talons or Coupons be distributed in New Zealand, other than:

- (a) to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money, or who in all the circumstances can properly be regarded as having been selected other than as members of the public; or
- (b) in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand.

In addition, each Dealer has represented and agreed that the Notes, Receipts, Talons or Coupons may not be offered or sold to persons to whom any amounts payable on the Notes, Receipts, Talons or Coupons are or would be subject to New Zealand resident withholding tax, unless such persons certify that they hold a valid RWT exemption certificate for New Zealand resident withholding tax purposes and provide a New Zealand tax file number to the seller (in which event the seller shall provide details thereof to the Issuer or to the Issuing and Paying Agent or the Trustee).

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “Financial Instruments and Exchange Act”). Accordingly, each of the Dealers has represented and agreed and each further Dealer appointed under the Programme will be required to agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **General**

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

[Date]

**TRANSPOWER NEW ZEALAND LIMITED**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**  
**under the U.S.\$1,000,000,000**  
**Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the Prospectus dated 2 November [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [website] [and] during normal business hours at [address] and copies may be obtained from [address].]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated [current date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]] which together constitute[s] a base prospectus for the purposes of the Prospectus Directive. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [website] [and] during normal business hours at [address] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |   |                      |  |
|---|----------------------|--|
| 1 | Issuer:              | [Transpower New Zealand Limited]   |
| 2 | (i) Series Number:   | [●]  |
|   | (ii) Tranche Number: | [●]<br><i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |

- 3 Specified Currency or Currencies: [●]
- 4 Aggregate Nominal Amount:
- (i) Series: [●]
- (ii) Tranche: [●]
- 5 (i) Issue Price of Tranche: [●] per cent, of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*] (*if applicable*)
- (ii) Net Proceeds: [●]
- (Required only for listed issues)
- 6 (i) Specified Denominations: [●]<sup>1</sup>  
*(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)*
- (ii) Calculation Amount: [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●]
- 8 Maturity Date: *[Fixed rate – specify date]*
- Floating rate – Interest Payment Date falling in or nearest to*
- [specify month and year]*
- 9 Interest Basis: *[[●] per cent. Fixed Rate]*
- [[specify reference rate] +/- [●] per cent. Floating Rate]*  
*[Zero Coupon]*  
*[Index Linked Interest]*  
*[specify other]*  
*(further particulars specified below)*
- 10 Redemption/Payment Basis: *[Redemption at par]*  
*[Index Linked Redemption]*  
*[Dual Currency Redemption]*  
*[Partly Paid]*  
*[Instalment]*  
*[specify other]*

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<sup>1</sup> If the Notes must be redeemed before the first anniversary of their date of issue, the minimum denomination must be £100,000 or its equivalent in any other currency.

- 11 Change of Interest Basis or Redemption/Payment: Basis: [Specify details of any provision for change of Notes into another interest or redemption/payment basis]
- 12 Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
- 13 (a) Status of the Notes: [Senior/[Dated/Perpetual]/Subordinated]
- (b) [Date approved by Committee of the Board of Directors for issuance of Notes obtained: [●]]
- 14 Method of distribution: [Syndicated/Non-syndicated]

### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [●] per cent, per annum [payable [annually/semi-annually/quarterly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [*adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/ not adjusted*]
- (iii) Fixed Coupon Amount(s): [●] per [●] in nominal amount
- (iv) Broken Amount(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (vi) Determination Date(s): [●] in each year  
[*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*]  
NB: *This will need to be amended in the case of regular interest payment dates which are not of equal duration.*  
NB: *Only relevant where Day Count Fraction is Actual/Actual (ICMA)*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]

- 16 Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) Interest Period Date: [●]  
 (Not applicable unless different from Interest Payment Date)
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (v) Business Centre(s): [●]
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (viii) Screen Rate Determination:
- Reference Rate:
  - Interest Determination Date(s):
  - Relevant Screen Page:
- (ix) ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
  - ISDA Definitions [2006]
- (x) Margin(s): [+/-] [●] Per cent. Per annum

(xi) Minimum Rate of Interest:	[●] per cent, per annum
(xii) Maximum Rate of Interest:	[●] per cent, per annum
(xiii) Day Count Fraction:	[●]
(xiv) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	
17 Zero Coupon Note Provisions	[[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
Amortisation Yield:	[●] per cent, per annum
Any other formula/basis of determining amount payable:	[●]
18 Index Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Index/Formula:	[give or annex details]
(ii) Calculation Agent responsible for calculating the interest due:	[●]
(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●] <i>(To include a description of any market or settlement disruption and adjustment rules with relation to events concerning the underlying)</i>
(iv) Interest Determination Date(s):	[●]
(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable:	[●]

- |        |   |  |
|--------|---|--|
| (vi)   | Interest Period(s):   | [●]  |
| (vii)  | Specified Interest Payment Dates:   | [●]  |
| (viii) | Business Day Convention:  | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>specify other</i> ] |
| (ix)   | Business Centre(s):   | [●]  |
| (x)    | Minimum Rate of Interest:   | [●] per cent, per annum  |
| (xi)   | Maximum Rate of Interest:   | [●] per cent, per annum  |
| (xii)  | Day Count Fraction:   | [●]  |
| 19     | <b>Dual Currency Interest Note Provisions</b>   | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>   |
| (i)    | Rate of Exchange/<br>method of calculating<br>Rate of Exchange:   | [give or annex details]  |
| (ii)   | Calculation Agent, if any,<br>responsible for<br>calculating the interest<br>payable:                             | [●]  |
| (iii)  | Provisions applicable<br>where calculation by<br>reference to Rate of<br>Exchange impossible or<br>impracticable: | [●]  |
| (iv)   | Persons at whose option<br>Specified Currency(ies)<br>is/are payable:   | [●]  |

## PROVISIONS RELATING TO REDEMPTION

- |      |  |  |
|------|--|--|
| 20   | <b>Issuer Call</b>   | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i)  | Optional Redemption Date(s):   | [●]  |
| (ii) | Optional Redemption Amounts of each Note and method, if any, of calculation of such amount(s): | [●] per Calculation Amount   |

- (iii) If redeemable in part:
- (1) Minimum Redemption Amount: [●] per Calculation Amount
- (2) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period (if other than as set out in the Conditions): [●]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
- 21 **Investor Put** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Notice period (if other than as set out in the Conditions): [●]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
- (iii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- 22 **Final Redemption Amount of each Note** [●] per Calculation Amount
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: [give or annex details]
- (ii) Party responsible for calculating the Final Redemption Amount (if not the Agent): [●]

- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Determination Date(s): [●]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Payment Date: [●]
- (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [●] per Calculation Amount
- 23 Early Redemption Amount per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions(s): [●]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 24 Form of Notes: Bearer Notes:
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [in the limited circumstances specified in the Permanent Global Note]]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
- [N.B. In the event of the exchange of a Temporary Global Note for Definitive Notes trading will only be permitted in amounts which are integral multiples of the Specified Denomination]*

- [Permanent Global Note exchangeable for Definitive Notes [in the limited circumstances specified in the Permanent Global Note]]
- 25 Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details]  
*(Note that this item relates to the date and place of payment and not interest period end dates to which items 16(v) and 18(ix) relate)*
- 26 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- 27 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details.]
- 28 Details relating to Instalment Notes:
- Instalment Amount(s): [Not Applicable/give details]
- Instalment Date(s): [Not Applicable/give details]
- 29 Redenomination applicable: [Not applicable/The provisions [in Condition [●]] apply]
- 30 Consolidation provisions: [Not applicable/The provisions [in Condition [●]] apply]
- 31 Other final terms: [Not Applicable/give details]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## **DISTRIBUTION**

- 32 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
- 33 If non-syndicated, name of relevant Dealer: [Not Applicable/give name] of relevant Dealer:
- 34 Additional selling restrictions: [Not Applicable/give details]

**[LISTING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$1,000,000,000 Euro Medium Term Note Programme of Transpower New Zealand Limited.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1 Listing

- (i) Listing: [London/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 Ratings

Ratings: The Notes to be issued have been rated:  
[[INSERT NAME OF S&P ENTITY]: [●]]  
[[INSERT NAME OF MOODY'S ENTITY]: [●]]  
[[Other]: [●]]  
*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

**EITHER** *[[Insert credit rating agency]* is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

**OR** *[[Insert credit rating agency]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

**OR** *[[Insert credit rating agency]* is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

**OR** *[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

**OR** *[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 of *[insert the name of the relevant EU credit rating agency affiliate that applied for registration]*, which is established in the European Union, disclosed the intention to endorse credit ratings of *[insert credit rating agency]*.]

**OR** *[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The rating[s] issued by *[insert credit rating agency]* in relation to *[name of the relevant transaction party]* *[have/has]* been endorsed by *[insert the name of the relevant EU-registered credit rating agency]* in accordance with Regulation (EC) No. 1060/2009. *[Insert the name of the relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

### **3 Notification**

[The Financial Services Authority has provided the [names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### **4 Interests of natural and legal persons involved in the issue**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

### **5 Reasons for the Offer, estimated net proceeds and total expenses**

- (i) [Listing ] *(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*
- (ii) Estimated net proceeds:
- (iii) Estimated total expenses:  *(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)*

### **6 Yield (Fixed Rate Notes only)**

Indication of yield:   
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### **7 Performance of index/formula/other variable, explanation of effect on value of investment and associated risks and other information concerning the underlying (Index-Linked or other variable-linked Notes only)**

*[Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained.]*

*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**8 Performance of rate[s] of exchange and explanation of effect on value of investment (Dual Currency Notes only)**

*[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]*

**9 Operational information**

- (i) ISIN Code:
- (ii) Common Code:
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):  [Not Applicable/give name(s) and number(s)] [and address(es)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any):

**10 General**

Applicable TEFRA exemption:  [C Rules/D Rules/Not Applicable] exemption

## GENERAL INFORMATION

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or around 7 November 2011, subject only to the issue of a temporary or permanent Global Note in respect of each Tranche. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.
2. The Issuer has obtained all necessary consents, approvals and authorisations in New Zealand in connection with the issue and performance of the Notes. The establishment and update of the Programme and issue of Notes thereunder was authorised by Transpower by way of board minutes passed on 7 September 1995, 5 September 1996, 26 September 1997, 2 April 1998 and 14 November 2002.
3. There has been no significant change in the financial or trading position of the Transpower Group since 30 June 2011, the date of the last published financial statements and no material adverse change in the prospects of the Transpower Group since 30 June 2011, the date of last published Audited financial statements.
4. Except as disclosed under the heading "Transpower New Zealand Limited – Legal Proceedings", on page 60 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Transpower is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Transpower Group.
5. Each Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". In addition, each Note, Coupon, Talon and Receipt will bear the following legend: "If the Holder, or any person who derives beneficially interest under this [Temporary/Permanent Global/Definitive/Note/Coupon/ Talon/Receipt] jointly with any other person (each being an "Owner") is a resident of New Zealand for tax purposes or otherwise is a person the payment of interest to whom will be subject to New Zealand resident withholding tax, then a deduction for New Zealand resident withholding tax will be made from any amount payable under this [Temporary/Permanent/Global/Definitive/Note/Coupon/Talon/Receipt] which is subject to New Zealand resident withholding tax unless any such Owner (and any other person who derives beneficially that amount with the Owner) certifies that it holds a valid RWT exemption certificate for New Zealand resident withholding tax purposes issued pursuant to New Zealand's resident withholding tax rules and provides the Owner's New Zealand tax file number. On presentation of this [Temporary/Permanent/Global/Definitive/ Note/Coupon/Talon/Receipt] for payment or, if applicable, upon the receipt of such payment, the Owner hereby certifies that if it is a resident of New Zealand for tax purposes or otherwise is a person the payment of interest to whom will be subject to New Zealand resident withholding tax, then it holds a valid RWT exemption certificate for New Zealand resident withholding tax purposes issued pursuant to New Zealand's resident withholding tax rules and hereby provides the Owner's New Zealand tax file number".
6. Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing systems for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

7. For so long as Notes may be issued pursuant to this Prospectus or any Notes are outstanding the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of the Issuer and the specified office of the Issuing and Paying Agent in London:
  - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Notes, the Coupons, the Receipts and the Talons);
  - (ii) the Agency Agreement;
  - (iii) the Dealer Agreement;
  - (iv) the Constitution of Transpower;
  - (v) the published annual report and audited accounts (consolidated where appropriate) of the Issuer for the years ended 30 June 2011 and 30 June 2010;
  - (vi) each set of Final Terms for Notes which are listed on the Official List and admitted to trading on the Market or any other stock exchange;
  - (vii) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus;
  - (viii) a copy of the subscription agreement for Notes issued on a syndicated basis which are listed on the Official List and admitted to trading on the Market; and
  - (ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus (copies of which are obtainable, free of charge).

In addition, this Prospectus is also available at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).

8. Copies of the latest annual report and consolidated (if any) accounts of the Issuer and the latest interim consolidated (if any) accounts of the Issuer may be obtained, and copies of the Trust Deed will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding. The Issuer publishes interim accounts.
9. Ernst & Young, Registered Auditors (authorised and regulated by the New Zealand Institute of Chartered Accountants), acting on behalf of the Auditor-General of New Zealand, have audited, and rendered unqualified audit reports on, the financial statements of the Issuer for the years ended 30 June 2011 and 30 June 2010.

10. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## INDEX TO FINANCIAL STATEMENTS

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## Statement of comprehensive income

for the year ended 30 June 2011

	NOTES	GROUP		PARENT	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Operating revenue</b>					
Transmission revenue	2	675.3	653.4	675.3	653.4
Other revenue	2	56.1	76.9	39.9	68.0
Finance revenue	5	5.8	4.1	91.5	55.1
		737.2	734.4	806.7	776.5
<b>Operating expenses</b>					
Transmission expenses	4	141.0	133.9	141.0	133.9
Employee benefits	4	56.4	52.1	51.7	48.3
Other operating expenses	4	81.8	78.5	90.5	95.5
		279.2	264.5	283.2	277.7
<b>Earnings before interest, tax, depreciation, amortisation, impairment and changes in the fair value of financial instruments</b>		458.0	469.9	523.5	498.8
Depreciation	15	146.4	127.9	146.3	124.7
Amortisation	15	14.3	12.0	14.1	11.8
Impairment	15	19.7	29.7	19.7	29.7
Asset write-offs		12.5	5.4	12.5	5.4
Finance expenses	5	87.3	75.6	193.8	155.8
<b>Earnings before changes in the fair value of financial instruments and tax</b>		177.8	219.3	137.1	171.4
Gain (loss) in the fair value of financial instruments	6	(65.4)	(110.6)	(4.9)	(22.8)
<b>Earnings before tax</b>		112.4	108.7	132.2	148.6
Income tax expense (credit)	7	33.9	43.7	38.8	51.4
<b>Net profit (loss)</b>		78.5	65.0	93.4	97.2
<i>Total net profit (loss) for the period is attributable to:</i>					
Non controlling interest (NCI)	21	6.5	1.2	–	–
Owners of the parent		72.0	63.8	93.4	97.2
		78.5	65.0	93.4	97.2

## Statement of comprehensive income continued

for the year ended 30 June 2011

	NOTES	GROUP		PARENT	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Other comprehensive income for the period net of tax</b>		–	–	–	–
<b>Total comprehensive income for the period</b>		78.5	65.0	93.4	97.2
<i>Total comprehensive income for the period is attributable to:</i>					
Non controlling interest (NCI)	21	6.5	1.2	–	–
Owners of the parent		72.0	63.8	93.4	97.2
		78.5	65.0	93.4	97.2

**Reconciliation of net profit specifying the net impact of fair value movements****Earnings before changes in the fair value of financial instruments and tax**

Income tax expense (credit) excluding changes in the fair value of financial instruments

**Earnings before net changes in fair values of financial instruments**

Gain (loss) in the fair value of financial instruments

Income tax expense (credit) on changes in the fair value of financial instruments

**Net profit (loss)**

	177.8	219.3	137.1	171.4
	51.5	76.9	34.4	58.2
29	126.3	142.4	102.7	113.2
	(65.4)	(110.6)	(4.9)	(22.8)
	(17.6)	(33.2)	4.4	(6.8)
	78.5	65.0	93.4	97.2

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

## Statement of financial position

as at 30 June 2011

	NOTES	GROUP		PARENT	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>ASSETS EMPLOYED</b>					
<b>Current assets</b>					
Cash and cash equivalents		1.6	22.9	0.1	–
Trade and other receivables	8	75.3	66.1	151.3	129.6
Current tax asset		–	1.4	4.9	2.2
NZPCL investment	10	–	2.9	–	–
Other investments	12	65.7	63.2	–	1,160.3
Derivatives and hedge commitment in gain	11	52.4	29.5	35.9	29.5
Non current assets held for sale	15	37.5	33.8	37.5	33.8
Inventories	13	11.7	10.7	11.7	10.7
		244.2	230.5	241.4	1,366.1
<b>Non current assets</b>					
Trade and other receivables	8	16.3	9.4	16.3	9.4
Investment in subsidiaries	14	–	–	270.0	272.5
NZPCL investment	10	100.4	104.4	–	–
Derivatives and hedge commitment in gain	11	167.7	107.1	6.1	–
Other financial assets	14	3.9	3.9	3.9	3.9
Property, plant and equipment	15	2,612.0	2,482.0	2,612.0	2,481.8
Capital work in progress	15	737.2	475.3	737.2	475.3
Intangibles	15	288.9	152.8	288.9	152.5
		3,926.4	3,334.9	3,934.4	3,395.4
<b>Total assets employed</b>		<b>4,170.6</b>	<b>3,565.4</b>	<b>4,175.8</b>	<b>4,761.5</b>
<b>FUNDS EMPLOYED</b>					
<b>Current liabilities</b>					
Cash and cash equivalents		–	–	–	0.3
Trade and other payables	16	158.0	113.2	153.6	89.1
Current tax liability		5.8	–	–	–
NZPCL debt	10	–	2.9	–	–
Current debt	19	493.5	130.5	2,190.7	2,976.5
Derivatives and hedge commitment in loss	11	130.9	77.2	35.7	30.6
Deferred income	3	34.8	34.4	34.8	34.4
Provisions	17	13.7	11.3	13.7	10.8
		836.7	369.5	2,428.5	3,141.7

## Statement of financial position continued

as at 30 June 2011

	NOTES	GROUP		PARENT	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Non current liabilities</b>					
Non current payables		1.7	2.3	1.7	2.3
Finance lease liabilities	18	1.0	1.2	1.0	1.2
Derivatives and hedge commitment in loss	11	214.3	59.5	6.1	–
NZPCL debt	10	103.9	116.8	–	–
Non current debt	19	1,315.4	1,395.0	–	–
Deferred tax	20	155.0	155.9	214.9	187.2
Provisions	17	9.1	10.2	9.1	10.2
		1,800.4	1,740.9	232.8	200.9
<b>Total liabilities</b>		2,637.1	2,110.4	2,661.3	3,342.6
<b>Equity</b>					
Capital	21	1,200.0	1,200.0	1,200.0	1,200.0
Available for sale financial assets reserve	21	(0.9)	(0.9)	(0.9)	(0.9)
Accumulated surplus		336.6	264.6	315.4	219.8
Non controlling interest	10	(2.2)	(8.7)	–	–
<b>Total equity</b>		1,533.5	1,455.0	1,514.5	1,418.9
<b>Total funds employed</b>		4,170.6	3,565.4	4,175.8	4,761.5

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 15 August 2011.

For, and on behalf of, the board



MARK VERBIEST

CHAIRMAN

15 AUGUST 2011



DON HUSE

DIRECTOR

15 AUGUST 2011

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

## Statement of changes in equity

for the year ended 30 June 2011

		GROUP					
	NOTES	ORDINARY SHARES \$M	AVAILABLE FOR SALE RESERVE \$M	RETAINED EARNINGS \$M	OWNERS OF THE PARENT \$M	NON CONTROLLING INTEREST \$M	TOTAL \$M
<b>2009/10</b>							
<b>Equity at 1 July 2009</b>		1,200.0	(0.9)	200.8	1,399.9	–	1,399.9
Profit for the period		–	–	63.8	63.8	1.2	65.0
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	63.8	63.8	1.2	65.0
Transactions with owners	21	–	–	–	–	–	–
Recognition of NCI on subsidiary consolidation	10	–	–	–	–	(9.9)	(9.9)
<b>Total equity at 30 June 2010</b>		1,200.0	(0.9)	264.6	1,463.7	(8.7)	1,455.0
<b>2010/11</b>							
<b>Equity at 1 July 2010</b>		1,200.0	(0.9)	264.6	1,463.7	(8.7)	1,455.0
Profit for the period		–	–	72.0	72.0	6.5	78.5
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	72.0	72.0	6.5	78.5
Transactions with owners	21	–	–	–	–	–	–
<b>Total equity at 30 June 2011</b>		1,200.0	(0.9)	336.6	1,535.7	(2.2)	1,533.5

		PARENT					
	NOTES	ORDINARY SHARES \$M	AVAILABLE FOR SALE RESERVE \$M	RETAINED EARNINGS \$M	OWNERS OF THE PARENT \$M	NON CONTROLLING INTEREST \$M	TOTAL \$M
<b>2009/10</b>							
<b>Equity at 1 July 2009</b>		1,200.0	(0.9)	(210.0)	989.1	–	989.1
Amalgamation of subsidiaries during the year	21	–	–	332.6	332.6	–	332.6
Profit for the period		–	–	97.2	97.2	–	97.2
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	97.2	97.2	–	97.2
Transactions with owners	21	–	–	–	–	–	–
<b>Total equity at 30 June 2010</b>		1,200.0	(0.9)	219.8	1,418.9	–	1,418.9
<b>2010/11</b>							
<b>Equity at 1 July 2010</b>		1,200.0	(0.9)	219.8	1,418.9	–	1,418.9
Amalgamation of subsidiary during the year	21	–	–	2.2	2.2	–	2.2
Profit for the period		–	–	93.4	93.4	–	93.4
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	93.4	93.4	–	93.4
Transactions with owners	21	–	–	–	–	–	–
<b>Total equity at 30 June 2011</b>		1,200.0	(0.9)	315.4	1,514.5	–	1,514.5

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

## Cash flow statement

for the year ended 30 June 2011

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>CASH FLOW FROM OPERATIONS</b>				
<b>Cash was provided from:</b>				
Receipts from customers	724.6	718.4	696.1	666.8
Dividends received from subsidiaries	–	–	11.0	7.0
Interest received	5.8	4.1	80.5	48.1
<b>Cash was applied to:</b>				
Payments to suppliers and employees	(292.7)	(259.4)	(278.3)	(296.9)
Tax payments	(27.2)	(35.7)	(22.9)	(35.7)
Interest paid	(125.1)	(114.6)	(231.6)	(185.4)
<b>Net cash inflows (outflows) from operations</b>	<b>285.4</b>	<b>312.8</b>	<b>254.8</b>	<b>203.9</b>
<b>CASH FLOW FROM INVESTMENTS</b>				
<b>Cash was provided from:</b>				
Sale of property, plant and equipment	25.4	8.0	25.4	8.1
Short term investments	437.1	500.2	–	–
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment	(663.7)	(554.7)	(653.9)	(554.0)
Short term investments	(432.7)	(479.5)	(125.8)	(83.7)
<b>Net cash inflows (outflows) from investments</b>	<b>(633.9)</b>	<b>(526.0)</b>	<b>(754.3)</b>	<b>(629.6)</b>
<b>CASH FLOW FROM FINANCING</b>				
<b>Cash was provided from:</b>				
Increase in loans	1,171.9	1,022.0	499.9	425.2
<b>Cash was applied to:</b>				
Increase in long term investments	–	–	–	–
Dividends paid	–	–	–	–
Repayment of loans	(844.7)	(826.6)	–	–
<b>Net cash inflows (outflows) from financing</b>	<b>327.2</b>	<b>195.4</b>	<b>499.9</b>	<b>425.2</b>
Net increase (decrease) in cash held	(21.3)	(17.8)	0.4	(0.5)
Opening balance brought forward	22.9	40.7	(0.3)	0.2
<b>Closing net cash carried forward</b>	<b>1.6</b>	<b>22.9</b>	<b>0.1</b>	<b>(0.3)</b>
<b>Closing net cash carried forward comprises:</b>				
Cash and bank	1.6	22.9	0.1	(0.3)

Cash flow statement *continued*

for the year ended 30 June 2011

RECONCILIATION OF NET PROFIT (LOSS) WITH NET CASH FLOW FROM OPERATIONS	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Net profit (loss)</b>	78.5	65.0	93.4	97.2
<b>Add (deduct) non-cash items:</b>				
Change in fair value of financial instruments	65.4	110.6	4.9	15.5
Depreciation and amortisation	160.7	139.8	160.4	139.4
Deferred tax	(0.9)	18.4	28.6	26.2
Impairment	19.7	29.8	19.7	29.8
Imputed interest	2.4	3.2	2.4	3.2
<b>Movements in working capital items:</b>				
(Increase) in trade and other receivables	(14.1)	(15.1)	(26.6)	(45.7)
Decrease (increase) in prepayments	(2.0)	1.6	(2.0)	1.1
(Increase) in stocks of materials	(1.0)	(3.9)	(1.0)	(3.9)
(Decrease) increase in trade and other payables, interest payable and deferred income	(6.5)	3.7	1.2	(17.9)
(Decrease) increase in taxation payable	7.2	(14.4)	(2.7)	(15.0)
(Decrease) increase in provisions	1.3	(1.6)	1.8	(1.7)
<b>Add (deduct) items classified as investing activities:</b>				
Property, plant and equipment write-offs and loss on sale	12.5	5.4	12.5	5.4
Capitalised interest	(37.8)	(29.7)	(37.8)	(29.7)
<b>Net cash flow from operations</b>	<b>285.4</b>	<b>312.8</b>	<b>254.8</b>	<b>203.9</b>

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

## Notes to the financial statements

for the year ended 30 June 2011

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5	Net finance expenses	21	Equity
6	Change in fair value of financial instruments	22	Segment reporting
7	Income tax expense	23	Operating lease commitments
8	Trade and other receivables	24	Capital commitments
9	Financial instrument categorisation	25	Contingencies
10	NZPCL debt and investment	26	Group entities
11	Derivatives and hedge commitment	27	Related parties
12	Other investments	28	Significant judgements / estimates
13	Inventories	29	Alternate profit measure
14	Other non current financial assets	30	Subsequent events
15	Non current assets		
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### 1. STATEMENT OF ACCOUNTING POLICIES

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#### 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.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**1. STATEMENT OF ACCOUNTING POLICIES** *continued***Specific accounting policies***a) Basis of consolidation*

The Group financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2011. 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.

The partial termination of the 2003 cross border lease transaction has resulted in Transpower disclosing a non controlling interest (NCI) relating to New Zealand Power Cayman 2003-1 Limited (NZPCL). The valuation method used was the share of the NCI net assets.

*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 profit or loss and is not subsequently reversed. The Group had no goodwill in the period.

*c) Revenue*

The Group recognises revenue as it provides services or delivers products to customers.

Agreements between Transpower and customers regarding the construction of network assets is recognised over the contract period or asset life with revenue shown on a yield to maturity basis grossed up for an imputed interest expense.

Certain transactions relating to the operation of the electricity market, specifically wholesale market related ancillary services and losses and constraint payments, are "passed-through" and are therefore not recorded in profit or loss. This pass-through occurs because Transpower is deemed to act only as a collection agent.

*d) Goods and services tax (GST)*

The statement of comprehensive income and the cash flow statement are prepared so that all components are stated exclusive of GST. All items in the statement of financial position 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 impairment. Impairment of receivables is calculated on an individual customer basis and recognised in cases where the Group believes it is highly probable, based on objective evidence, that the debt will not be paid by the customer.

*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 (section k), investment in subsidiaries (section a) and derivatives (section h)) are designated as fair value through profit or loss on the basis of preventing an "accounting mismatch".

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 1. STATEMENT OF ACCOUNTING POLICIES *continued*

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.

#### *h) Other financial assets at fair value through profit or loss*

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

#### *i) Loans and receivables*

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

#### *j) Trade and other payables*

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the 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.

#### *k) Available for sale financial assets*

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

#### *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 for use. 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	20–70 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

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 1. STATEMENT OF ACCOUNTING POLICIES *continued*

*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) 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.

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 recognised in profit or loss in accordance with the pattern of benefits derived/received.

The Group has previously entered into cross border leases. The Group has received up-front gains for the cross border lease but the gain was deferred over the minimum period in which the cross border lease applied. The final cross border lease, over the South Island AC assets, was partially terminated during the 2009/10 financial year. This resulted in the recognition of the remaining deferred gain balance in profit or loss for the 2009/10 year.

*q) 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	5–8 years
Easements	Indefinite
Right to access asset	90 years

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 valuation and 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.

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 1. STATEMENT OF ACCOUNTING POLICIES *continued*

#### r) *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.

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.

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

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

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

#### s) *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 or Transpower) is based on quoted market prices.

#### t) *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.

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 1. STATEMENT OF ACCOUNTING POLICIES *continued*

#### *u) Taxation*

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

#### **Current tax**

Current tax is calculated by reference to the amount of income tax 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 liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax carrying amounts.

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

#### *v) Foreign currency transactions*

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

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

#### *w) 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.

#### *x) 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 profit or loss together with any change in the fair value of the hedged purchase commitment.

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.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**1. STATEMENT OF ACCOUNTING POLICIES** *continued**y) Cash flow statement*

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

**New standards not yet adopted**

Transpower has elected not to early adopt the following standards (or revisions to standards), considered to be materially relevant to the financial statements, which have been issued but are not yet effective.

- NZ IFRS 9 Financial Instruments – effective for the annual reporting period beginning 1 July 2013.
- NZ IFRS 10 Consolidated Financial Statements – effective for the annual reporting period beginning 1 July 2013.
- NZ IFRS 12 Disclosure of Interests in Other Entities – effective for the annual reporting period beginning 1 July 2013.
- NZ IFRS 13 Fair Value Measurement – effective for the annual reporting period beginning 1 July 2013.
- NZ IAS 24 Related Party Disclosures – effective for the annual reporting period beginning 1 July 2011.

Transpower has not fully assessed the impact of the five standards above.

**New standards adopted during the period**

There were no new or revised standards that had a material impact on the financial statements.

**Change of presentation**

Asset write offs was presented in Other operating expenses (Note 4) in 2010. This year, the balance is separately disclosed on the face of the statement of comprehensive income. The 2010 value of \$5.4 million (Group and Parent) is now excluded in determining earnings before interest, tax, depreciation, amortisation, impairment and changes in the fair value of financial instruments.

**2. OPERATING REVENUE**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Transmission revenue</b>				
HVAC interconnection	464.8	440.4	464.8	440.4
HVAC connection	124.0	132.2	124.0	132.2
EV (rebate) charge – HVAC	(42.8)	(31.9)	(42.8)	(31.9)
HVDC	84.9	80.0	84.9	80.0
New investment agreements	26.6	25.0	26.6	25.0
Other transmission	17.8	7.7	17.8	7.7
	675.3	653.4	675.3	653.4
<b>Other revenue</b>				
System operator	31.4	26.6	31.4	26.6
Rental income	8.0	7.5	8.0	7.5
Cross border lease income	–	27.8	–	27.8
Risk Reinsurance investment income	2.9	2.6	–	–
Other	13.8	12.4	0.5	6.1
	56.1	76.9	39.9	68.0

**Intercompany transactions (included above)**

1.1	4.4
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Intercompany revenue relates to income from Energy Market Services (EMS), rental and lease income. In 2010, intercompany revenue also included insurance claims payable by Risk Reinsurance of \$3.3 million.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**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, being high voltage alternating current (HVAC) interconnection, connection and high voltage direct current (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 regulated transmission activities attributable to customers (the EV balance) is passed on to or claimed from customers over time as EV (rebates) or charges.

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

Other transmission revenue increased significantly due to the sale of copper from the dismantling of the old transmission line on the North Island Grid Upgrade (NIGU) route.

**Other revenue****System operator**

System operator income relates to payments received for the provision of real time services to ensure the short term security of the New Zealand electricity system.

**Rental income**

This includes rental income on various transmission land and buildings and also communications equipment. Assets are not held with the primary purpose of earning rental income.

**Cross border lease income**

In the 2009/10 financial year, the Group partially terminated the 2003 cross border lease that related to the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, the Group recognised the remainder of the income in advance relating to this lease transaction.

**Risk Reinsurance investment income**

Risk Reinsurance Limited (RRL) 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 non-RRL investments have been included in Note 5 Net finance expenses.

**Other**

For the Group, other revenue consists predominantly of d-cyphaTrade revenue.

**3. DEFERRED INCOME**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
New investment agreements	12.1	13.3	12.1	13.3
Transmission realignment	21.5	19.5	21.5	19.5
Other	1.2	1.6	1.2	1.6
<b>Total deferred income</b>	<b>34.8</b>	<b>34.4</b>	<b>34.8</b>	<b>34.4</b>

**New investment agreements**

New investment agreements are contracts entered into with customers to build grid connection assets. Where the customer pays the cost to build the asset upfront, the revenue is recognised over the contract period. Related imputed interest expense is based on the rate of return 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 related transmission assets.

## Notes to the financial statements continued

for the year ended 30 June 2011

4. OPERATING EXPENSES	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Transmission expenses</b>				
Maintenance of HVAC substations	52.1	48.8	52.1	48.8
Maintenance of HVDC substations and cables	11.1	10.6	11.1	10.6
Maintenance of HVAC lines	46.4	42.8	46.4	42.8
Maintenance of HVDC lines	1.3	2.3	1.3	2.3
HVDC share of reserves	4.7	7.2	4.7	7.2
Other direct transmission expenses	25.4	22.2	25.4	22.2
	141.0	133.9	141.0	133.9
<b>Employee benefits</b>				
Short term benefits	52.6	49.1	48.2	45.4
Defined contribution schemes	2.6	2.2	2.4	2.1
Other	1.2	0.8	1.1	0.8
	56.4	52.1	51.7	48.3
<b>Other operating expenses</b>				
Information technology costs	19.5	18.2	18.5	17.2
Industry levies	7.0	8.5	7.0	8.5
Other business support costs	34.5	33.4	38.5	36.6
Operating lease and rental costs	15.8	13.5	15.8	22.5
External auditor – audit fee	0.3	0.3	0.3	0.3
External auditor – other assurance	0.3	0.2	0.3	0.2
Insurance	4.4	4.4	10.1	10.2
Bad debt write-off	–	–	–	–
	81.8	78.5	90.5	95.5
<b>Total operating expenses</b>	279.2	264.5	283.2	277.7

**Intercompany transactions (included above)**

14.1

22.9

Intercompany expenses relate primarily to insurance. The decrease from 2010 is primarily due to the amalgamation of Oteranga Bay Limited into Transpower on 31 December 2009: \$9.1 million.

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.

Other direct transmission expenses includes investigations work that the Group conducts (prior to any commencement of a capital project) and the costs associated with running the Group's communications network.

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

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

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

External audit – The audit fee for 2011 was \$342,000 (2010: \$333,000) and other assurance was \$287,000 (2010: \$161,000). Other assurance includes financial statement review work, prospectuses and regulatory financial statements.

## Notes to the financial statements continued

for the year ended 30 June 2011

**5. NET FINANCE EXPENSES**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Finance revenue</b>				
Interest received	5.8	4.1	91.5	55.1
<b>Finance expenses</b>				
Interest paid and associated fees	122.0	103.5	239.5	191.7
Cross border lease expenses	0.7	(1.4)	0.7	(1.4)
Capitalised interest	(37.8)	(29.7)	(37.8)	(29.7)
Imputed interest	2.4	3.2	2.4	3.2
Dividends received	–	–	(11.0)	(8.0)
	87.3	75.6	193.8	155.8
<b>Total net finance expenses</b>	81.5	71.5	102.3	100.7

**Intercompany transactions (included above)**

Interest received	(91.4)	(53.9)
Interest paid and associated fees	237.1	185.8
Dividends received	(11.0)	(8.0)

Transpower has a 100% owned subsidiary, Transpower Finance Limited which has traditionally borrowed funds on behalf of the Group and on-loaned it to other Group members, principally the Parent.

**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 and partial termination of the 2003 cross border lease.

**Imputed interest**

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

Notes to the financial statements *continued*

for the year ended 30 June 2011

**6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Accounting hedges</b>				
Fair value movement forward exchange contracts – hedge accounted	(12.2)	(29.5)	(12.2)	(29.5)
Fair value movement hedge commitment	12.3	29.8	12.3	29.8
	0.1	0.3	0.1	0.3
<b>Other</b>				
Fair value movement foreign debt	69.2	32.9	–	–
Fair value movement cross currency interest rate swaps	(77.3)	(13.3)	–	–
Fair value movement foreign interest rate swaps	(1.8)	4.6	–	–
Fair value movement basis swaps	1.0	(0.2)	–	–
Fair value movement interest rate options	–	0.4	–	–
Fair value movement NZD interest rate swaps	(42.8)	(99.1)	–	–
Fair value movement forward exchange contracts – not hedge accounted	1.2	1.8	1.2	1.8
Fair value movement investments	0.3	(0.2)	2.5	3.8
Fair value movement NZD debt	(15.3)	(37.8)	(8.7)	(28.7)
	(65.5)	(110.9)	(5.0)	(23.1)
<b>Total fair value gain (loss)</b>	(65.4)	(110.6)	(4.9)	(22.8)

**Intercompany transactions (included above)**

Fair value movement investments	2.5	3.8
Fair value movement NZD debt	(8.7)	(28.7)

The above fair value movements are as a result of the Group recognising these instruments at fair value through profit or loss or as fair value hedges.

The Group experiences fair value movements principally through movements in underlying interest rates and exchange 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. Refer to Note 19 Debt, financial instruments and risk management for more information.

**Credit spread Impact**

Corporate debt normally has a credit spread built into the pricing that is applied by the market, over and above the interest rate swap pricing. This spread represents the additional risk of a corporate debt obligation compared with a liquid net settled swap transaction. Refer to Note 19 Debt, financial instruments and risk management, (c) (iv) for discussion on the credit spread impact on fair value.

**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 foreign exchange forward contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

**Debt and investments**

Refer to Note 19 Debt, financial instruments and risk management for information on the use of debt, investments and derivatives.

Notes to the financial statements *continued*

for the year ended 30 June 2011

7. INCOME TAX EXPENSE	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Current tax expense</b>				
Current period	28.3	22.9	13.1	11.5
Adjustment for prior periods	6.5	(0.6)	(2.9)	(0.6)
	34.8	22.3	10.2	10.9
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	5.3	10.3	23.2	29.5
Adjustment for prior periods	(5.8)	–	6.9	–
Removal of depreciation on buildings	–	23.3	–	23.3
Change in future tax rate	(0.4)	(12.2)	(1.5)	(12.3)
	(0.9)	21.4	28.6	40.5
<b>Total income tax expense (credit)</b>	33.9	43.7	38.8	51.4
<b>Amounts charged or credited to other comprehensive income</b>				
Unrealised gain on available for sale investments	–	–	–	–
<b>Income tax expense (credit) reported in other comprehensive income</b>	–	–	–	–
<b>Reconciliation of effective tax</b>				
Operating surplus before tax	112.4	108.7	132.2	148.6
Income tax at 30c	33.7	32.6	39.7	44.6
<i>Tax effect of:</i>				
Change in future tax rate	(0.4)	(12.2)	(1.5)	(12.3)
Removal of depreciation on buildings	–	23.3	–	23.3
Non deductible expenses	0.1	0.1	0.1	0.1
Tax exempt income	(0.2)	–	(3.5)	(2.4)
Under/(over) provided in prior periods	0.7	(0.1)	4.0	(1.9)
<b>Total income tax expense (credit)</b>	33.9	43.7	38.8	51.4

On 20 May 2010, the Government announced its budget tax changes. These changes included reducing the company tax rate from 30% to 28% which was effective 1 July 2011 for Transpower. In addition, there were changes in the building depreciation rules.

## Notes to the financial statements continued

for the year ended 30 June 2011

**8. TRADE AND OTHER RECEIVABLES**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Current</b>				
Trade and other receivables	68.8	61.6	72.1	64.7
Intercompany receivables	–	–	71.8	59.5
Prepayments	6.5	4.5	7.4	5.4
	75.3	66.1	151.3	129.6
<b>Non current</b>				
Prepayments	16.3	9.4	16.3	9.4
<b>Total trade and other receivables</b>	<b>91.6</b>	<b>75.5</b>	<b>167.6</b>	<b>139.0</b>

**Intercompany balances (included above)**

Intercompany receivables	71.8	59.5
Prepayments	1.5	1.6

There was no impairment of receivables during the year (2010: none).

## Notes to the financial statements continued

for the year ended 30 June 2011

9. FINANCIAL INSTRUMENT CATEGORISATION	DESIGNATED FAIR VALUE THROUGH PROFIT OR LOSS (ACCOUNTING MISMATCH)	FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	HEDGE ACCOUNTING (FAIR VALUE METHOD)	AVAILABLE FOR SALE	LOANS AND RECEIVABLES	OTHER LIABILITIES
<b>Current assets</b>						
Cash and cash equivalents					X	
Trade and other receivables					X	
Investments RRL		X				
Intercompany investment	X					
Investments other	X					
Hedge commitments			X			
<b>Non current assets</b>						
Investment in subsidiaries	n/a	n/a	n/a	n/a	n/a	n/a
Other financial assets (Fonterra shares)				X		
<b>Current liabilities</b>						
Trade and other payables						X
Current debt	X					
Intercompany debt	X					
Current portion of non current debt	X					
<b>Non current liabilities</b>						
Bonds	X					
Term borrowing	X					
Euro medium term notes	X					
US private placement	X					
Other	X					
<b>Derivatives</b>						
Interest rate swaps		X				
Interest rate options		X				
Basis swaps		X				
Cross currency interest rate swaps		X				
Foreign exchange forward contracts – not hedge accounted		X				
Foreign exchange forward contracts – hedge accounted			X			

Notes to the financial statements *continued*

for the year ended 30 June 2011

**10. NZPCL DEBT AND INVESTMENT**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Investment</b>				
Current	–	2.9	–	–
Non current	100.4	104.4	–	–
	100.4	107.3	–	–
<b>Debt</b>				
Current	–	2.9	–	–
Non current	103.9	116.8	–	–
	103.9	119.7	–	–
Net investment (debt)	(3.5)	(12.4)	–	–
Non controlling interest (net of tax)	(2.2)	(8.7)	–	–

**NZPCL debt and investment**

In November 2009, the Group partially terminated the 2003 cross border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has consolidated a special purpose vehicle, New Zealand Power Cayman 2003–1 Limited (NZPCL). NZPCL has a deposit with a financial institution and a loan from another financial institution. The cash flows from the deposit and loan offset. No consideration was transferred. The loan to NZPCL is guaranteed by Transpower.

The loan and the deposit are recognised at fair value in the Group financial statements. The difference between the asset and liability is due to the credit spread between the financial institutions holding the deposit and the loan to NZPCL.

**Non controlling interest**

As Transpower has no legal ownership interest in NZPCL, the net liabilities and any movements in net liabilities are recognised as a non controlling interest. The substance of the transaction is such that Transpower rather than the non controlling interest would be responsible for any shortfall between the value of the asset and the liability.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**11. DERIVATIVES AND HEDGE COMMITMENT**

This note shows the short term (ST) and long term (LT) breakdown of the derivatives and hedge commitment.

	GROUP			
	ST ASSET \$M	LT ASSET \$M	ST (LIABILITY) \$M	LT (LIABILITY) \$M
<b>2011</b>				
<b>Debt related derivatives</b>				
Cross currency interest rate swaps	6.3	106.0	(22.8)	(63.4)
Interest rate swaps	10.2	54.6	(72.2)	(144.8)
Basis swaps	–	1.0	–	–
	16.5	161.6	(95.0)	(208.2)
<b>Purchasing related derivatives and hedge commitment</b>				
Foreign exchange forward contracts	0.2	–	(35.7)	(6.1)
Commitment on fair value hedges	35.7	6.1	–	–
<b>Investment related derivatives</b>				
Interest rate swaps	–	–	(0.2)	–
<b>Total derivatives and hedge commitment</b>	52.4	167.7	(130.9)	(214.3)
<b>Commitment on fair value hedges (above)</b>	35.7	6.1	–	–
<b>Total derivatives</b>	16.7	161.6	(130.9)	(214.3)
<b>2010</b>				
<b>Debt related derivatives</b>				
Cross currency interest rate swaps	–	107.1	–	–
Interest rate swaps	–	–	(46.3)	(59.4)
Interest rate options	–	–	–	–
	–	107.1	(46.3)	(59.4)
<b>Purchasing related derivatives and hedge commitment</b>				
Foreign exchange forward contracts	–	–	(30.6)	–
Commitment on fair value hedges	29.5	–	–	–
<b>Investment related derivatives</b>				
Interest rate swaps	–	–	(0.3)	(0.1)
<b>Total derivatives and hedge commitment</b>	29.5	107.1	(77.2)	(59.5)
<b>Commitment on fair value hedges (above)</b>	29.5	–	–	–
<b>Total derivatives</b>	–	107.1	(77.2)	(59.5)

Derivatives are used to manage financial risk. The gain or loss on derivatives represents the unrealised gain or 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.

**Debt and purchasing related derivatives**

The nature of the debt and purchasing related derivatives is discussed in Note 19 Debt, financial instruments and risk management.

## Notes to the financial statements continued

for the year ended 30 June 2011

TOTAL ASSET (LIABILITY) \$M	PARENT					TOTAL ASSET (LIABILITY) \$M
	ST ASSET \$M	LT ASSET \$M	ST (LIABILITY) \$M	LT (LIABILITY) \$M		
26.1	–	–	–	–	–	–
(152.2)	–	–	–	–	–	–
1.0	–	–	–	–	–	–
(125.1)	–	–	–	–	–	–
(41.6)	0.2	–	(35.7)	(6.1)	(41.6)	(41.6)
41.8	35.7	6.1	–	–	41.8	41.8
(0.2)	–	–	–	–	–	–
(125.1)	35.9	6.1	(35.7)	(6.1)	0.2	0.2
41.8	35.7	6.1	–	–	41.8	41.8
(166.9)	0.2	–	(35.7)	(6.1)	(41.6)	(41.6)
107.1	–	–	–	–	–	–
(105.7)	–	–	–	–	–	–
–	–	–	–	–	–	–
1.4	–	–	–	–	–	–
(30.6)	–	–	(30.6)	–	(30.6)	(30.6)
29.5	29.5	–	–	–	29.5	29.5
(0.4)	–	–	–	–	–	–
(0.1)	29.5	–	(30.6)	–	(1.1)	(1.1)
29.5	29.5	–	–	–	29.5	29.5
(29.6)	–	–	(30.6)	–	(30.6)	(30.6)

**Commitment on fair value hedges**

The Group hedges against foreign currency fluctuations on certain foreign purchases through the use of foreign exchange forward contracts (FEC's). 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 (FEC) is shown separately (in the same note).

Note that, although all FEC's are used for economically hedging foreign purchases, not all FEC's are hedge accounted.

**Investment related derivatives**

The investment related derivatives relate to interest rate swaps on RRL's investments. RRL investment policy states that up to 40% of the total asset exposure may be hedged with interest rate swaps. For cash instruments, the interest rate swap duration can be no longer than 3 years. For bonds, the interest rate swap duration can be no longer than the underlying bond asset life.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**11. DERIVATIVES AND HEDGE COMMITMENT** *continued*

The notional value of RRL interest rate swaps outstanding at balance date, by maturity banding, are:

	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Within one year	4.5	6.5	–	–
One to two years	–	–	–	–
Two to five years	–	–	–	–
Greater than five years	–	–	–	–
	4.5	6.5	–	–

**12. OTHER INVESTMENTS**

	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Risk Reinsurance investments				
– Call deposits	1.1	2.5	–	–
– Promissory notes	–	3.0	–	–
– Deposits	45.6	31.0	–	–
– Floating rate notes	5.0	9.9	–	–
– Corporate bonds	14.0	16.1	–	–
Other investments	–	0.7	–	–
Intercompany investment	–	–	–	1,160.3
	65.7	63.2	–	1,160.3

**Intercompany balances (included above)**

Intercompany investment	–	1,160.3
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Intercompany investments are repayable on demand and have an interest rate of 7.67% (2010: 7.62%) These are unsecured. On 30 June 2011, the Parent loan assets with Transpower Finance Limited were settled against the existing loan liability held with Transpower Finance Limited. This resulted in a reduction of the investment (and loan liability) by \$1,312.2 million.

**Risk Reinsurance investments**

RRL is required to hold investments with counterparties of a certain credit rating. These limits are set out in Note 19 Debt, financial instruments and risk management (c) (i).

In 2011, investments were made in financial instruments issued by organisations with credit levels of A or above with the exception of a \$1 million investment in a financial instrument issued by PowerCo (Standard and Poor's rating of BBB). These investments were made in accordance with the policy as stated in Note 19 (c) (i).

In 2010, investments were made in financial instruments issued by organisations with credit levels of A or above with the exception of a \$1 million investment in a financial instrument issued by Auckland International Airport Limited (Standard and Poor's rating of A-).

Notes to the financial statements *continued*

for the year ended 30 June 2011

13. INVENTORIES	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Substations	7.5	7.4	7.5	7.4
Transmission lines	3.6	2.3	3.6	2.3
Communications	0.6	0.8	0.6	0.8
Other	–	0.2	–	0.2
<b>Total inventories</b>	<b>11.7</b>	<b>10.7</b>	<b>11.7</b>	<b>10.7</b>
Inventories expensed during the period	0.3	2.2	0.3	2.2

All inventories are classified as finished goods, i.e. no further processing is carried out.

14. OTHER NON CURRENT FINANCIAL ASSETS	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
<b>Investment in subsidiaries</b>	–	–	270.0	272.5
<b>Other financial assets</b>				
Fonterra shares	3.9	3.9	3.9	3.9
<b>Total non current financial assets</b>	<b>3.9</b>	<b>3.9</b>	<b>273.9</b>	<b>276.4</b>

**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 the year, EMS Limited was amalgamated into the Parent. Refer to Note 21 Equity for more details.

**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.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**15. NON CURRENT ASSETS**

This note includes property, plant and equipment, intangible assets and non current assets held for sale.

GROUP	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES
	\$M	\$M	\$M	\$M
<b>At 30 June 2010</b>				
Cost	1,201.3	73.4	1,460.9	325.2
Accumulated depreciation/amortisation	(228.3)	(26.1)	(283.9)	(161.1)
Net book value/carrying value	973.0	47.3	1,177.0	164.1
<b>30 June 2010 reconciliation</b>				
Opening net book value/carrying value (1 July 2009)	933.0	50.6	975.3	179.2
Additions/transfers	131.9	0.5	267.5	1.6
Disposals/transfers	(27.3)	–	(18.3)	–
Impairment	(24.8)	–	–	–
Depreciation/amortisation	(39.8)	(3.8)	(47.5)	(16.7)
Closing net book value/carrying value	973.0	47.3	1,177.0	164.1
<b>Non current assets held for sale</b>				
NIGU property held for sale	31.1	–	–	–
Impairment on NIGU property held for sale	(5.2)	–	–	–
Low voltage assets	1.2	–	6.7	–
Total non current assets held for sale	27.1	–	6.7	–
<b>Total non current assets, including held for sale assets</b>	1,000.1	47.3	1,183.7	164.1
<b>At 30 June 2011</b>				
Cost	1,269.6	77.7	1,578.8	335.2
Accumulated depreciation/amortisation	(272.4)	(29.7)	(329.9)	(177.7)
Net book value/carrying value	997.2	48.0	1,248.9	157.5
<b>30 June 2011 reconciliation</b>				
Opening net book value/carrying value (1 July 2010)	973.0	47.3	1,177.0	164.1
Additions/transfers	105.5	4.5	130.4	10.2
Disposals/transfers	(18.5)	–	(5.4)	(0.1)
Impairment	(14.3)	–	–	–
Depreciation/amortisation	(48.5)	(3.8)	(53.1)	(16.7)
Closing net book value/carrying value	997.2	48.0	1,248.9	157.5
<b>Non current assets held for sale</b>				
NIGU property held for sale	32.1	–	–	–
Impairment on NIGU property held for sale	(5.4)	–	–	–
Low voltage assets	3.5	–	7.3	–
Total non current assets held for sale	30.2	–	7.3	–
<b>Total non current assets, including held for sale assets</b>	1,027.4	48.0	1,256.2	157.5

## Notes to the financial statements continued

for the year ended 30 June 2011

COMMUNICATIONS	ADMINISTRATION ASSETS	TOTAL PROPERTY, PLANT AND EQUIPMENT	EASEMENTS AND RIGHT TO ACCESS	SOFTWARE	TOTAL INTANGIBLE ASSETS	CAPITAL WORK IN PROGRESS
\$M	\$M	\$M	\$M	\$M	\$M	\$M
142.2	96.5	3,299.5	107.1	93.5	200.6	475.3
(61.2)	(56.9)	(817.5)	–	(47.8)	(47.8)	–
81.0	39.6	2,482.0	107.1	45.7	152.8	475.3
58.4	32.6	2,229.1	35.9	10.8	46.7	471.4
34.6	46.8	482.9	71.2	46.9	118.1	571.1
0.1	(31.8)	(77.3)	–	–	–	(567.5)
–	–	(24.8)	–	–	–	0.3
(12.1)	(8.0)	(127.9)	–	(12.0)	(12.0)	–
81.0	39.6	2,482.0	107.1	45.7	152.8	475.3
–	–	31.1	–	–	–	–
–	–	(5.2)	–	–	–	–
–	–	7.9	–	–	–	–
–	–	33.8	–	–	–	–
81.0	39.6	2,515.8	107.1	45.7	152.8	475.3
191.1	110.1	3,562.5	240.1	110.9	351.0	737.2
(74.6)	(66.2)	(950.5)	(0.1)	(62.0)	(62.1)	–
116.5	43.9	2,612.0	240.0	48.9	288.9	737.2
81.0	39.6	2,482.0	107.1	45.7	152.8	475.3
50.4	14.0	315.0	133.0	17.4	150.4	739.0
(0.2)	(0.1)	(24.3)	–	–	–	(477.1)
–	–	(14.3)	–	–	–	–
(14.7)	(9.6)	(146.4)	(0.1)	(14.2)	(14.3)	–
116.5	43.9	2,612.0	240.0	48.9	288.9	737.2
–	–	32.1	–	–	–	–
–	–	(5.4)	–	–	–	–
–	–	10.8	–	–	–	–
–	–	37.5	–	–	–	–
116.5	43.9	2,649.5	240.0	48.9	288.9	737.2

Notes to the financial statements *continued*

for the year ended 30 June 2011

**15. NON CURRENT ASSETS** *continued***PARENT**

The Parent owns the vast majority of the Group's assets. The Parent balances are:

	PARENT	
	2011	2010
	\$M	\$M
<b>Net book value</b>		
Property, plant and equipment	2,612.0	2,481.8
Capital work in progress	737.2	475.3
Intangible assets	288.9	152.5
Non current assets held for sale	37.5	33.8
<b>Profit or loss</b>		
Depreciation expense	146.3	124.7
Amortisation expense	14.1	11.8
Impairment expense	19.7	29.7

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

	GROUP AND PARENT	
	2011	2010
	\$M	\$M
HVAC transmission lines	328.8	150.3
HVDC transmission lines	13.1	–
HVAC substations	162.6	141.3
HVDC substations and submarine cables	193.9	94.3
Communications	18.2	38.8
Administration assets	10.1	10.7
Software intangible assets	6.3	3.9
Other intangible assets	4.2	36.0
	737.2	475.3

During the year the following borrowing costs were capitalised:

HVAC transmission lines	15.1	7.1
HVDC transmission lines	0.4	–
HVAC substations	8.5	12.7
HVDC substations and submarine cables	9.1	3.5
Communications	1.7	2.6
Administration assets	0.7	0.2
Software intangible assets	0.2	0.1
Other intangible assets	2.1	3.5
	37.8	29.7

These costs were capitalised at the weighted average cost of debt of 7.57% (2010: 7.65%).

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 15. NON CURRENT ASSETS *continued*

#### Property, plant and equipment

Administration assets include computer hardware, plant, equipment, furniture and motor vehicles. Land and buildings are contained within the above classes and have a net book value of \$236.3 million (2010: \$281.2 million).

#### Impairment

The impairment relates to land and buildings purchased for the North Island Grid Upgrade (NIGU) project. The impairment is for \$19.7 million (2010: \$30.0 million). The impairment is split between property, plant and equipment and also non current assets held for sale. The outstanding impairment held at balance date is \$42.3 million (2010: \$29.2 million).

As at 30 June 2011, Transpower holds 72 properties along the route of the line being constructed between Whakamaru and South Auckland relating to NIGU (2010: 86 properties). The line was approved by the Electricity Commission on 5 July 2007, with designation and resource consenting being granted by the Board of Inquiry on 18 September 2009. 20 properties were sold in the period (2010: 5 properties) and 6 properties were purchased.

For the properties sold to 30 June:

	GROUP AND PARENT	
	2011	2010
	\$M	\$M
Net book value of properties sold	16.6	2.5
Sales amount	17.5	2.8
Gain (loss) on property sales	0.9	0.3
Net (loss) on properties including impairment	(5.8)	(0.6)

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

Transpower has determined that each property is an individual cash generating unit and is classified as Property for segmental reporting. Given the general downturn in the property market, Transpower has estimated an impairment charge for the expected loss when it eventually sells the properties.

#### Intangible assets

##### *Easements*

Easements are deemed to have an indefinite useful life because:

- there is no expiry date to the easement agreements; and
- Transpower is expected to use the easements indefinitely, based on past experience.

Easements also include injurious affection payments and related costs such as resource consents. There was no impairment on easements during the year (2010: nil). The cost of easements is expected to be fully recovered from transmission customers.

##### *Right to access assets*

The most significant right to access asset relates to the 2011 purchase of access rights to the Vector Tunnel in Auckland for \$50 million. The Vector Tunnel right to access asset is being amortised over the contract life, 90 years.

##### *Software*

The amortisation of software occurs over 5–8 years.

## Notes to the financial statements continued

for the year ended 30 June 2011

16. TRADE AND OTHER PAYABLES	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Trade creditors	147.6	84.2	143.3	81.2
Collateral held	–	20.6	–	–
Employee entitlements	10.2	8.2	10.1	7.8
Current portion finance leases	0.2	0.2	0.2	0.1
<b>Total trade and other payables</b>	<b>158.0</b>	<b>113.2</b>	<b>153.6</b>	<b>89.1</b>

The Group has Collateral Support Agreements (CSA) with certain counterparties with whom Transpower holds derivatives. At 30 June 2011, Transpower has three such agreements but no collateral was held (30 June 2010: \$20.6 million of collateral held). Also, Transpower did not post any collateral (2010: nil). Collateral is required when the counterparty's (or Transpower's) exposure breaches the maximum exposure threshold dictated by the CSA, based on fair values and credit ratings. The amount of collateral is calculated daily and returned/posted as required.

Refer to Note 19 Debt, financial instruments and risk management (c) (iv) for more information.

17. PROVISIONS	GROUP			
	EMPLOYEE BENEFITS	RESTRUCTURING	DISMANTLING	TOTAL
	\$M	\$M	\$M	\$M
<b>Balance at 1 July 2010</b>	5.9	0.4	15.2	21.5
Provisions made during the period	8.0	1.0	–	9.0
Provisions used during the period	(5.9)	(0.2)	(1.6)	(7.7)
Provisions reversed during the period	–	–	–	–
<b>Balance at 30 June 2011</b>	<b>8.0</b>	<b>1.2</b>	<b>13.6</b>	<b>22.8</b>
Current portion of provisions	8.0	1.2	4.5	13.7
Non current portion of provisions	–	–	9.1	9.1
<b>Balance at 30 June 2011</b>	<b>8.0</b>	<b>1.2</b>	<b>13.6</b>	<b>22.8</b>
	PARENT			
	EMPLOYEE BENEFITS	RESTRUCTURING	DISMANTLING	TOTAL
	\$M	\$M	\$M	\$M
<b>Balance at 1 July 2010</b>	5.4	0.4	15.2	21.0
Effect of amalgamation	0.3	–	–	0.3
Provisions made during the period	8.0	1.0	–	9.0
Provisions used during the period	(5.7)	(0.2)	(1.6)	(7.5)
Provisions reversed during the period	–	–	–	–
<b>Balance at 30 June 2011</b>	<b>8.0</b>	<b>1.2</b>	<b>13.6</b>	<b>22.8</b>
Current portion of provisions	8.0	1.2	4.5	13.7
Non current portion of provisions	–	–	9.1	9.1
<b>Balance at 30 June 2011</b>	<b>8.0</b>	<b>1.2</b>	<b>13.6</b>	<b>22.8</b>

Notes to the financial statements *continued*

for the year ended 30 June 2011

**17. PROVISIONS continued****Employee benefits**

The Group, for accounting purposes, 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 removed from service the HVDC Pole 1 (Pole 1) due to the low probability, high consequence risks posed by continuing operation of the ageing technology. Following additional risk mitigation measures including decommissioning half of Pole 1, the remaining half was made available for limited operation from September 2009.

Transpower recognises site restoration and rehabilitation liabilities where Transpower believes an obligation exists. Pole 1 contains mercury and Transpower has estimated the decommissioning cost based on engineering advice. Decommissioning of the remaining half of Pole 1 is planned to be completed by June 2014. Actual decommissioning costs may vary from the figures indicated.

**18. NON CURRENT FINANCE LEASE LIABILITY**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
One to five years	0.5	0.5	0.5	0.5
Greater than five years	0.5	0.7	0.5	0.7
	1.0	1.2	1.0	1.2
Reconciliation to lease payments:				
Total future minimum lease payments	2.3	2.7	2.3	2.6
Interest expense	(1.1)	(1.3)	(1.1)	(1.3)
<b>Total lease liability recognised</b>	1.2	1.4	1.2	1.3
This is represented by:				
Current lease liability	0.2	0.2	0.2	0.1
Non current lease liability	1.0	1.2	1.0	1.2
	1.2	1.4	1.2	1.3

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The following items are discussed elsewhere in the financial statements:

ITEM	NOTE
NZPCL debt and investment	10
Derivative balances split between short term and long term assets and liabilities	11
RRL interest rate swaps	11
Debt security and guarantees	25

**(a) Summary**

Debt is issued by the Group in both New Zealand dollars (NZD) and foreign currencies. Derivatives are used to manage currency risk and interest rate risk by converting foreign borrowings to NZD and by converting floating interest rates to fixed interest rates. The use of derivatives means that Transpower effectively has borrowings denominated in NZD, predominantly at fixed interest rates.

The Group also uses derivatives in its purchase of goods and services.

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 NZD and foreign currencies, an investment portfolio held by a captive insurance company and from purchases of goods and services denominated in a foreign currency.

The financial risks are those that are financing related, being liquidity, interest rate, currency and credit risk, and those that are operating related, being currency, commodity and credit risk.

Financial risk management is carried out by a central Treasury function that operates under policies approved by the board of directors.

**(b) Fair value and classifications**

Transpower values the majority of financial instruments at fair value in the statement of financial position. For cash and cash equivalents, accounts payable and receivables, fair values are materially similar to their cost due to the short term nature of these items.

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 uses discounted cash flow techniques to calculate the fair value of its investments, debt and derivative instruments. The interest rate used for discounting is based on the applicable market swap curve, for example, for USD debt, the USD swap curve for similar rated entities would be used as the basis for discounting the expected cash flows. The swap curve is adjusted for estimated credit spreads above the swap curve that exist for debt issues. This is the tier 2 category as described by NZ IFRS 7.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued***(c) Financial risks – financing related***(i) Liquidity risk*

Liquidity risk is the risk of the Group being unable to access sufficient funds to meet its financial obligations in an orderly manner. This might result from the Group not maintaining adequate funding facilities or being unable to replace existing debt maturities.

To smooth the Group's refinancing requirements in future periods, committed funding facilities maturing in any 12 month period are not to exceed NZ\$500 million. No more than 50% of debt can mature within the next three years and at least 30% of debt must mature after five years. At 30 June 2011, committed funding facilities maturing exceeded this self-imposed limit with \$509.6 million maturing. Extra short term funds were held at 30 June 2011 while Transpower completed a review of its capital structure and dividend policy.

**Term debt**

The Group has six debt facilities. The aggregate principal amount of the debt outstanding may not exceed the following:

	CURRENCY	FOREIGN CURRENCY EQUIVALENT	NZD
		\$M	\$M
Domestic medium term note programme	NZD	–	1,500
European commercial paper programme	USD	500	602
European medium term note programme	USD	1,000	1,204
Australian medium term note programme	AUD	750	971
Domestic multi-option facility	NZD	–	500
Revolving cash advance facility	NZD	–	100

The Group uses these facilities to issue debt securities into different markets. The Group can issue in various currencies up to the equivalent value shown in the table above.

In addition to the above, the Group's liquidity policy requires the Group to have access to committed funding facilities 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 meet this policy requirement, Transpower has:

- a three year standby facility for NZ\$250 million, effective 21 December 2010 – this was undrawn at 30 June 2011; and
- a three year standby facility for NZ\$250 million, effective 26 May 2010 – this was undrawn at 30 June 2011 or 30 June 2010.

At 30 June 2011, Transpower exceeded this self imposed limit by \$20 million. Extra short term funds were held while Transpower completed a review of its capital structure and dividend policy.

With the capital structure completed, Transpower will replace short term funds with long dated debt issues. The liquidity risk from the high levels of short term debt and the significant build programme are mitigated by Transpower's standby facilities.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued***Investments and RRL investments**

From time to time, the Group 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.

In addition to these investments, Transpower has a captive insurance company called RRL. RRL makes investments from premiums received from the Parent company. RRL reinsures externally and maintains sufficient investments to meet expected claims. RRL does not offer insurance to any external parties.

For RRL cash and bond holdings, the counterparties have maximum limits depending on their ratings. The limits by Standard and Poor's, Moody's or Fitch equivalent are as follows:

- NZD5 million (face value) if the counterparty is rated AA- or higher.
- NZD3 million (face value) if the counterparty is rated A- or higher.
- NZD1 million (face value) if the counterparty is rated BBB or higher or if there is no long term rating but a short term rating of A1 or better.

The above limits exclude RRL's cash holdings with banks that are Transpower approved counterparties.

*(ii) Interest rate risk*

Interest rate risk is the risk of an adverse impact on the present and future finance costs of the Group arising from an increase in interest rates. Transpower uses various financial instruments to fix interest rates to mitigate interest rate risk.

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. Interest rate swaps and options are used to change the interest rate structure on existing and forecast debt and cross currency interest rate swaps entered into.

At 30 June 2011, the following interest rate parameters are in place relating to the economic hedging of the forecast total debt of the Group:

	MINIMUM %	MAXIMUM %
0-1 years	60	100
1-3 years	40	100
3-5 years	20	100
5-7 years	0	80
7-10 years	0	60
10+ years	0	30

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### **19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued***

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#### *(iii) Currency risk – debt*

Currency risk on debt is the risk of adverse impact of exchange rate movements, which determine the NZD cost of debt (principal and interest) issued in foreign currencies.

Foreign currency borrowings are converted into an NZD denominated exposure at the time of commitment to drawdown. Currency risk on foreign currency dominated borrowings is managed using cross currency interest rate swaps and basis swaps.

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

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 NZD floating interest rate.

## 19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

## Debt and related derivatives – interest rate, currency and liquidity risk

The following table details Transpower's debt and associated derivatives. The result after derivatives is that Transpower effectively has a debt portfolio in New Zealand dollars at predominantly fixed interest rates across multiple repayment dates. The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows. At 30 June 2011, BKBM was 2.67% (2010: 3.13%).

GROUP 2011		DEBT			RECEIVE DERIVATIVE			PAY DERIVATIVE	
	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE	NOTIONAL DERIVATIVE	DERIVATIVE	NOTIONAL DERIVATIVE	EFFECTIVE NZD
					RECEIVE VALUE	RECEIVE CURRENCY	RECEIVE INTEREST RATE	PAY VALUE	INTEREST RATE AFTER APPLYING FINANCIAL DERIVATIVES
		M			\$M			\$M	
<b>Call borrowing</b>		1.2	NZD	2.75%					2.75%
<b>Promissory notes</b>	15 Aug 11	170.0	NZD	2.82%					2.82%
	15 Sep 11	45.0	NZD	2.78%					2.78%
<b>ECP</b>									
AUD Issue	15 Sep 11	4.0	AUD	4.81%	4.0	AUD	4.81%	5.2	BKBM + 11 bp
USD Issue	15 Sep 11	30.0	USD	0.27%	30.0	USD	0.27%	37.1	BKBM + 12.7 bp
<b>Bonds</b>									
Bonds 2017	15 Feb 17	50.0	NZD	6.60%	(50.0)	NZD	6.60%	50.0	BKBM + 100 bp
Bonds 2019	12 Nov 19	50.0	NZD	7.19%	(50.0)	NZD	7.19%	50.0	BKBM + 77.3 bp
Bonds 2020	10 Jun 20	150.0	NZD	6.95%	(150.0)	NZD	6.95%	150.0	BKBM + 21 bp
CPI Issue	15 May 20	100.0	NZD	4.29%	(100.0)	NZD	4.29%	100.0	BKBM + 107 bp
<b>Term borrowing</b>									
BOTM facility	17 May 16	100.0	NZD	BKBM + 52.5 bp					BKBM + 47.5 bp
<b>EMTN</b>									
JPY EMTN	28 Nov 11	5,000.0	JPY	1.37%	(5,000.0)	JPY	1.37%	98.4	BKBM + 29 bp
CAD EMTN	15 May 12	125.0	CAD	4.61%	(125.0)	CAD	4.61%	153.6	BKBM + 26.5 bp
CHF EMTN	6 Aug 14	300.0	CHF	3.49%	(300.0)	CHF	3.49%	343.9	BKBM + 38 bp
HKD EMTN	24 Mar 20	400.0	HKD	4.00%	(400.0)	HKD	4.00%	73.1	BKBM + 120 bp
<b>USPP</b>									
USPP 2016	27 Sep 16	25.0	USD	5.59%	(25.0)	USD	5.59%	41.1	BKBM + 22.3 bp
USPP 2019	27 Sep 19	75.0	USD	5.74%	(75.0)	USD	5.74%	123.4	BKBM + 20.5 bp
USPP 2022	15 Dec 22	150.0	USD	3.60%	(150.0)	USD	3.60%	203.5	BKBM + 128.6 bp
<b>Cash outflow on debt, CCIRS and foreign IRS</b>									
Debt short term									
Current portion of long term debt									
<b>Debt short term as per statement of financial position</b>									
<b>Debt long term as per statement of financial position</b>									
<b>Total</b>									
<b>Debt face value (as per above)</b>									
New Zealand dollar debt				666.2					
Foreign debt after adjusting for related foreign exchange derivatives				1,079.3					
				<u>1,745.5</u>					
A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period and the weighted average interest rate for that period. The table includes forward starting IRS. The IRS are net-settled. The table below reflects the net cash outflows comprising both IRS assets and liabilities i.e. IRS in the money are assets and out of the money are liabilities. The BKBM rate at 30 June 2011 was 2.67%.									
<b>Notional value of resetting basis swaps (net settled) – liabilities</b>									
Greater than five years					55.0	BKBM + 40 bp		55.0	BKBM + 12 bp
<b>Notional value of interest rate swaps maturing by time banding (net settled) – liabilities</b>									
Within one year					160.0	BKBM		160.0	6.40%
One to two years					–			–	
Two to three years					195.0	BKBM		195.0	5.64%
Three to four years					860.5	BKBM		860.5	6.25%
Four to five years					539.0	BKBM		539.0	6.34%
Greater than five years					2,228.0	BKBM		2,228.0	6.26%
<b>Net cash outflows on IRS – liabilities</b>									
<b>Notional value of interest rate swaps maturing by time banding (net settled) – assets</b>									
Within one year									
One to two years									
Two to three years									
Three to four years									
Four to five years									
Greater than five years					365.0	BKBM		365.0	5.57%
<b>Net cash outflows on IRS – assets</b>									
<b>Total effective net cash flows</b>									
<b>Total derivatives fair value (refer to Note 11 Derivatives and hedge commitment for further derivatives breakdown)</b>									
<b>Other financial liabilities</b>									
Trade and other payables									
Finance lease liabilities									

FAIR VALUE			EFFECTIVE NET NZD CASH FLOWS – (INFLOWS)/OUTFLOWS						
DEBT FAIR VALUE	DERIVATIVE FAIR VALUE	TOTAL FAIR VALUE	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
1.2		1.2	1.2	-	-	-	-	-	1.2
169.5		169.5	170.0	-	-	-	-	-	170.0
44.7		44.7	45.0	-	-	-	-	-	45.0
5.1	-	5.1	5.1	-	-	-	-	-	5.1
36.3	-	36.3	36.3	-	-	-	-	-	36.3
53.2	(3.7)	49.5	1.9	2.4	2.7	3.1	3.3	52.6	66.0
53.9	(5.2)	48.7	1.8	2.2	2.6	2.9	3.2	62.0	74.7
159.9	(18.7)	141.2	4.6	6.0	7.0	8.1	8.8	188.0	222.5
93.8	7.9	101.7	3.9	4.8	5.5	6.2	6.7	128.7	155.8
100.4		100.4	3.2	3.7	4.1	4.4	104.8	-	120.2
75.9	22.8	98.7	99.9	-	-	-	-	-	99.9
160.8	(6.3)	154.5	158.2	-	-	-	-	-	158.2
478.7	(137.3)	341.4	10.6	12.1	13.5	347.6	-	-	383.8
65.4	3.6	69.0	2.9	3.2	3.5	3.7	4.0	89.5	106.8
34.8	5.2	40.0	1.2	1.4	1.6	1.7	1.8	41.6	49.3
105.8	12.3	118.1	3.6	4.1	4.6	5.1	5.5	143.3	166.2
169.5	40.9	210.4	8.1	9.0	9.8	10.6	11.2	285.8	334.5
1,808.9	(78.5)	1,730.4	557.5	48.9	54.9	393.4	149.3	991.5	2,195.5
256.8									
236.7									
493.5									
1,315.4									
1,808.9	(78.5)	1,730.4							
	0.4		(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	2.0	1.2
			1.7	-	-	-	-	-	1.7
			-	-	-	-	-	-	-
	205.0		4.5	3.7	2.4	-	-	-	10.6
			25.4	20.7	15.4	7.2	-	-	68.7
			16.2	12.9	10.3	6.5	1.6	-	47.5
			17.0	20.3	18.7	12.4	12.9	9.5	90.8
			64.8	57.6	46.8	26.1	14.5	9.5	219.3
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
	(1.8)		0.6	0.4	0.1	(0.3)	(0.6)	(3.5)	(3.3)
			0.6	0.4	0.1	(0.3)	(0.6)	(3.5)	(3.3)
			622.7	106.7	101.6	419.1	163.1	999.5	2,412.7
	125.1								
			158.0	0.2	0.8	0.1	-	0.6	159.7
			0.2	0.1	0.1	0.1	0.1	0.6	1.2

## 19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

GROUP 2010		DEBT			RECEIVE DERIVATIVE			PAY DERIVATIVE	
	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE RECEIVE VALUE	NOTIONAL DERIVATIVE RECEIVE CURRENCY	DERIVATIVE RECEIVE INTEREST RATE	NOTIONAL DERIVATIVE PAY VALUE NZD	EFFECTIVE NZD INTEREST RATE AFTER APPLYING FINANCIAL DERIVATIVES
					\$M			\$M	
<b>Promissory notes</b>	Various	29.0	NZD						3.15
<b>Bonds</b>									
Bonds 2010	15 Dec 10	100.0	NZD	7.58%	(110.0)	NZD	5.91%	110.0	BKBM
Bonds 2017	15 Feb 17	50.0	NZD	6.60%	(50.0)	NZD	6.60%	50.0	BKBM + 100 bp
Bonds 2019	12 Nov 19	50.0	NZD	7.19%	(50.0)	NZD	7.19%	50.0	BKBM + 77.3 bp
Bonds 2020	10 Jun 20	150.0	NZD	6.95%	(150.0)	NZD	6.95%	150.0	BKBM + 21 bp
CPI issue	15 May 20	100.0	NZD	4.12%	(100.0)	NZD	4.12%	100.0	BKBM + 107 bp
<b>Term borrowing</b>									
BOTM facility	17 May 16	100.0	NZD	BKBM + 47.5 bp					BKBM + 52.5 bp
<b>EMTN</b>									
JPY EMTN	28 Nov 11	5,000.0	JPY	1.37%	(5,000.0)	JPY	1.37%	98.4	BKBM + 29 bp
CAD EMTN	15 May 12	125.0	CAD	4.61%	(125.0)	CAD	4.61%	153.6	BKBM + 26.5 bp
CHF EMTN	6 Aug 14	300.0	CHF	3.49%	(300.0)	CHF	3.49%	343.9	BKBM + 38 bp
HKD EMTN	24 Mar 20	400.0	HKD	4.00%	(400.0)	HKD	4.00%	73.1	BKBM + 120 bp
<b>USPP</b>									
USPP 2016	27 Sep 16	25.0	USD	5.59%	(25.0)	USD	5.59%	41.1	BKBM + 22.3 bp
USPP 2019	27 Sep 19	75.0	USD	5.74%	(75.0)	USD	5.74%	123.4	BKBM + 20.5 bp

**Cash outflow on debt, CCIRS and foreign IRS**

Debt short term	
Current portion of long term debt	
<b>Debt short term as per statement of financial position</b>	
<b>Debt long term as per statement of financial position</b>	
<b>Total</b>	
<b>Debt face value (as per above)</b>	
New Zealand dollar debt	579.0
Foreign debt after adjusting for related foreign exchange derivatives	833.5
	<u>1,412.5</u>

A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period and the weighted average interest rate for that period. The table includes forward starting IRS. The IRS are net-settled. The table below reflects the net cash outflows comprising both IRS assets and liabilities i.e. IRS in the money are assets and out of the money are liabilities. The BKBM rate at 30 June 2010 was 3.13%.

**Notional value of interest rate swaps maturing by time banding (net settled) – liabilities**

Within one year	42.0	BKBM	42.0	6.19%
One to two years	14.5	BKBM	14.5	6.58%
Two to three years	150.0	BKBM	150.0	6.38%
Three to four years	45.0	BKBM	45.0	6.21%
Four to five years	810.5	BKBM	810.5	6.36%
Greater than five years	2,269.0	BKBM	2,269.0	6.41%

**Net cash outflows on IRS – liabilities****Notional value of interest rate swaps maturing by time banding (net settled) – assets**

Within one year				
One to two years				
Two to three years				
Three to four years				
Four to five years	25.0	BKBM	25.0	4.47%
Greater than five years	200.0	BKBM	200.0	5.40%

**Net cash outflows on IRS – assets****Total effective net cash flows****Total derivatives (asset) liability fair value (refer to Note 11 Derivatives and hedge commitment for further derivatives breakdown)****Other financial liabilities**

Trade and other payables

Finance lease liabilities

FAIR VALUE			EFFECTIVE NET NZD CASH FLOWS – (INFLOWS)/OUTFLOWS							
DEBT FAIR VALUE	DERIVATIVE FAIR VALUE	TOTAL FAIR VALUE	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL	
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
28.9		28.9	29.0						29.0	
101.6	(1.4)	100.2	101.7	–	–	–	–	–	101.7	
51.7	(2.6)	49.1	2.6	2.7	2.9	3.1	3.3	56.1	70.7	
52.2	(4.2)	48.0	2.5	2.6	2.8	3.0	3.1	65.6	79.6	
152.8	(16.0)	136.8	6.7	7.0	7.6	8.3	8.6	197.9	236.1	
90.1	8.5	98.6	5.3	5.5	5.9	6.3	6.6	136.2	165.8	
100.4	–	100.4	3.6	3.7	3.7	3.7	3.7	103.7	122.1	
83.2	15.8	99.0	0.3	100.1	–	–	–	–	100.4	
180.6	(27.6)	153.0	5.2	158.9	–	–	–	–	164.1	
451.9	(104.2)	347.7	12.4	12.6	12.6	13.9	346.1	–	397.6	
67.1	(10.1)	57.0	3.2	3.2	3.2	3.2	3.2	88.4	104.4	
41.4	(2.2)	39.2	1.4	1.4	1.4	1.4	1.4	42.9	49.9	
123.6	(11.3)	112.3	4.1	4.2	4.2	4.2	4.2	125.9	146.8	
1,525.5	(155.3)	1,370.2	178.0	301.9	44.3	47.1	380.2	816.7	1,768.2	
28.9										
101.6										
130.5										
1,395.0										
1,525.5	(155.3)	1,370.2								
}	156.1		0.3	–	–	–	–	–	0.3	
			0.3	0.2	–	–	–	–	0.5	
			1.8	3.0	1.2	–	–	–	6.0	
			0.8	0.8	0.6	0.4	–	–	2.6	
			15.6	13.8	11.6	8.8	4.9	–	54.7	
			25.1	21.3	18.3	14.4	11.4	17.0	107.5	
			43.9	39.1	31.7	23.6	16.3	17.0	171.6	
}	(2.2)		–	–	–	–	–	–	–	
			–	–	–	–	–	–	–	
			–	–	–	–	–	–	–	
			–	–	(0.1)	(0.2)	(0.3)	–	(0.6)	
			–	–	–	–	–	(3.2)	(3.2)	
	–	–	(0.1)	(0.2)	(0.3)	(3.2)	(3.8)			
			221.9	341.0	75.9	70.5	396.2	830.5	1,936.0	
	(1.4)									
			113.2	0.9	0.8	0.2	0.1	0.3	115.5	
			0.2	0.2	0.1	0.1	0.1	0.7	1.4	

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued***PARENT**

The Parent has \$41.4 million of external debt (2010: nil). This debt is included in the Group table above.

The breakdown of Parent debt is:

	2011	2010
	\$M	\$M
ECP	41.3	–
Intercompany	2,149.4	2,976.5
<b>Total short term debt</b>	<b>2,190.7</b>	<b>2,976.5</b>

Intercompany debt is repayable on demand and has an interest rate of 7.67% (2010: 7.62%)

*(iv) 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, basis swaps, interest rate options, forward rate agreements and foreign exchange forward contracts.

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

Counterparties must have a minimum long term credit rating of A or above by Standard and Poor's, Moody's or Fitch equivalent. The exception to these minimum credit ratings is for RRL investments, which are discussed in (c) (i) above.

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 for derivatives is defined as the maximum exposure threshold dictated by the CSA. Any collateral that is posted is included in Note 16 Trade and other payables (2011: nil; 2010: \$20.6 million). Any collateral posted by Transpower would be included in Note 8 Trade and other receivables. (2011 and 2010: nil).

The maximum credit exposure in respect of non-derivative assets is best represented by their carrying value.

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions contained in the Group's International Swap Dealer Agreements (ISDAs). Under these agreements, transactions are net settled; therefore, 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	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Cross currency interest rate swaps	85.9	122.9	–	–
Interest rate swaps	–	17.6	–	–
Basis swaps	1.4	–	–	–
Interest rate options	–	–	–	–
Foreign exchange forward contracts	–	0.7	–	0.7
<b>Total</b>	<b>87.3</b>	<b>141.2</b>	<b>–</b>	<b>0.7</b>

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued***Credit spreads**

Credit spreads are an estimate of the additional premium over the relevant yield curve that would be required by market participants to compensate them for the perceived risk inherent in the counterparty and transaction. For derivative transactions, the impact of credit spreads is substantially lower than for debt and investment transactions due to the offsetting nature of the cash flows.

The following table shows the impact of credit spread movements on debt, derivatives and investments on fair value.

	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Fair value profit/(loss) impact	(8.8)	(6.0)	–	–
Statement of financial position impact – (increase)/decrease in liabilities	55.6	64.9	–	–
Statement of financial position impact – (increase)/decrease in assets	0.4	0.9	–	–

*(v) Sensitivity analysis***Currency risk – debt**

All foreign currency debt is converted back to NZD denominated exposure, therefore, no sensitivity analysis has been performed for foreign currency debt.

**Fair value risk**

The Group's net debt is designated as "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, derivatives and investments the relevant yield curve is effectively adjusted for the credit margin.

A parallel shift in the yield curve by 1% (100 basis points) would create the following fair value movements based on Group net debt held at 30 June 2011. The Parent has short term debt only, so no sensitivity analysis was done.

	2011	2011	2010	2010
	+100 bp	-100 bp	+100 bp	-100 bp
	\$M	\$M	\$M	\$M
Yield curve interest rate change:				
Yield curve impact on profit/(loss)/equity	131.4	(142.1)	116.2	(125.8)

**(d) Financial risks – operating related***(i) Currency risk – foreign purchases*

Currency risk is the risk of the adverse impact of exchange rate movements, which determine the NZD cost of foreign denominated purchases. It is the Group's policy to hedge all committed foreign currency denominated payments greater than NZD 1 million (NZD equivalent) by using foreign exchange forward contracts to fix or offset the NZD cost.

The majority of foreign currency payments greater than NZD1 million (NZD equivalent) are hedge accounted.

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

	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Within one year	266.2	139.4	266.2	139.4
One to two years	38.3	136.4	38.3	136.4
Two to five years	16.6	21.1	16.6	21.1
Greater than five years	–	–	–	–
<b>Total foreign exchange forward contracts</b>	<b>321.1</b>	<b>296.9</b>	<b>321.1</b>	<b>296.9</b>

Notes to the financial statements *continued*

for the year ended 30 June 2011

**19. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *continued**(ii) Commodity risk*

Commodity risk is the risk of an adverse impact in commodity prices such as prices for aluminium and copper. These are some of the raw materials used in the construction of the electricity transmission network. Generally, Transpower has used contracts with commodity risk borne by the supplier.

*(iii) Customer credit risk*

Transpower's customers comprise predominantly electricity generators, electricity distribution companies and some large industrial users. There is a high concentration of credit risk with respect to trade receivables due to the small number of significant customers from which the majority of revenue is received. 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 2011 (2010: nil).

Significant receivables balances at balance date were:

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Vector	12.0	10.9	12.0	10.9
Meridian	5.9	8.6	5.9	8.6

**20. DEFERRED TAX**

GROUP	BALANCE 1 JULY 2009 \$M	RECOGNISED IN PROFIT OR LOSS \$M	CONSOLIDATION OF NZPCL \$M
Property, plant and equipment temporary differences	174.3	41.2	–
Fair value of net debt and derivatives	(5.4)	(27.0)	(3.0)
Revenue deferral	(12.0)	8.1	–
Dismantling provision	(5.2)	0.6	–
Impairment	(10.5)	(1.1)	–
Other	(3.7)	(0.4)	–
<b>Total deferred tax</b>	<b>137.5</b>	<b>21.4</b>	<b>(3.0)</b>

PARENT	BALANCE 1 JULY 2009 \$M	RECOGNISED IN PROFIT OR LOSS \$M	AMALGAMATION \$M
Property, plant and equipment temporary differences	173.6	38.6	3.4
Fair value of net debt and derivatives	(1.7)	(6.2)	1.2
Revenue deferral	(11.8)	7.9	–
Dismantling provision	(5.2)	0.6	–
Impairment	(10.5)	(1.1)	–
Other	(3.3)	0.7	1.0
<b>Total deferred tax</b>	<b>141.1</b>	<b>40.5</b>	<b>5.6</b>

## Notes to the financial statements continued

for the year ended 30 June 2011

RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2010	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2011
\$M	\$M	\$M	\$M	\$M
–	215.5	22.9	–	238.4
–	(35.4)	(20.5)	–	(55.9)
–	(3.9)	(0.1)	–	(4.0)
–	(4.6)	0.8	–	(3.8)
–	(11.6)	(2.5)	–	(14.1)
–	(4.1)	(1.5)	–	(5.6)
–	155.9	(0.9)	–	155.0

RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2010	RECOGNISED IN PROFIT OR LOSS	AMALGAMATION OF EMS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2011
\$M	\$M	\$M	\$M	\$M	\$M
–	215.6	22.8	(0.7)	–	237.7
–	(6.7)	10.1	–	–	3.4
–	(3.9)	(0.1)	–	–	(4.0)
–	(4.6)	0.8	–	–	(3.8)
–	(11.6)	(2.5)	–	–	(14.1)
–	(1.6)	(2.5)	(0.2)	–	(4.3)
–	187.2	28.6	(0.9)	–	214.9

Notes to the financial statements *continued*

for the year ended 30 June 2011

**20. DEFERRED TAX** *continued*

There are no unrecognised deferred tax balances (2010: 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.

Property, plant and equipment temporary differences relate to the difference between tax and accounting book values.

Fair value of net debt and derivatives relates to deferred tax on the differences between tax and accounting values.

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

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

Impairment relates to the NIGU property – refer to Note 15 Non current assets for background.

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

Consolidation of NZPCL – During the 2010 financial year, Transpower consolidated a special-purpose vehicle, NZPCL, as part of the 2003 cross border lease partial termination. Refer to Note 10 NZPCL debt and investment for more information.

Amalgamation of EMS – During the year, EMS Limited was amalgamated into the Parent.

**IMPUTATION CREDIT MEMORANDUM ACCOUNT**

	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Balance at the beginning of the year	325.9	290.3	325.5	289.8
Imputation credits on dividends received	–	–	–	–
Net tax payments/transfers made/refunds received	23.4	35.6	23.4	35.7
Imputation credits attached to dividends paid to shareholders	–	–	–	–
<b>Balance at the end of the year</b>	<b>349.3</b>	<b>325.9</b>	<b>348.9</b>	<b>325.5</b>

**Dividend withholding payments**

There were no dividend withholding payments during the year (2010: nil).

**21. EQUITY****Capital**

Transpower has contributed paid in capital of \$1,200,000,000 (2010: \$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. Transpower does not have any externally imposed capital requirements.

**Dividends**

There were no dividends paid or declared during the period (2010: nil).

**Management of capital**

Transpower's capital structure and dividend policy were reviewed during 2011. As a result of this review, Transpower anticipates resuming dividend payments during the 2011/12 financial year and funding a greater proportion of its capital programme with debt than had been planned prior to the review.

As a consequence of the capital structure review, Moody's reduced Transpower's credit rating one notch from Aa3 to A1. Standard and Poor's did not change their AA rating.

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 21. EQUITY *continued*

#### 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. The available for sale assets are the Fonterra shares that Transpower holds.

#### Non controlling interest

The Group recognises a non controlling interest in NZPCL. Refer to Note 10 NZPCL debt and investment for more information.

#### Amalgamation of subsidiaries

During the year, EMS, a 100% owned subsidiary, amalgamated into the Parent at book value. The net impact on the Parent financial statements was a gain of \$2.2 million, shown in the statement of changes in equity. This represents the difference between the value of the investment in the subsidiary at cost and the net assets of the subsidiary.

### 22. SEGMENT REPORTING

The Group has two reportable segments, transmission and property.

- **Transmission** – the transmission of electricity from the point of generation to the point of connection.
- **Property** – contains unregulated property bought for the North Island Grid Upgrade project

The Group has other segments that are not reportable due to their small size. These are grouped together as 'Other' in the table below. The material portion of the 'Other' balance is made up of:

- **System Operator** – the provision of real time services to ensure the short term security of the New Zealand electricity system.
- **d-cyphaTrade Limited** – 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.
- **Risk Reinsurance Limited** – established in 2001 to provide insurance services to the Group.

Segment results 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 – 2011	SEGMENT
Vector	15.86 (2010: 15.52)	Transmission
Meridian	13.22 (2010: 11.31)	Transmission

#### Geographical information

The transmission segment revenue is New Zealand sourced.

Notes to the financial statements *continued*

for the year ended 30 June 2011

22. SEGMENT REPORTING <i>continued</i>	TRANSMISSION		PROPERTY	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Income statement</b>				
Operating revenue – external customers	646.8	623.9	2.8	3.0
Operating revenue – inter-segment	2.3	5.5	–	–
Net finance expenses	66.3	70.6	4.1	–
Depreciation and amortisation	147.8	129.7	1.3	1.8
Impairment loss (credit)	–	–	19.7	30.0
Fair value gain (loss) on financial instruments	(66.0)	(110.7)	–	–
Income tax expense (credit)	30.8	31.3	(7.7)	(9.1)
Net profit (loss)	70.5	36.6	(19.8)	(21.3)

Eliminations related primarily to intersegment insurance premiums paid by the transmission segment to RRL.

23. OPERATING LEASE COMMITMENTS	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Commitments in respect of non-cancellable operating leases payable:</b>				
Within one year	11.6	10.1	11.6	10.1
One to two years	12.0	10.9	12.0	10.9
Two to five years	30.7	37.2	30.7	37.2
Later than five years	111.0	138.1	111.0	138.1
<b>Total operating lease commitments</b>	165.3	196.3	165.3	196.3

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

24. CAPITAL COMMITMENTS	GROUP		PARENT	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
<b>Capital commitments in respect of contracts for property, plant and equipment:</b>				
Within one year	724.5	413.5	724.5	413.5
One to two years	48.8	307.9	48.8	307.9
Two to three years	27.7	20.9	27.7	20.9
Three to four years	–	18.2	–	18.2
Four to five years	–	–	–	–
Greater than five years	7.5	17.0	7.5	17.0
	808.5	777.5	808.5	777.5
<b>Capital commitments in respect of contracts for intangible assets:</b>				
Easements and right to access assets	25.1	0.1	25.1	0.1
Software	0.1	0.2	0.1	0.2
	25.2	0.3	25.2	0.3
<b>Total capital commitments</b>	833.7	777.8	833.7	777.8

Notes to the financial statements *continued*

for the year ended 30 June 2011

OTHER		ELIMINATIONS				TOTAL	
2011	2010	2011	2010	2011	2010		
\$M	\$M	\$M	\$M	\$M	\$M		
79.0	105.6	2.8	(2.2)	731.4	730.3		
15.2	14.9	(17.5)	(20.4)	–	–		
8.7	(2.3)	2.4	3.2	81.5	71.5		
11.6	8.4	–	–	160.7	139.9		
–	(0.3)	–	–	19.7	29.7		
0.6	–	–	0.1	(65.4)	(110.6)		
10.8	21.5	–	–	33.9	43.7		
27.8	49.7	–	–	78.5	65.0		

**25. CONTINGENCIES****(i) Guarantees***NZPCL*

In November 2009, the Group partially terminated the 2003 cross border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has consolidated a special purpose vehicle, NZPCL. NZPCL has a deposit with a financial institution and a loan from another financial institution. The cash flows from the deposit and loan offset. No consideration was transferred. The loan to NZPCL is guaranteed by Transpower. Note 10 NZPCL debt and investment contains the amounts of the loan and loan asset.

The substance of the transaction is such that Transpower, rather than the non controlling interest, would be responsible for any shortfall between the value of the asset and the liability.

*Debt*

Transpower and, in some cases, certain subsidiaries have provided guarantees in respect of loan arrangements for the bonds, euro medium term notes (EMTN), Australian medium term notes and the US private placement.

The likelihood of losses in respect of these matters is considered to be remote. Note 19 Debt, financial instruments and risk management includes the limits of the facilities and the outstanding amounts issued at balance date.

*Bonds*

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

Pursuant to the Trust Deed, Transpower and its subsidiaries excluding RRL 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.

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 25. CONTINGENCIES *continued*

#### *Euro medium term notes*

Under the euro medium term note (EMTN) programme Transpower Finance may from time to time issue notes guaranteed by Transpower. The Guarantor (Transpower) and Transpower Finance have given a negative pledge covenant that while any of the notes issued under the EMTN programme remain outstanding they will not (and their subsidiaries will not), subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets to secure payment of certain indebtedness. The Guarantor (Transpower) and Transpower Finance guarantee payment of all principal and interest amounts in respect of notes issued under the EMTN programme.

#### *Australian medium term notes*

Under the Australian medium term note programme, Transpower Finance may issue notes guaranteed by Transpower. There were no notes issued at balance date (2010: none).

#### *US private placement*

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

#### **(ii) Economic gain (loss) account**

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

The net balance of the EV account at 30 June 2010 was \$18.7 million to the credit of customers. This balance is comprised of an AC customer credit balance of \$127.9 million and an HVDC customer debit balance of \$109.2 million.

The 30 June 2011 EV account figures are expected to be finalised by 30 September 2011.

#### **(iii) Regulated rate of return**

On 23 December 2010, the Commerce Commission announced the new regulatory framework that applies to Transpower. Under the framework, the proposed rate of return is substantially below a level that the directors and their specialist advisors consider appropriate. The decision on the rate of return is being appealed through the courts. If Transpower is successful in its appeal, the allowed rate of return may be increased retrospectively. An increase in the regulated rate of return of 10 basis points approximates to revenue of \$3 million per annum. At this stage, it is too early to determine what the outcome could be. The revenue charged to customers for the April 2011 to June 2011 period reflects the rate of return proposed by the Commerce Commission.

#### **(iv) Kapiti high voltage coalition**

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

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

If the council decisions are set aside, Transpower will need to secure new consents. If the trespass claim is successful, Transpower may not be able to access the works (or at least part of them) without obtaining easements, and further damages claims might be brought, including by non-KHVC members. It is considered unlikely that any material liability will result from this action.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**25. CONTINGENCIES** *continued***(v) Regulation**

Transpower is allowed to recover the costs from projects set out in Grid Upgrade Plans (GUPs) approved previously by the Electricity Commission (EC) and now approved by the Commerce Commission (CC). If project expenditure exceeds the amount initially approved, Transpower must apply to the CC for approval to recover the additional amount from transmission customers. At 30 June 2011, five projects had exceeded the approved amount by a total of \$14 million. Transpower has approached the CC to seek approval to recover these amounts from transmission customers. In the event that the CC did not approve the additional spend on a project, the additional spend cannot be recovered from customers.

**(vi) Various other lawsuits, claims and investigations**

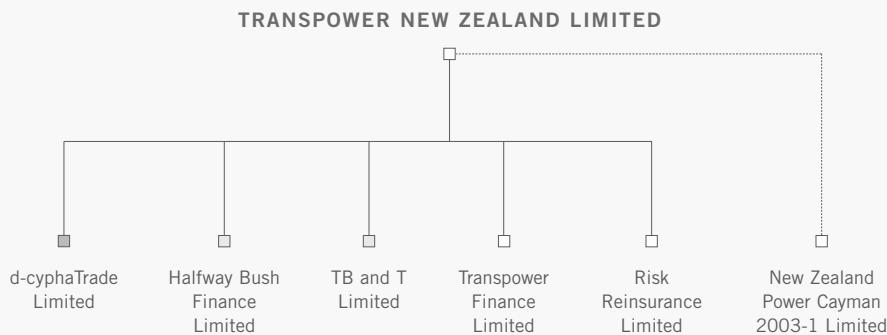
Various other lawsuits, claims and investigations have been brought or are pending against the Group. The directors of Transpower cannot reasonably estimate the adverse effect (if any) on the Group if any of the foregoing claims are ultimately resolved against the Group's interests.

**26. GROUP ENTITIES**

All subsidiaries are wholly owned, are incorporated in New Zealand (except where mentioned otherwise) and have a balance date of 30 June 2011. Transpower has no ownership interest in NZPCL. NZPCL is a special purpose vehicle registered in the Cayman Islands and is consolidated for financial reporting, indicated by the dotted line in the diagram below. Refer to Note 10 NZPCL debt and investment for more detail.

Energy Market Services Limited was amalgamated into Transpower New Zealand Limited during the year – refer to Note 21 Equity for more details.

As at balance date, the group entities are as follows:



- Provides services to the Australian market for electricity derivatives.
- Party to a cross border lease over the majority of the South Island HVAC assets.
- Transpower Finance Limited – Main finance company.
- Risk Reinsurance Limited – Captive insurance company registered in Cayman Islands, established to provide insurance for the Transpower Group.

Notes to the financial statements *continued*

for the year ended 30 June 2011

**27. RELATED PARTIES****Transactions with key personnel**

The Group did not conduct any business with key personnel.

**Key management personnel compensation**

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

	GROUP		PARENT	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Directors' fees	0.5	0.5	0.5	0.5
Key management personnel	4.7	5.5	4.7	5.5
Defined contribution schemes	0.2	0.2	0.2	0.2

There were no termination payments to key management personnel in 2011 (2010: \$0.5 million).

**Intercompany transactions**

The subsidiaries identified in Note 26 Group entities 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. The balances are unsecured.

**Insurance**

RRL 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. RRL is a wholly owned subsidiary of the Parent and is incorporated in the Cayman Islands. RRL reinsures to parties external to the Group to reduce some of its risk.

*Premiums*

In 2011, the Parent paid \$9.2 million to RRL in insurance premiums (2010: \$9.3 million). In 2011, RRL reinsured some of the risk, paying premiums of \$3.4 million of which \$0.6 million is prepaid at June 2011.

*Current claims*

At June 2011, there is an unpaid claims liability of \$4.8 million (2010: \$4.8 million) relating to events during 2008 (\$1.5 million) and 2010 (\$3.3 million). The payment of this claim will be made by RRL and is not claimable from the reinsurers external to the Group. There are sufficient liquid assets in RRL to pay this claim. This claim is expected to be paid within the next year.

## Notes to the financial statements *continued*

for the year ended 30 June 2011

### 28. SIGNIFICANT JUDGEMENTS/ESTIMATES

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#### **Valuation of NIGU property**

A valuation and subsequent impairment of \$19.7 million was made on Transpower's property assets. The impairment was based on a desktop valuation by Crighton Stone, registered valuers. The properties relate to those on the North Island Grid Upgrade (NIGU) route between Whakamaru and South Auckland purchased for the purposes of establishing easements and then onselling. Some of these properties are classified as held for sale based on Transpower's judgement that a sale is expected within 12 months. Refer to Note 15 Non current assets for more information.

#### **Dismantling provision**

An estimate and assumption made regarding future events was in relation to a dismantling provision. This provision has a balance at 30 June 2011 of \$13.6 million (30 June 2010: \$15.2 million). The nature and uncertainty of this provision is discussed in Note 17 Provisions.

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

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

### 29. ALTERNATE PROFIT MEASURE

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Transpower discloses an alternate measure of profit, which is earnings before net changes in fair values of financial instruments. Transpower discloses this information as it provides a different measure of underlying performance to the IFRS mandated profit measures, which are also disclosed.

The directors consider that this additional profit measure is useful additional information for users of the financial statements.

Changes in financial instruments values are driven by external interest rate movements and changes in Transpower's creditworthiness. Transpower is not in the business of trading financial instruments and generally holds the financial instruments until maturity. The fair value movements are non-cash in nature.

Transpower has consistently reported an alternate profit on this basis since the adoption of IFRS.

### 30. SUBSEQUENT EVENTS

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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.

## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF TRANSPOWER NEW ZEALAND LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of Transpower New Zealand Limited (the company) and group. The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the company and group, on her behalf.

We have audited the financial statements of the company and group on pages F2 to F53, that comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

#### Opinion on the financial statements

In our opinion the financial statements of the company and group on pages F2 to F53:

- ▶ 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 2011; and
  - ▶ financial performance and cash flows for the year ended on that date.

#### Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 15 August 2011. This 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 our responsibilities, and explain our independence.

#### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- ▶ the appropriateness of accounting policies used and whether they have been consistently applied;
- ▶ the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- ▶ the adequacy of all disclosures in the financial statements; and
- ▶ the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements that:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- ▶ give a true and fair view of the company and group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

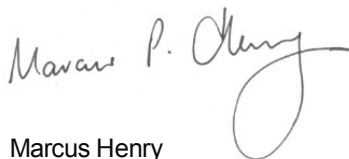
### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our 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 New Zealand Institute of Chartered Accountants.

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.



Marcus Henry  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

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## Statement of Comprehensive Income

For the year ended 30 June 2010

	NOTES	GROUP		PARENT	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Operating revenue</b>					
Transmission revenue	2	653,394	629,880	653,394	629,880
Other revenue	2	76,941	63,826	68,005	43,326
Finance revenue	5	4,083	5,626	55,065	20,976
		734,418	699,332	776,464	694,182
<b>Expenditure</b>					
Transmission expenditure	4	133,867	159,117	133,867	159,117
Employee benefits	4	52,149	49,361	48,343	46,000
Other operating expenditure	4	83,864	84,905	100,881	110,582
		269,880	293,383	283,091	315,699
<b>Earnings before interest, impairment, tax, depreciation, amortisation and changes in the fair value of financial instruments</b>		464,538	405,949	493,373	378,483
Depreciation	14	127,882	128,187	124,725	122,146
Amortisation	15	11,952	6,274	11,812	6,190
Impairment	14	24,532	6,200	24,532	6,200
Property held for sale impairment	9	5,222	–	5,222	–
Finance costs	5	75,666	79,477	155,689	147,224
<b>Earnings before changes in the fair value of financial instruments and tax</b>		219,284	185,811	171,393	96,723
Gain (loss) in the fair value of financial instruments	6	(110,596)	(61,288)	(22,799)	(8,880)
<b>Earnings before tax</b>		108,688	124,523	148,594	87,843
Income tax expense (credit)	7	43,703	31,614	51,377	20,712
<b>Net profit (loss)</b>		64,985	92,909	97,217	67,131
<i>Total net profit (loss) for the period is attributable to:</i>					
Non controlling interest (NCI)	22	1,153	–	–	–
Owners of the parent		63,832	92,909	97,217	67,131
		64,985	92,909	97,217	67,131

## Statement of Comprehensive Income continued

For the year ended 30 June 2010

	NOTES	GROUP		PARENT	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Other comprehensive income</b>					
Net fair value gains (losses) on available for sale financial assets	22	–	(826)	–	(826)
Income tax expense (credit) on other comprehensive income	22	–	(281)	–	(281)
Transferred to other revenue/expenditure	22	–	75	–	75
<b>Other comprehensive income for the period net of tax</b>		–	(470)	–	(470)
<b>Total comprehensive income for the period</b>		64,985	92,439	97,217	66,661
<i>Total comprehensive income for the period is attributable to:</i>					
Non controlling interest (NCI)	22	1,153	–	–	–
Owners of the parent		63,832	92,439	97,217	66,661
		64,985	92,439	97,217	66,661

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

<b>Earnings before changes in the fair value of financial instruments and tax</b>	219,284	185,811	171,393	96,723
Income tax expense (credit) excluding changes in the fair value of financial instruments	76,882	50,000	58,217	23,376
<b>Earnings before net changes in fair values of financial instruments</b>	142,402	135,811	113,176	73,347
Gain (loss) in the fair value of financial instruments	(110,596)	(61,288)	(22,799)	(8,880)
Income tax expense (credit) on changes in the fair value of financial instruments	(33,179)	(18,386)	(6,840)	(2,664)
<b>Net profit (loss)</b>	64,985	92,909	97,217	67,131

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

## Statement of Changes in Equity

	NOTES	GROUP					TOTAL \$000
		ORDINARY SHARES \$000	AVAILABLE FOR SALE RESERVE \$000	RETAINED EARNINGS \$000	OWNERS OF THE PARENT \$000	NON CONTROLLING INTEREST \$000	
<b>2009/10</b>							
<b>Equity at 1 July 2009</b>		1,200,000	(851)	200,779	1,399,928	–	1,399,928
Profit for the period		–	–	63,832	63,832	1,153	64,985
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	63,832	63,832	1,153	64,985
Transactions with owners	22	–	–	–	–	–	–
Recognition of NCI on subsidiary consolidation	22	–	–	–	–	(9,932)	(9,932)
<b>Total equity at 30 June 2010</b>		1,200,000	(851)	264,611	1,463,760	(8,779)	1,454,981
<b>2008/09</b>							
<b>Equity at 1 July 2008</b>		1,200,000	(381)	107,870	1,307,489	–	1,307,489
Profit for the period		–	–	92,909	92,909	–	92,909
Other comprehensive income		–	(470)	–	(470)	–	(470)
<b>Total comprehensive income</b>		–	(470)	92,909	92,439	–	92,439
Transactions with owners	22	–	–	–	–	–	–
Recognition of NCI on subsidiary consolidation	22	–	–	–	–	–	–
<b>Total equity at 30 June 2009</b>		1,200,000	(851)	200,779	1,399,928	–	1,399,928

## Statement of Changes in Equity continued

		PARENT					
	NOTES	ORDINARY SHARES \$000	AVAILABLE FOR SALE RESERVE \$000	RETAINED EARNINGS \$000	OWNERS OF THE PARENT \$000	NON CONTROLLING INTEREST \$000	TOTAL \$000
<b>2009/10</b>							
<b>Equity at 1 July 2009</b>		1,200,000	(851)	(210,001)	989,148	–	989,148
Amalgamation of subsidiaries during the year	22	–	–	332,535	332,535	–	332,535
Profit for the period		–	–	97,217	97,217	–	97,217
Other comprehensive income		–	–	–	–	–	–
<b>Total comprehensive income</b>		–	–	97,217	97,217	–	97,217
Transactions with owners	22	–	–	–	–	–	–
Recognition of NCI on subsidiary consolidation	22	–	–	–	–	–	–
<b>Total equity at 30 June 2010</b>		1,200,000	(851)	219,751	1,418,900	–	1,418,900
<b>2008/09</b>							
<b>Equity at 1 July 2008</b>		1,200,000	(381)	(277,132)	922,487	–	922,487
Profit for the period		–	–	67,131	67,131	–	67,131
Other comprehensive income		–	(470)	–	(470)	–	(470)
<b>Total comprehensive income</b>		–	(470)	67,131	66,661	–	66,661
Transactions with owners	22	–	–	–	–	–	–
Recognition of NCI on subsidiary consolidation	22	–	–	–	–	–	–
<b>Total equity at 30 June 2009</b>		1,200,000	(851)	(210,001)	989,148	–	989,148

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

## Balance Sheet

As at 30 June 2010

	NOTES	GROUP		PARENT	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>ASSETS EMPLOYED</b>					
<b>Current assets</b>					
Cash and cash equivalents		22,932	40,722	–	221
Trade and other receivables	8	66,050	61,193	129,589	191,398
Current tax asset		1,524	–	2,191	8,965
Investments	11	63,189	83,829	1,160,257	340,194
Derivatives in gain	11	–	1,660	–	–
Other financial assets	11	32,368	–	29,515	–
Non current assets held for sale	9	33,844	–	33,844	–
Inventories	12	10,688	6,763	10,688	6,763
		230,595	194,167	1,366,084	547,541
<b>Non current assets</b>					
Trade and other receivables		9,410	653	9,410	653
Investment in subsidiaries	13	–	–	272,500	740,290
Derivatives in gain	13	107,129	119,923	–	–
Other financial assets	13	108,296	3,609	3,944	3,609
Capital work in progress	14	475,338	471,391	475,274	471,047
Property, plant and equipment	14	2,481,916	2,229,139	2,481,840	2,166,350
Intangibles	15	152,813	46,675	152,501	46,535
		3,334,902	2,871,390	3,395,469	3,428,484
<b>Total assets employed</b>		3,565,497	3,065,557	4,761,553	3,976,025
<b>FUNDS EMPLOYED</b>					
<b>Current liabilities</b>					
Cash and cash equivalents		–	–	255	–
Trade and other payables	16	92,616	81,347	89,083	79,035
Current tax liability		–	12,919	–	–
Current debt	17	153,953	165,535	2,976,481	2,676,760
Derivatives in loss	17	77,187	3,265	30,630	2,903
Other financial liabilities	17	–	269	–	269
Deferred income	3	34,389	60,092	34,389	60,142
Provisions	18	11,290	11,564	10,837	11,170
		369,435	334,991	3,141,675	2,830,279

□

## Balance Sheet continued

As at 30 June 2010

	NOTES	GROUP		PARENT	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Non current liabilities</b>					
Non current payables		2,485	2,723	2,485	2,723
Finance lease liabilities	19	1,208	1,419	1,169	1,332
Derivatives in loss	17	59,559	13,153	–	–
Non current debt	20	1,511,774	1,164,329	–	–
Deferred tax	21	155,893	137,492	187,162	141,021
Provisions	18	10,162	11,522	10,162	11,522
		1,741,081	1,330,638	200,978	156,598
<b>Total liabilities</b>		2,110,516	1,665,629	3,342,653	2,986,877
<b>Equity</b>					
Capital	22	1,200,000	1,200,000	1,200,000	1,200,000
Available for sale financial assets reserve	22	(851)	(851)	(851)	(851)
Accumulated surplus (deficit)		264,611	200,779	219,751	(210,001)
Non controlling interest	22	(8,779)	–	–	–
<b>Total equity</b>		1,454,981	1,399,928	1,418,900	989,148
<b>Total funds employed</b>		3,565,497	3,065,557	4,761,553	3,976,025

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 18 August 2010.

For, and on behalf of, the Board



WAYNE BROWN

CHAIRMAN

18 AUGUST 2010



IAN DONALD

DEPUTY CHAIRMAN

18 AUGUST 2010

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

## Cash Flow Statement

For the year ended 30 June 2010

	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>CASH FLOW FROM OPERATIONS</b>				
<b>Cash was provided from:</b>				
Receipts from customers	718,366	661,832	666,815	618,973
Dividends received from subsidiaries	–	–	7,000	–
Interest received	4,083	5,626	48,065	20,976
<b>Cash was applied to:</b>				
Payments to suppliers and employees	(259,388)	(286,337)	(296,956)	(310,607)
Tax payments	(35,621)	(33,840)	(35,621)	(27,082)
Interest paid	(114,649)	(97,028)	(185,363)	(164,775)
<b>Net cash inflows (outflows) from operations</b>	<b>312,791</b>	<b>250,253</b>	<b>203,940</b>	<b>137,485</b>
<b>CASH FLOW FROM INVESTMENTS</b>				
<b>Cash was provided from:</b>				
Sale of property, plant and equipment	8,050	5,265	8,050	5,265
Short term investments	500,154	1,045,730	–	–
<b>Cash was applied to:</b>				
Purchase of property, plant and equipment	(554,647)	(336,151)	(553,960)	(335,345)
Short term investments	(479,514)	(967,982)	(83,705)	(21,098)
<b>Net cash inflows (outflows) from investments</b>	<b>(525,957)</b>	<b>(253,138)</b>	<b>(629,615)</b>	<b>(351,178)</b>
<b>CASH FLOW FROM FINANCING</b>				
<b>Cash was provided from:</b>				
Increase in loans	102,208	474,528	425,199	212,919
<b>Cash was applied to:</b>				
Increase in long term investments	–	–	–	–
Dividends paid	–	–	–	–
Repayment of loans	93,168	(441,935)	–	–
<b>Net cash inflows (outflows) from financing</b>	<b>195,376</b>	<b>32,593</b>	<b>425,199</b>	<b>212,919</b>
Net increase (decrease) in cash held	(17,790)	29,708	(476)	(774)
Opening balance brought forward	40,722	11,014	221	995
<b>Closing net cash carried forward</b>	<b>22,932</b>	<b>40,722</b>	<b>(255)</b>	<b>221</b>
<b>Closing net cash carried forward comprises:</b>				
Cash and bank	22,932	40,722	(255)	221

## Cash Flow Statement continued

For the year ended 30 June 2010

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

	GROUP		PARENT	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
<b>Net profit (loss)</b>	64,985	92,909	97,217	67,131
<b>Add (deduct) non cash items:</b>				
Change in fair value of financial instruments	110,596	61,288	15,473	8,880
Depreciation and amortisation	139,834	134,461	139,442	128,336
Deferred tax	18,401	(15,822)	26,210	272
Impairment	29,754	6,200	29,754	6,200
Imputed interest	3,209	5,273	3,209	4,766
<b>Movements in working capital items:</b>				
(Increase) in trade and other receivables	(15,001)	(25,904)	(45,724)	(47,842)
Decrease (increase) in prepayments	1,551	(2,632)	1,136	(2,291)
(Increase) in stocks of materials	(3,925)	(3,219)	(3,925)	(3,219)
(Decrease) increase in trade and other payables, interest payable and deferred income	3,708	(2,998)	(17,887)	(4,810)
(Decrease) increase in taxation payable	(14,443)	13,877	(15,012)	(6,361)
(Decrease) in provisions	(1,634)	(2,820)	(1,693)	(2,961)
<b>Add (deduct) items classified as investing activities:</b>				
Property, plant and equipment write-offs and loss on sale	5,430	7,191	5,414	6,935
Capitalised interest	(29,674)	(17,551)	(29,674)	(17,551)
<b>Net cash flow from operations</b>	<b>312,791</b>	<b>250,253</b>	<b>203,940</b>	<b>137,485</b>

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

## Notes to the Financial Statements

For the year ended 30 June 2010

1	Statement of Accounting Policies	16	Trade and Other Payables
2	Operating Revenue	17	Other Financial Liabilities
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4	Expenditure on Activities	19	Non Current Finance Lease Liability
5	Net Finance Costs	20	Non Current Debt
6	Change in Fair Value of Financial Instruments	21	Deferred Tax
7	Income Tax Expense	22	Equity
8	Trade and Other Receivables	23	Segment Reporting
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### 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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 1. STATEMENT OF ACCOUNTING POLICIES continued

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#### Specific Accounting Policies

##### a) *Basis of Consolidation*

The Group financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2010. Subsidiaries are those entities controlled, directly or indirectly, by the Parent. All significant intercompany accounts and transactions are eliminated on consolidation. In the Parent's financial statements, investment in subsidiaries is carried at cost.

The partial termination of the 2003 cross border lease transaction has resulted in Transpower disclosing a non controlling interest (NCI) relating to New Zealand Power Cayman 2003-1 Limited (NZPCL). The valuation method used was the share of the NCI net assets rather than fair value.

##### 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. Transpower had no goodwill in the period.

##### c) *Revenue*

The Group recognises revenue as it provides services or delivers products to customers. Two significant streams of revenue that are received upfront 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 profit or loss. This pass-through occurs when the Group does not carry out the service and it is deemed to act only as a collection agent.

##### d) *Goods and Services Tax (GST)*

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

##### e) *Accounts Receivable*

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

##### f) *Inventories*

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**1. STATEMENT OF ACCOUNTING POLICIES** continued*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. Transpower had no external equity investments during the period.

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

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

*i) Loans and Receivables*

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

*j) Trade and Other Payables*

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the 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.

*k) Available for Sale Financial Assets*

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 1. STATEMENT OF ACCOUNTING POLICIES continued

*l) Property, Plant and Equipment*

Property, plant and equipment are 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 profit or loss in the period in which they arise. Transpower had no investment property in the period.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**1. STATEMENT OF ACCOUNTING POLICIES continued***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.

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 recognised in profit or loss in accordance with the pattern of benefits derived/received.

The Group has previously entered into cross border leases. The Group has received up-front gains 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. The final cross border lease, over the South Island AC assets, was partially terminated during the year.

*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	3–8 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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 1. STATEMENT OF ACCOUNTING POLICIES continued

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#### 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.

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

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

#### t) *Debt*

Debt is designated as fair value through profit or loss on the basis of preventing an accounting mismatch. The 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 or Transpower) 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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 1. STATEMENT OF ACCOUNTING POLICIES continued

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

#### **Current Tax**

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

#### **Deferred Tax**

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

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

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

#### *w) Foreign Currency Transactions*

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 1. STATEMENT OF ACCOUNTING POLICIES continued

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

#### 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.

#### 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 profit or loss together with any change in the fair value of the hedged asset or liability.

For an instrument to qualify as a designated and effective hedging instrument, at the inception of the derivative transaction, the relationship between hedging instruments and hedged items must be documented, as must the 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.

#### **Comparatives**

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

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 1. STATEMENT OF ACCOUNTING POLICIES continued

**New Standards Adopted During the Period**

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

- NZ IAS 1 (R) Presentation of Financial Statements – this has resulted in new disclosure and presentation in the Statement of Comprehensive Income and Statement of Changes in Equity.
- NZ IAS 27 (R) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate; NZ IFRS 3 (R) Business Combinations – the changes in these standards impacted upon the recognition and disclosures of New Zealand Power Cayman 2003-1 Limited (NZPCL). Transpower has opted to recognise NZPCL using the share of the NCI's net assets rather than the fair value of the NCI.
- NZ IFRS 7 Financial Instruments: Disclosures – the Group has disclosed where its valuations of financial instruments fall within the three-level fair value hierarchy.

2. OPERATING REVENUE	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Transmission revenue</b>				
HVAC interconnection	440,402	416,694	440,402	416,694
HVAC connection	132,220	131,171	132,220	131,171
HVDC	72,694	74,322	72,694	74,322
EV (rebate) charge – HVAC	(31,870)	(31,115)	(31,870)	(31,115)
EV (rebate) charge – HVDC	7,267	7,405	7,267	7,405
New investment agreements	24,950	23,367	24,950	23,367
Other	7,731	8,036	7,731	8,036
	653,394	629,880	653,394	629,880
<b>Other revenue</b>				
Wholesale market services	26,562	22,515	26,562	22,515
Rental income	7,510	8,448	7,510	8,448
Cross border lease income	27,806	17,292	27,806	9,566
Risk Reinsurance investment income	2,557	4,670	–	–
Other	12,506	10,901	6,127	2,797
	76,941	63,826	68,005	43,326
<b>Total operating revenue</b>	730,335	693,706	721,399	673,206
<b>Intercompany transactions (included above)</b>			4,399	850

Intercompany revenue relates to income from Energy Market Services Limited (EMS), rental and lease income. In 2010, other revenue also includes insurance claims payable by Risk Reinsurance of \$3,250,000.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 2. OPERATING REVENUE continued

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#### **Transmission Revenue**

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

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.

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

#### **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**

During the period, the Group partially terminated the final cross border lease, which related to the majority of the HVAC transmission assets in the South Island.

As a result of the partial termination, the Group has recognised the remainder of the income in advance relating to this lease transaction.

##### **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 non Risk Reinsurance investments have been included in Note 5 Net Finance Costs.

##### **Other**

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

3. DEFERRED INCOME	GROUP		PARENT	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
South Island cross border lease	–	27,229	–	27,229
New investment agreements	13,314	14,306	13,314	14,306
Transmission realignment	19,465	18,075	19,465	18,075
Fibre optic cable	924	–	924	–
Other	686	482	686	532
<b>Total deferred income</b>	<b>34,389</b>	<b>60,092</b>	<b>34,389</b>	<b>60,142</b>

**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 was 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 partially terminated during 2010 resulting in the remaining income being recognised. Refer to Note 22 Equity for more information on this termination.

**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.

**Fibre Optic Cable**

An agreement was entered into with a transmission customer to grant them indefeasible rights to connect and use Transpower fibre optic cables over 20 years. The revenue received is recognised over the life of the assets.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

4. EXPENDITURE ON ACTIVITIES	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Transmission expenditure</b>				
Maintenance of HVAC substations	48,806	54,983	48,806	54,983
Maintenance of HVDC substations and cables	10,549	7,494	10,549	7,494
Maintenance of HVAC lines	42,820	38,244	42,820	38,244
Maintenance of HVDC lines	2,328	1,304	2,328	1,304
HVDC share of reserves	7,226	27,452	7,226	27,452
Other direct transmission expenditure	22,138	29,640	22,138	29,640
	133,867	159,117	133,867	159,117
<b>Employee benefits</b>				
Short term benefits	49,164	46,610	45,485	43,341
Defined contribution schemes	2,194	1,474	2,067	1,382
Other	791	1,277	791	1,277
	52,149	49,361	48,343	46,000
<b>Other operating expenditure</b>				
Information technology costs	18,228	21,232	17,258	20,215
Industry levies	8,460	8,032	8,460	8,032
Other business support costs	32,050	31,907	35,323	34,918
Operating lease and rental costs	13,532	10,447	22,509	28,513
Study grants and donations	1,253	1,361	1,253	1,361
External auditor – audit fee	333	315	333	315
External auditor – other assurance	161	60	161	60
Stock and asset write-offs	5,430	7,191	5,414	6,935
Insurance	4,416	4,284	10,169	10,157
Loss on available for sale financial assets	–	75	–	75
Bad debt write-off	1	1	1	1
	83,864	84,905	100,881	110,582
<b>Total expenditure on activities</b>	269,880	293,383	283,091	315,699
<b>Intercompany transactions (included above)</b>			22,894	31,685

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 4. EXPENDITURE ON ACTIVITIES continued

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Intercompany expenses relate to insurance, lease costs, accounting and metering services. The large decrease in 2010 is mainly due a reduction in lease costs as a result of the amalgamation of Oteranga Bay Limited into Transpower New Zealand Limited during the year.

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.

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

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

5. NET FINANCE COSTS	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Finance revenue</b>				
Interest received	(4,083)	(5,626)	(55,065)	(20,976)
<b>Finance costs</b>				
Interest paid and associated fees	103,511	84,588	191,534	152,842
Cross border lease expenses	(1,380)	7,167	(1,380)	7,167
Capitalised interest	(29,674)	(17,551)	(29,674)	(17,551)
Imputed interest	3,209	5,273	3,209	4,766
Dividends received	–	–	(8,000)	–
	75,666	79,477	155,689	147,224
<b>Total net finance costs</b>	<b>71,583</b>	<b>73,851</b>	<b>100,624</b>	<b>126,248</b>

**Intercompany transactions (included above)**

Interest paid and associated fees	185,816	154,374
Interest received	(53,901)	(20,444)
Dividends received	(8,000)	–

**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 and partial termination 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 2010

6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Accounting hedges</b>				
Fair value movement forward exchange contracts – hedge accounted	(29,516)	204	(29,516)	204
Fair value movement hedge commitment	29,784	(440)	29,784	(440)
	268	(236)	268	(236)
<b>Other</b>				
Fair value movement foreign debt	32,948	(105,146)	–	–
Fair value movement cross currency interest rate swaps	(13,260)	128,381	–	–
Fair value movement foreign interest rate swaps	4,615	15,325	–	–
Fair value movement basis swaps	(240)	240	–	–
Fair value movement interest rate options	362	(250)	–	–
Fair value movement NZD interest rate swaps	(99,083)	(104,279)	–	–
Fair value movement forward exchange contracts – not hedge accounted	1,789	(3,037)	1,789	(3,037)
Fair value movement investments	(174)	427	3,844	–
Fair value movement NZD debt	(37,821)	7,287	(28,700)	(5,607)
	(110,864)	(61,052)	(23,067)	(8,644)
<b>Total fair value gain (loss)</b>	(110,596)	(61,288)	(22,799)	(8,880)

**Intercompany transactions (included above)**

Fair value movement investments	3,844	–
Fair value movement NZD debt	(28,700)	(5,607)

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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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.

#### **Credit Spread Impact**

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

The credit spread was calculated by comparing the swap curve with the applicable rating yield curve.

#### **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 economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

#### **Debt and Investments**

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

7. INCOME TAX EXPENSE	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Current tax expense</b>				
Current period	22,905	47,063	11,416	18,542
Adjustment for prior periods	(593)	373	(572)	1,898
	22,312	47,436	10,844	20,440
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	10,277	(15,822)	29,514	272
Removal of depreciation on buildings	23,287	–	23,287	–
Change in future tax rate	(12,173)	–	(12,268)	–
	21,391	(15,822)	40,533	272
<b>Total income tax expense (credit)</b>	43,703	31,614	51,377	20,712
<b>Amounts charged or credited to other comprehensive income</b>				
Unrealised gain on available for sale investments	–	(281)	–	(281)
<b>Income tax expense (credit) reported in other comprehensive income</b>	–	(281)	–	(281)
<b>Reconciliation of effective tax</b>				
Operating surplus before tax	108,688	124,523	148,594	87,843
Income tax at 30c	32,606	37,357	44,578	26,353
<i>Tax effect of:</i>				
Change in future tax rate	(12,173)	–	(12,268)	–
Removal of depreciation on buildings	23,287	–	23,287	–
Non deductible expenses	117	514	114	490
Tax exempt income	–	–	(2,400)	–
Under/(over) provided in prior periods	(134)	(6,257)	(1,934)	(6,130)
<b>Total income tax expense (credit)</b>	43,703	31,614	51,377	20,712

As a result of the 20 May 2010 Budget tax changes, Transpower has reduced its deferred tax liability by \$12 million for the reduction in the company tax rate effective 1 July 2011. Also, Transpower has increased its deferred tax liability by \$23 million for the changes in building depreciation rules.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

8. TRADE AND OTHER RECEIVABLES	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Trade and other receivables	61,566	55,141	64,707	55,665
Impairment of other receivables	(17)	–	(17)	–
Intercompany receivables	–	–	59,489	129,187
Prepayments	4,501	6,052	5,410	6,546
<b>Total trade and other receivables</b>	<b>66,050</b>	<b>61,193</b>	<b>129,589</b>	<b>191,398</b>

**Intercompany balances (included above)**

Intercompany receivables	59,489	129,187
Prepayments	1,601	1,578

Impairment of 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 2010

9. NON CURRENT ASSETS HELD FOR SALE	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
NIGUP property held for sale	25,864	–	25,864	–
Low voltage assets held for sale	7,980	–	7,980	–
<b>Total non current assets held for sale</b>	<b>33,844</b>	<b>–</b>	<b>33,844</b>	<b>–</b>
<b>Gain (loss) on revaluation to net estimated sale price</b>	<b>(5,222)</b>	<b>–</b>	<b>(5,222)</b>	<b>–</b>

This gain (loss) relates to NIGUP properties only.

**Reconciliation of NIGUP property**

Purchase price of NIGUP property	203,274
less easements and related costs transferred to intangible assets	(33,538)
less Fonterra shares transferred to available for sale financial assets	(4,102)
less depreciation	(894)

**NIGUP property, plant and equipment gross value**

Estimated market value of property net of estimated selling fees	135,573
<b>Net gain (loss)</b>	<b>(29,167)</b>

*The gross value of property can be broken down into:*

Property held for sale	25,864
Property, plant and equipment	109,709
	135,573

*The net gain (loss) can be broken into:*

Property held for sale gain (loss)	(5,222)
Property, plant and equipment impairment gain (loss)	(23,945)
	(29,167)

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 9. NON CURRENT ASSETS HELD FOR SALE continued

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#### **Low Voltage Assets Held for Sale**

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

#### **NIGUP Property**

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

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

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

10. FINANCIAL INSTRUMENT CATEGORISATION	DESIGNATED FAIR VALUE THROUGH PROFIT OR LOSS (ACCOUNTING MISMATCH)	FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	HEDGE ACCOUNTING (FAIR VALUE METHOD)	AVAILABLE FOR SALE	LOANS AND RECEIVABLES	OTHER LIABILITIES
<b>Current assets</b>						
Cash and cash equivalents					X	
Trade and other receivables					X	
Investments		X				
Hedge commitments			X			
Intercompany investment	X					
<b>Non current assets</b>						
Investment in subsidiaries	n/a	n/a	n/a	n/a	n/a	n/a
Other financial assets (Fonterra shares)				X		
<b>Current liabilities</b>						
Trade and other payables						X
Current debt	X					
Intercompany debt	X					
Current portion of non current debt	X					
<b>Non current liabilities</b>						
Bonds	X					
Term borrowing	X					
Euro Medium Term Notes	X					
US Private Placement	X					
Other	X					
<b>Derivatives</b>						
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			

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 10. FINANCIAL INSTRUMENT CATEGORISATION continued

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#### **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 economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

#### **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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

11. OTHER CURRENT FINANCIAL ASSETS	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Investments</b>				
Risk Reinsurance investments				
– Call deposits	2,514	900	–	–
– Promissory notes	2,995	995	–	–
– Deposits	30,969	31,173	–	–
– Floating rate notes	9,890	12,147	–	–
– Corporate bonds	16,141	15,042	–	–
Other investments	680	23,572	–	–
Intercompany investment	–	–	1,160,257	340,194
	63,189	83,829	1,160,257	340,194
<b>Derivatives in gain</b>				
Basis swaps	–	240	–	–
Interest rate swaps	–	1,420	–	–
	–	1,660	–	–
<b>Other financial assets</b>				
Hedge commitments	29,515	–	29,515	–
NZPCL loan asset – current portion	2,853	–	–	–
	32,368	–	29,515	–
<b>Total other current financial assets</b>	95,557	85,489	1,189,772	340,194

**Intercompany balances (included above)**

Intercompany investment	1,160,257	340,194
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Intercompany investments are repayable on demand and have an interest rate of 7.62% (2009: 3.46%).

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 11. OTHER CURRENT FINANCIAL ASSETS continued

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#### **Financial Instrument Categorisation**

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

#### **Investments**

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

#### **Derivatives in Gain**

Derivatives are used to manage financial risk. Refer to Note 24 Financial Instruments for further information. The gain on derivatives represents the unrealised gain at balance date. The 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 17 Other 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 17 Other Financial Liabilities. Note that, although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

#### **NZPCL Loan Asset**

Transpower has consolidated a special purpose vehicle, New Zealand Power Cayman 2003-1 Limited (NZPCL), as part of the 2003 cross border lease partial termination. NZPCL has a loan liability and loan asset. Refer to note 22 Equity – Non Controlling Interest for more information.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

12. INVENTORIES	GROUP		PARENT	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Substations	7,431	6,021	7,431	6,021
Transmission lines	2,276	427	2,276	427
Communications	816	184	816	184
Other	165	131	165	131
<b>Total inventories</b>	<b>10,688</b>	<b>6,763</b>	<b>10,688</b>	<b>6,763</b>
Inventories expensed during the period	2,222	3,756	2,222	3,756

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

13. OTHER NON CURRENT FINANCIAL ASSETS	GROUP		PARENT	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
<b>Investment in subsidiaries</b>	–	–	272,500	740,290
<b>Derivatives in gain</b>				
Cross currency interest rate swaps	107,129	119,923	–	–
	107,129	119,923	–	–
<b>Other financial assets</b>				
Fonterra shares	3,944	3,609	3,944	3,609
NZPCL loan asset	104,352	–	–	–
	108,296	3,609	3,944	3,609
<b>Total non current financial assets</b>	<b>108,296</b>	<b>3,609</b>	<b>276,444</b>	<b>743,899</b>

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 13. OTHER NON CURRENT FINANCIAL ASSETS continued

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#### **Financial Instrument Categorisation**

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

#### **Derivatives in Gain**

Derivatives are used to manage financial risk. Refer to Note 24 Financial Instruments for further information. The gain on derivatives represents the unrealised gain at balance date. The 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 17 Other Financial Liabilities for derivatives that are in loss.

#### **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 Limited issued 250 million \$1 shares to Transpower New Zealand Limited.

During the year, four companies were amalgamated into the Parent. Refer to Note 22 Equity for more details.

#### **Fonterra Shares**

Refer to Note 10 Financial Instrument Categorisation for background information on these shares.

#### **NZPCL Loan Asset**

Transpower has consolidated a special purpose vehicle, NZPCL, as part of the 2003 cross border lease partial termination. NZPCL has a loan liability and loan asset. Refer to note 22 Equity – Non Controlling Interest for more information.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

<b>14. PROPERTY, PLANT AND EQUIPMENT</b>	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS
GROUP	\$000	\$000	\$000
<b>At 30 June 2010</b>			
Cost	1,201,290	73,345	1,460,905
Accumulated depreciation	(228,268)	(26,078)	(283,881)
Net book value	973,022	47,267	1,177,024
<b>At 30 June 2009</b>			
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
<b>30 June 2010 reconciliation</b>			
Opening net book value (1 July 2009)	933,031	50,565	975,354
Additions/transfers	131,921	534	267,527
Disposals/transfers	(27,327)	(47)	(18,334)
Impairment	(24,821)	–	–
Depreciation	(39,782)	(3,785)	(47,523)
Closing net book value	973,022	47,267	1,177,024
<b>30 June 2009 reconciliation</b>			
Opening net book value (1 July 2008)	953,069	52,683	908,999
Additions/transfers	41,056	1,734	119,043
Disposals/transfers	(23,763)	(75)	(4,560)
Impairment	–	–	–
Depreciation	(37,331)	(3,777)	(48,128)
Closing net book value	933,031	50,565	975,354

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

Land and buildings are contained within the above classes and have a net book value of \$281,226,129 (2009: \$255,423,760).

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

### Impairment

Impairment is made up of two balances.

#### *i) System Operator Impairment*

In the year to 30 June 2010, \$289,000 of impairment expense relating to System Operator assets was reversed. The impairment related to the shortfall in revenue to recover the cost of the Market Systems Project (MSP).

HVDC SUBSTATIONS AND SUBMARINE CABLES	COMMUNICATIONS	ADMINISTRATION ASSETS	CAPITAL WORK IN PROGRESS	TOTAL
\$000	\$000	\$000	\$000	\$000
325,185	142,164	96,597	475,338	3,774,824
(161,080)	(61,173)	(57,090)	–	(817,570)
164,105	80,991	39,507	475,338	2,957,254
323,854	107,430	82,002	471,391	3,396,083
(144,642)	(49,080)	(49,375)	–	(695,553)
179,212	58,350	32,627	471,391	2,700,530
179,212	58,350	32,627	471,391	2,700,530
1,596	34,633	46,649	3,658	486,518
(38)	145	(31,779)	–	(77,380)
–	–	–	289	(24,532)
(16,665)	(12,137)	(7,990)	–	(127,882)
164,105	80,991	39,507	475,338	2,957,254
191,709	60,287	34,456	331,338	2,532,541
4,586	10,162	8,512	146,572	331,665
(303)	(228)	(41)	(319)	(29,289)
–	–	–	(6,200)	(6,200)
(16,780)	(11,871)	(10,300)	–	(128,187)
179,212	58,350	32,627	471,391	2,700,530

The System Operator manages the power system and wholesale electricity market in real time. The System Operator embarked on a project to rationalise and substantially upgrade its market systems – the MSP. The MSP was commissioned in July 2009 and financially closed out in October 2009. An agreement with the Electricity Commission, which set the value of the MSP, was signed in August 2009. Previously, Transpower recorded an impairment of \$35.0 million relating to the MSP, with \$6.2 million in the 2009 year. The impairment expense has been recorded in profit or loss as a separate line item. The System Operator assets form a separate cash-generating unit and are classified as “other” for segmental reporting.

*ii) North Island Grid Upgrade Project Property Impairment*

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

<b>14. PROPERTY, PLANT AND EQUIPMENT continued</b>	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS
PARENT	\$000	\$000	\$000
<b>At 30 June 2010</b>			
Cost	1,201,290	73,345	1,460,905
Accumulated depreciation	(228,268)	(26,078)	(283,881)
Net book value	973,022	47,267	1,177,024
<b>At 30 June 2009</b>			
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
<b>30 June 2010 reconciliation</b>			
Opening net book value (1 July 2009)	933,031	50,565	975,354
Additions/transfers	131,921	534	267,527
Disposals/transfers	(27,327)	(47)	(18,334)
Impairment	(24,821)	–	–
Depreciation	(39,782)	(3,785)	(47,523)
Closing net book value	973,022	47,267	1,177,024
<b>30 June 2009 reconciliation</b>			
Opening net book value (1 July 2008)	953,069	52,683	908,999
Additions/transfers	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

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

Land and buildings are contained within the above classes and have a net book value of \$281,226,129 (2009: \$255,423,760).

HVDC SUBSTATIONS AND SUBMARINE CABLES	COMMUNICATIONS	ADMINISTRATION ASSETS	CAPITAL WORK IN PROGRESS	TOTAL
\$000	\$000	\$000	\$000	\$000
325,185	142,164	95,494	475,274	3,773,657
(161,080)	(61,173)	(56,063)	–	(816,543)
164,105	80,991	39,431	475,274	2,957,114
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
116,729	58,350	32,321	471,047	2,637,397
1,596	34,633	46,629	3,938	486,778
59,539	145	(31,780)	–	(17,804)
–	–	–	289	(24,532)
(13,759)	(12,137)	(7,739)	–	(124,725)
164,105	80,991	39,431	475,274	2,957,114
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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

14. PROPERTY, PLANT AND EQUIPMENT continued	GROUP		PARENT	
	2010	2009	2010	2009
<b>Capital work in progress can be split into the following classes:</b>	\$000	\$000	\$000	\$000
HVAC transmission lines	150,263	89,380	150,263	89,380
HVDC transmission lines	40	593	40	593
HVAC substations	141,348	215,685	141,348	215,685
HVDC substations and submarine cables	94,333	16,264	94,333	16,264
Communications	38,834	42,183	38,834	42,183
Administration assets	10,613	48,238	10,549	48,238
Software intangible assets	3,923	946	3,923	601
Other intangible assets	35,984	58,100	35,984	58,100
	475,338	471,391	475,274	471,047
<b>During the year, the following borrowing costs were capitalised:</b>				
HVAC transmission lines	7,095	3,330	7,095	3,330
HVDC transmission lines	–	14	–	14
HVAC substations	12,722	7,207	12,722	7,207
HVDC substations and submarine cables	3,535	720	3,535	720
Communications	2,555	1,638	2,555	1,638
Administration assets	198	2,821	198	2,821
Software intangible assets	89	12	89	12
Other intangible assets	3,480	1,808	3,480	1,808
	29,674	17,551	29,674	17,551

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

<b>15. INTANGIBLES</b>	EASEMENTS	SOFTWARE	TOTAL
GROUP	\$000	\$000	\$000
<b>At 30 June 2010</b>			
Cost	107,058	93,527	200,585
Accumulated amortisation	–	(47,772)	(47,772)
Carrying value	107,058	45,755	152,813
<b>At 30 June 2009</b>			
Cost	35,869	46,944	82,813
Accumulated amortisation	–	(36,138)	(36,138)
Carrying value	35,869	10,806	46,675
<b>2010 reconciliation</b>			
Opening carrying value	35,869	10,806	46,675
Additions	71,189	46,904	118,093
Disposals	–	(3)	(3)
Impairment	–	–	–
Amortisation	–	(11,952)	(11,952)
Closing carrying value	107,058	45,755	152,813
<b>2009 reconciliation</b>			
Opening carrying value	11,172	6,129	17,301
Additions	24,697	10,951	35,649
Disposals	–	–	–
Impairment	–	–	–
Amortisation	–	(6,274)	(6,274)
Closing carrying value	35,869	10,806	46,675

## Notes to the Financial Statements continued

For the year ended 30 June 2010

<b>15. INTANGIBLES continued</b>	EASEMENTS	SOFTWARE	TOTAL
PARENT	\$000	\$000	\$000
<b>At 30 June 2010</b>			
Cost	107,058	92,023	199,081
Accumulated amortisation	–	(46,580)	(46,580)
Carrying value	107,058	45,443	152,501
<b>At 30 June 2009</b>			
Cost	35,869	45,752	81,621
Accumulated amortisation	–	(35,086)	(35,086)
Carrying value	35,869	10,666	46,535
<b>2010 reconciliation</b>			
Opening carrying value	35,869	10,666	46,535
Additions	71,189	46,592	117,781
Disposals	–	(3)	(3)
Impairment	–	–	–
Amortisation	–	(11,812)	(11,812)
Closing carrying value	107,058	45,443	152,501
<b>2009 reconciliation</b>			
Opening carrying value	11,172	5,888	17,060
Additions	24,697	10,968	35,665
Disposals	–	–	–
Impairment	–	–	–
Amortisation	–	(6,190)	(6,190)
Closing carrying value	35,869	10,666	46,535

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**15. INTANGIBLES continued****Easements**

Easements are deemed to have an indefinite useful life because:

- there is no expiry date to the easement agreements
- Transpower is expected to use the easements indefinitely, based on past experience.

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

There was no impairment on easements during the year (2009: nil). The costs of easements are expected to be fully recovered from transmission customers.

**Software**

The amortisation of software occurs over 3–8 years.

16. TRADE AND OTHER PAYABLES	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Trade creditors	84,259	74,579	81,129	72,597
Employee entitlements	8,172	6,571	7,821	6,298
Current portion finance leases	185	197	133	140
<b>Total trade and other payables</b>	<b>92,616</b>	<b>81,347</b>	<b>89,083</b>	<b>79,035</b>

## Notes to the Financial Statements continued

For the year ended 30 June 2010

17. OTHER FINANCIAL LIABILITIES	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Current financial liabilities</b>				
<b>Current debt</b>				
Call borrowing	49,497	165,535	–	–
Intercompany debt	–	–	2,976,481	2,676,760
Current portion of non current debt	104,456	–	–	–
	153,953	165,535	2,976,481	2,676,760
<b>Derivatives in loss</b>				
Interest rate swaps	46,557	–	–	–
Forward exchange contracts	30,630	2,903	30,630	2,903
Interest rate options	–	362	–	–
	77,187	3,265	30,630	2,903
<b>Other financial liabilities</b>				
Hedge commitments	–	269	–	269
<b>Total other current financial liabilities</b>	231,140	169,069	3,007,111	2,679,932

	GROUP		PARENT	
<b>Non current financial liabilities</b>				
<b>Derivatives in loss</b>				
Interest rate swaps	59,559	13,153	–	–
	59,559	13,153	–	–

**Intercompany balances (included above)**

Intercompany debt	2,976,481	2,676,760
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## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 17. OTHER FINANCIAL LIABILITIES continued

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#### **Financial Instrument Categorisation**

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

#### **Intercompany Debt**

Intercompany investments are repayable on demand and have an interest rate of 7.62% (2009: 3.46%).

#### **Derivatives in Loss**

Derivatives are used to manage financial risk. Refer to Note 24 Financial Instruments for information.

The loss on derivatives represents the unrealised loss at balance date. The Group anticipates that the derivatives will be held until maturity and it is unlikely that settlement at the reported fair values will occur. Refer to Note 11 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 11 Other Current Financial Assets.

Note that, although all forward exchange contracts are used for economically hedging foreign purchases, not all forward exchange contracts are hedge accounted.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

<b>18. PROVISIONS</b>	EMPLOYEE BENEFITS	RESTRUCTURING	DISMANTLING	TOTAL
GROUP	\$000	\$000	\$000	\$000
Balance at 1 July 2009	5,107	696	17,283	23,086
Provisions made during the period	5,825	322	–	6,147
Provisions used during the period	(5,081)	(660)	(2,040)	(7,781)
Provisions reversed during the period	–	–	–	–
Balance at 30 June 2010	5,851	358	15,243	21,452
Current portion of provisions	5,851	358	5,081	11,290
Non current portion of provisions	–	–	10,162	10,162
Balance at 30 June 2010	5,851	358	15,243	21,452
PARENT				
Balance at 1 July 2009	4,713	696	17,283	22,692
Provisions made during the period	5,398	322	–	5,720
Provisions used during the period	(4,713)	(660)	(2,040)	(7,413)
Provisions reversed during the period	–	–	–	–
Balance at 30 June 2010	5,398	358	15,243	20,999
Current portion of provisions	5,398	358	5,081	10,837
Non current portion of provisions	–	–	10,162	10,162
Balance at 30 June 2010	5,398	358	15,243	20,999

**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. Following additional risk mitigation measures including decommissioning one half of Pole 1, the remaining half was made available for limited operation.

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

19. NON CURRENT FINANCE LEASE LIABILITY	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
One to five years	512	583	473	496
Greater than five years	696	836	696	836
	1,208	1,419	1,169	1,332
Reconciliation to lease payments:				
Total future minimum lease payments	2,655	3,079	2,556	2,935
Interest expense	(1,262)	(1,463)	(1,254)	(1,463)
<b>Total lease liability recognised</b>	<b>1,393</b>	<b>1,616</b>	<b>1,302</b>	<b>1,472</b>
This is represented by:				
Current lease liability	185	197	133	140
Non current lease liability	1,208	1,419	1,169	1,332
	1,393	1,616	1,302	1,472

20. NON CURRENT DEBT	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Bonds	448,447	289,872	-	-
Term borrowing	100,391	-	-	-
Euro Medium Term Notes	782,794	710,704	-	-
US Private Placement	164,852	163,753	-	-
NZPCL loan	119,746	-	-	-
	1,616,230	1,164,329	-	-
Less current portion of long term debt	(104,456)	-	-	-
<b>Total long term debt</b>	<b>1,511,774</b>	<b>1,164,329</b>	<b>-</b>	<b>-</b>
One to five years	712,972	353,127	-	-
Greater than five years	798,802	811,202	-	-
<b>Total long term debt</b>	<b>1,511,774</b>	<b>1,164,329</b>	<b>-</b>	<b>-</b>

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

At 30 June 2010, no loans were in breach or default (30 June 2009: nil).

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 20. NON CURRENT DEBT continued

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#### Financial Instrument Categorisation

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

#### Bonds

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

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

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

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

#### Term Borrowing

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

#### Euro Medium Term Notes

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

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 20. NON CURRENT DEBT continued

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

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

#### Australian Medium Term Notes

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

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

#### US Private Placement

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

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

#### NZPCL Loan

Transpower has consolidated a special purpose vehicle, NZPCL, as part of the 2003 cross border lease partial termination. NZPCL has a loan liability and loan asset. Refer to note 22 Equity – Non Controlling Interest for more information.

Both the loan and the loan asset have the same term, principal, interest rate and payment dates. The face value of the loan is USD 99.8 million (\$144.0 million converted at 30 June 2010 exchange rate of 0.6932) with maturity in 2040 and an interest rate of 6.15%.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 20. 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
<b>Period ended</b>					
30 June 2010	102,853	252,686	–	–	400,125
Effective interest rate	–	3.57%	–	–	3.49%
30 June 2009	–	100,000	245,761	–	–
Effective interest rate	–	7.58%	3.55%	–	–

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 24(f).

21. DEFERRED TAX	BALANCE 1 JULY 2008	RECOGNISED IN PROFIT OR LOSS
GROUP	\$000	\$000
Depreciation timing differences	161,417	12,915
Fair value of net debt and derivatives	20,671	(26,081)
Revenue deferral	(17,432)	5,460
Dismantling provision	(5,685)	500
Impairment	(8,640)	(1,860)
Other	3,264	(6,756)
<b>Total deferred tax</b>	<b>153,595</b>	<b>(15,822)</b>
	BALANCE 1 JULY 2008	RECOGNISED IN PROFIT OR LOSS
PARENT	\$000	\$000
Depreciation timing differences	162,149	11,402
Fair value of net debt and derivatives	938	(2,658)
Revenue deferral	(15,269)	3,512
Dismantling provision	(5,685)	500
Impairment	(8,640)	(1,860)
Other	7,537	(10,624)
<b>Total deferred tax</b>	<b>141,030</b>	<b>272</b>

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

FIVE TO SIX YEARS	SIX TO SEVEN YEARS	SEVEN TO EIGHT YEARS	EIGHT TO NINE YEARS	NINE TO TEN YEARS	TEN TO ELEVEN YEARS	TWENTY NINE TO THIRTY YEARS	TOTAL
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
154,133	86,065	–	–	482,305	–	87,000	1,565,167
4.38%	6.17%	–	–	5.66%	–	6.15%	4.59%
425,136	–	38,308	–	–	314,925	–	1,124,130
3.49%	–	5.59%	–	–	6.55%	–	4.80%

RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2009	RECOGNISED IN PROFIT OR LOSS	CONSOLIDATION OF NZPCL	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2010
\$000	\$000	\$000	\$000	\$000	\$000
–	174,332	41,161	–	–	215,493
–	(5,410)	(27,013)	(2,990)	–	(35,413)
–	(11,972)	8,122	–	–	(3,850)
–	(5,185)	612	–	–	(4,573)
–	(10,500)	(1,065)	–	–	(11,565)
(281)	(3,773)	(426)	–	–	(4,199)
(281)	137,492	21,391	(2,990)	–	155,893

RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2009	RECOGNISED IN PROFIT OR LOSS	AMALGAMATION	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE 30 JUNE 2010
\$000	\$000	\$000	\$000	\$000	\$000
–	173,551	38,620	3,362	–	215,533
–	(1,720)	(6,225)	1,204	–	(6,741)
–	(11,757)	7,907	–	–	(3,850)
–	(5,185)	612	–	–	(4,573)
–	(10,500)	(1,065)	–	–	(11,565)
(281)	(3,368)	684	1,042	–	(1,642)
(281)	141,021	40,533	5,608	–	187,162

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**21. DEFERRED TAX continued**

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 18 Provisions for background.

Impairment relates to the System Operator assets and the NIGUP property. Refer to Note 14 Property, Plant and Equipment for background.

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

Amalgamation – During the year, four 100% owned subsidiaries were amalgamated into the Parent. Refer to Note 22 Equity for more details.

Consolidation of NZPCL – During the period, Transpower consolidated a special purpose vehicle, New Zealand Power Cayman 2003-1 Limited (NZPCL), as part of the 2003 cross border lease partial termination. Refer to Note 22 Equity – Non Controlling Interest for more information.

**Imputation Credit Memorandum Account**

	GROUP		PARENT	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Balance at the beginning of the year	290,311	259,402	289,840	258,740
Imputation credits on dividends received	–	–	–	–
Net tax payments/transfers made/refunds received	35,621	30,909	35,621	31,100
Imputation credits attached to dividends paid to shareholders	–	–	–	–
<b>Balance at the end of the year</b>	<b>325,932</b>	<b>290,311</b>	<b>325,461</b>	<b>289,840</b>

**Dividend Withholding Payments**

There were no dividend withholding payments during the year (2009: nil).

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 22. EQUITY

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#### Capital

Transpower has contributed paid in capital of \$1,200,000,000 (2009: \$1,200,000,000) issued and fully paid ordinary shares, which confer on the holders the right to vote at any annual general meeting of Transpower. This consists of 1,200,000,000 fully paid \$1 shares. The shares have no par value. All ordinary shares rank equally.

#### Dividends

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

#### Management of Capital

It is not anticipated that dividends will be payable in the short term. This is due to dividends being paid when there 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 that is being funded from debt and operating cash flows.

#### Available for Sale Reserve

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

#### Non Controlling Interest

The Group has partially terminated the 2003 cross border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has:

- recognised the remaining income in advance relating to the cross border lease, bringing the total cross border lease revenue recognised in the period to \$27.8 million
- consolidated a special purpose vehicle, NZPCL. NZPCL has a deposit with a financial institution and a loan from another financial institution. The cash flows from the deposit and loan offset. This consolidation took place in November 2009. No consideration was transferred.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 22. EQUITY continued

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The loan and the deposit are recognised at fair value in the Group financial statements. The fair value of the deposit is \$107.2 million. The fair value of the loan is \$119.7 million. The difference between the asset and liability of \$12.5 million is due to the credit spread between the financial institutions holding the deposit and the loan to NZPCL. The loan to NZPCL is guaranteed by Transpower.

As Transpower has no legal ownership interest in NZPCL, the net liabilities and any movements in net liabilities are recognised as a non controlling interest. Refer to Note 27 Contingencies for further information on this transaction.

#### **Amalgamation of Subsidiaries**

During the year, there were four 100% owned subsidiaries amalgamated into the Parent at book value.

These companies were:

- Fighting Bay Finance Limited
- Oteranga Bay Limited
- Haywards Limited
- Omaka Training Limited.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**23. SEGMENT REPORTING**

The Group has reportable (business) segments comprising transmission, cross border lease and property. The Group does not have any reportable geographical segments.

- **Transmission** – the transmission of electricity from the point of generation to the point of connection.
- **Cross border lease** – consists of the remaining cross border lease on the South Island AC assets. This lease was partially terminated during the year resulting in the remaining revenue and expenses being realised.
- **Property** – contains unregulated property bought for the North Island Grid Upgrade Project.

The Group has other segments that are not reportable due to their small size. These are grouped together as “other” in the table below. The material portion of the “other” balance is made up of the following:

- **System Operator** – the provision of real time services to ensure the short term security of the New Zealand electricity system.
- **EMS** – established in 1998 as a separate legal entity to provide reconciliation and metering services.
- **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.
- **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 – 2010	SEGMENT
Vector Limited	15.52 (2009: 13.68)	Transmission
Meridian	11.31 (2009: <10)	Transmission

## Notes to the Financial Statements continued

For the year ended 30 June 2010

23.SEGMENT REPORTING continued	TRANSMISSION		CROSS BORDER LEASE	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Income statement</b>				
Operating revenue – external customers	623,931	609,478	27,800	17,292
Operating revenue – intersegment	5,509	–	–	–
Net finance costs	70,620	68,923	(1,380)	7,167
Depreciation and amortisation	129,632	129,657	–	–
Impairment loss (credit)	–	–	–	–
Fair value gain (loss) on financial instruments	(110,651)	(61,318)	–	–
Income tax expense (credit)	31,289	16,628	8,732	5,199
Net profit (loss)	36,580	64,953	20,375	12,131
<b>Balance sheet</b>				
Total assets	5,194,402	3,761,750	–	–
Capital expenditure	528,016	310,924	–	–

## 24.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.

PROPERTY		OTHER		ELIMINATIONS		TOTAL	
2010	2009	2010	2009	2010	2009	2010	2009
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
3,026	3,112	77,803	63,748	(2,225)	76	730,335	693,706
–	–	14,889	3,559	–	–	20,398	3,559
–	–	(866)	(306)	3,209	(1,933)	71,583	73,851
1,796	11	8,406	4,793	–	–	139,834	134,461
30,043	–	(289)	6,200	–	–	29,754	6,200
–	–	–	(43)	55	73	(110,596)	(61,288)
(9,121)	588	12,803	9,199	–	–	43,703	31,614
(21,282)	1,373	29,312	14,452	–	–	64,985	92,909
135,573	137,392	283,551	274,319	(2,048,029)	(1,107,904)	3,565,497	3,065,557
38,690	25,900	4,439	488	–	–	571,145	337,312

#### 24. FINANCIAL INSTRUMENTS continued

##### *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.

##### **(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 economic hedging parameters expressed as a percentage of forecast debt. This policy ensures that the Group's cost of funds will be reasonably predictable from year to year. Transpower does not hedge account for interest rate risk.

##### *Currency Risk Management Policy*

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 converted into New Zealand dollars at the time of commitment to drawdown by the Group. Not all derivatives are hedge accounted. Currency risk on foreign currency dominated borrowings is managed using cross currency interest rate swaps.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS** continued*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 the greater of 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.

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

The exception to this is for Risk Reinsurance bond investments, where the counterparties have maximum limits depending on their ratings. The limits are as follows:

- \$5 million (face value) if the counterparty is rated AA- or higher.
- \$3 million (face value) if the counterparty is rated A- or higher.
- \$1 million (face value) if the counterparty is rated BBB or higher or if there is no long term rating but a short term rating of A1 or better.

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 2010 (2009: nil).

*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, Interest Rate and Liquidity Risk**

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

*Term Debt*

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS continued**

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

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

*Term Investments*

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

*Cross Currency Interest Rate Swaps*

Cross currency interest rate swaps are used to convert foreign currency denominated debt issued by 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	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Pay leg</b>				
Within one year	–	–	–	–
One to two years	251,963	–	–	–
Two to five years	343,908	251,963	–	–
Greater than five years	237,588	508,382	–	–
	833,459	760,345	–	–
<b>Receive leg</b>				
Within one year	–	–	–	–
One to two years	(252,686)	–	–	–
Two to five years	(400,125)	(245,761)	–	–
Greater than five years	(218,369)	(578,369)	–	–
	(871,180)	(824,130)	–	–

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS** continued*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	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Within one year	102,000	170,000	–	–
One to two years	14,500	100,000	–	–
Two to five years	813,750	211,500	–	–
Greater than five years	2,819,000	3,354,500	–	–
<b>Total interest rate swaps</b>	<b>3,749,250</b>	<b>3,836,000</b>	<b>–</b>	<b>–</b>

*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	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Within one year	–	–	–	–
One to two years	–	–	–	–
Two to five years	–	–	–	–
Greater than five years	–	25,000	–	–
<b>Total basis swaps</b>	<b>–</b>	<b>25,000</b>	<b>–</b>	<b>–</b>

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS** continued*Interest Rate Options*

The Group enters into interest rate options to manage interest rate repricing 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	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Within one year	–	–	–	–
One to two years	–	–	–	–
Two to five years	–	–	–	–
Greater than five years	–	100,000	–	–
<b>Total interest rate options</b>	–	100,000	–	–

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS** continued**(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	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Cross currency interest rate swaps	122,912	136,937	–	–
Interest rate swaps	17,557	21,170	–	–
Basis swaps	–	240	–	–
Interest rate options	–	–	–	–
Foreign exchange forward contracts	657	34	657	34
<b>Total</b>	<b>141,126</b>	<b>158,381</b>	<b>657</b>	<b>34</b>

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 for accounts payable and receivables, are carried at fair value in the balance sheet. Refer to Note 10 Financial Instrument Categorisation for the category of the above instruments.

Fair value represents the amount 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 interest rate used for discounting is based on the applicable swap curve. For foreign exchange forward contracts, the Group calculates the fair value by reference to current forward exchange rates. These market valuations are the level 2 category as discussed in NZ IFRS 7.

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 24. 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 derivatives 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 2010	EFFECTIVE INTEREST RATE	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
		\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Cash	0.10%	22,932	–	–	–	22,932
Short term investments	3.94%	36,944	–	–	–	36,944
Long term investments	6.22%	2,000	12,000	11,000	–	25,000
NZPCL loan asset	6.15%	3,091	3,577	12,928	176,562	196,158
		64,967	15,577	23,928	176,562	281,034
<b>Liabilities</b>						
Debt	4.15%	(129,000)	(251,963)	(343,908)	(687,588)	(1,412,459)
NZPCL loan	6.15%	(3,091)	(3,577)	(12,928)	(176,562)	(196,158)
		(132,091)	(255,540)	(356,836)	(864,150)	(1,608,617)
<b>Derivatives</b>						
Interest rate swaps		2,947,250	(14,500)	(713,750)	(2,219,000)	–
Basis swaps		–	–	–	–	–
Interest rate options		–	–	–	–	–
		2,947,250	(14,500)	(713,750)	(2,219,000)	–
<b>Repricing profile</b>		2,880,126	(254,463)	(1,046,658)	(2,906,588)	(1,327,583)

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

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 24. FINANCIAL INSTRUMENTS continued

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
<b>Assets</b>						
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
<b>Liabilities</b>						
Debt	3.56%	(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
		(166,163)	(100,000)	(251,963)	(708,382)	(1,226,508)
<b>Derivatives</b>						
Interest rate swaps		2,662,576	18,000	(209,500)	(2,471,076)	–
Basis swaps		–	–	–	25,000	25,000
Interest rate options		–	–	–	100,000	100,000
		2,662,576	18,000	(209,500)	(2,346,076)	125,000
<b>Repricing profile</b>		2,605,605	(80,000)	(453,463)	(3,050,458)	(978,316)

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

## 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 1.65% (2009: 1.40%), investments 7.62% (2009: 3.46%) and debt 7.62% (2009: 3.46%).

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 24. 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 2010	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$000	\$000	\$000	\$000	\$000
<b>Non derivative financial assets</b>					
Trade and other receivables	66,050	521	1,560	7,329	75,460
Current tax asset	1,524	–	–	–	1,524
<b>External investment</b>					
Principal	2,853	–	–	141,133	143,986
Interest receipts	238	3,577	12,928	35,429	52,172
	70,665	4,098	14,488	183,891	273,142
<b>Non derivative financial liabilities</b>					
Trade and other payables	92,616	885	1,004	596	95,101
Finance lease liabilities	185	166	346	696	1,393
<b>External borrowings</b>					
Principal	(131,853)	(252,686)	(400,125)	(809,502)	(1,594,166)
Interest payments	(61,780)	(61,465)	(159,442)	(175,501)	(458,188)
	(100,832)	(313,100)	(558,217)	(983,711)	(1,955,860)
<b>Derivatives</b>					
Derivative contracts – receipts	110,293	375,167	745,585	493,960	1,725,005
Derivative contracts – payments	(149,429)	(424,535)	(843,590)	(608,878)	(2,026,432)
	(39,136)	(49,368)	(98,005)	(114,918)	(301,427)

## Notes to the Financial Statements continued

For the year ended 30 June 2010

## 24. FINANCIAL INSTRUMENTS continued

GROUP 2009	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$000	\$000	\$000	\$000	\$000
<b>Non derivative financial assets</b>					
Trade and other receivables	61,193	653	–	–	61,846
	61,193	653	–	–	61,846
<b>Non derivative financial liabilities</b>					
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
<b>External borrowings</b>					
Principal	(130,000)	(100,000)	(245,761)	(778,369)	(1,254,130)
Interest payments	(52,894)	(49,394)	(120,192)	(138,349)	(360,829)
	(88,430)	(146,088)	(365,117)	(916,718)	(1,516,353)
<b>Derivatives</b>					
Derivative contracts – receipts	92,672	94,799	540,214	905,126	1,632,811
Derivative contracts – payments	(120,611)	(134,423)	(692,466)	(968,349)	(1,915,849)
	(27,939)	(39,624)	(152,252)	(63,223)	(283,038)

**(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). Transpower does not hedge account for interest rate risk.

*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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**24. FINANCIAL INSTRUMENTS continued**

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

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

*Credit Spread Movement Risk*

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

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

25. OPERATING LEASE COMMITMENTS	GROUP		PARENT	
	2010	2009	2010	2009
COMMITMENTS IN RESPECT OF NON CANCELLABLE OPERATING LEASES PAYABLE:	\$000	\$000	\$000	\$000
Within one year	10,117	6,407	10,117	6,407
One to two years	10,876	3,453	10,876	3,453
Two to five years	37,162	9,189	37,162	9,189
Later than five years	138,082	2,824	138,082	2,824
<b>Total operating lease commitments</b>	<b>196,237</b>	<b>21,873</b>	<b>196,237</b>	<b>21,873</b>

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

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

26. CAPITAL COMMITMENTS	GROUP		PARENT	
	2010	2009	2010	2009
CAPITAL COMMITMENTS IN RESPECT OF CONTRACTS FOR CAPITAL EXPENDITURE:	\$000	\$000	\$000	\$000
Within one year	413,457	64,934	413,457	64,934
One to two years	307,852	–	307,852	–
Two to three years	20,875	–	20,875	–
Three to four years	18,184	–	18,184	–
Four to five years	–	–	–	–
Greater than five years	17,037	–	17,037	–
<b>Total capital commitments</b>	<b>777,405</b>	<b>64,934</b>	<b>777,405</b>	<b>64,934</b>

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 27. CONTINGENCIES

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#### (i) Guarantees

##### *Cross Border Lease*

The Group has partially terminated the cross border lease in respect of the majority of the HVAC transmission assets in the South Island.

As a result of the partial termination, Transpower has also consolidated a special purpose vehicle, NZPCL. NZPCL has deposits with a financial institution and loans from another financial institution. The cash flows of the deposits and loans offset.

As part of the consolidation, Transpower has fair valued the loan and the deposit. This has resulted in the gross up of the balance sheet by \$107.2 million in assets and \$119.7 million in liabilities. The difference in assets and liabilities of \$12.5 million is due to the credit spread between the institute the deposits are with and the loan to NZPCL guaranteed by Transpower.

The post-tax effect of this \$12.5 million difference, being \$8.8 million, is disclosed as a non controlling interest. The substance of the transaction is such that Transpower, rather than the non controlling interest, would be responsible for any shortfall between the value of the asset and the liability.

##### *Debt*

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

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

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

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 2009 was \$6.0 million to the credit of customers.

This balance is comprised of an AC customer credit balance of \$108.8 million and an HVDC customer debit balance of (\$102.8 million).

The 30 June 2010 EV account figures are expected to be finalised by 30 September 2010.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**27. CONTINGENCIES continued****(iii) New Zealand Aluminium Smelter Ltd**

The aluminium smelter owned by New Zealand Aluminium Smelter Ltd (NZAS) suffered a transformer failure on 9 November 2008. The transformer was owned by NZAS. 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 aluminium smelter.

Transpower does not believe that the transformer failure is a force majeure failure. Meridian and NZAS are proceeding to 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 \$13 million.

**(iv) Kapiti High Voltage Coalition**

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

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

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

**(v) Regulation**

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

**(vi) 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.

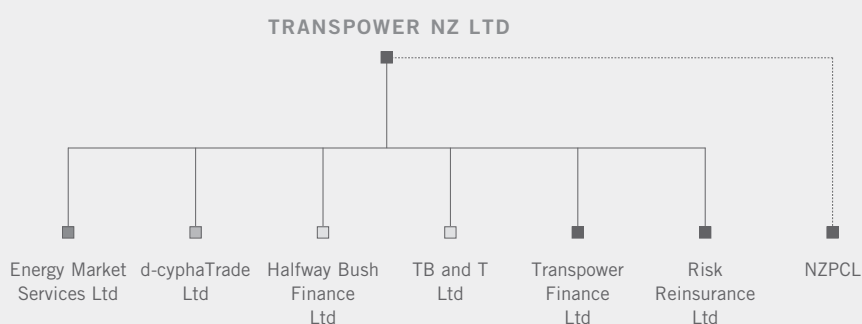
## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 28. GROUP ENTITIES

All subsidiaries are wholly owned, are incorporated in New Zealand (except where mentioned otherwise) and have a balance date of 30 June 2010. Transpower has a non controlling interest in New Zealand Power Cayman 2003-1 Limited (NZPCL), indicated by the dotted line in the diagram below. NZPCL is a special purpose vehicle registered in the Cayman Islands. Refer to Note 27 Contingencies for more detail.

As at balance date, the Group entities 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.
- **Transpower Finance Ltd** – main finance company.
- **Risk Reinsurance Ltd** – captive insurance company registered in Cayman Islands, established to provide insurance for the Transpower Group.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

**29. 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	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Directors' fees	517	552	517	552
Key management personnel	5,548	4,415	5,548	4,412
Defined contribution schemes	180	125	180	125

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

**Intercompany Transactions**

The subsidiaries identified in Note 28 Group Entities 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 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 is a wholly owned subsidiary of the Parent and is incorporated in the Cayman Islands. Risk Reinsurance reinsures to parties external to the Group to reduce some of its risk.

*Premiums*

In 2010, the Parent paid \$9.3 million to Risk Reinsurance in insurance premiums (2009: \$9.2 million). In 2010, Risk Reinsurance reinsured some of the risk, paying premiums of \$3.5 million of which \$0.6 million is prepaid at June 2010.

*Current Claims*

At June 2010, there is an unpaid claims liability of \$4.8 million (2009: \$1.5 million) relating to events during 2008 (\$1.5 million) and 2010 (\$3.3 million). 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.

## Notes to the Financial Statements continued

For the year ended 30 June 2010

### 30. SUBSEQUENT EVENTS

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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.

### 31. SIGNIFICANT JUDGEMENTS OR ESTIMATES

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#### Judgements

##### *Impairment on Property Assets*

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

##### *New Zealand Power Cayman 2003-1 Ltd*

As part of the partial termination of the cross border lease over the majority of the South Island HVAC assets, Transpower has determined that it is now required to consolidate a Cayman Islands based entity, NZPCL. NZPCL has deposits with a financial institution and liabilities to another financial institution. Refer to Note 22 Equity for more information.

##### *Taxation*

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

#### Estimates

##### *Dismantling Provision*

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

##### *Properties Held for Sale*

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

##### *Fair Values of Debt, Derivatives and Deposits*

A key estimate is in relation to the fair values of debt, derivatives and deposits. Fair values are determined upon discounting cash flows based upon the relevant yield curve. The yield curve is adjusted to reflect the credit spread of the counterparty to the transaction. These valuations are considered level 2 in the NZ IFRS three level valuation hierarchy.

**AUDIT REPORT****TO THE READERS OF  
TRANSPOWER NEW ZEALAND LIMITED AND GROUP'S  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

The Auditor-General is the auditor of Transpower New Zealand Limited (the Company) and group. The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Company and group, on her behalf, for the year ended 30 June 2010.

**Unqualified opinion**

In our opinion:

- The financial statements of the Company and group on pages F58 to F128:
  - 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 2010; and
    - the results of their 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 18 August 2010, 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.

We did not examine every transaction, nor do 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 2010 and the results of their 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.

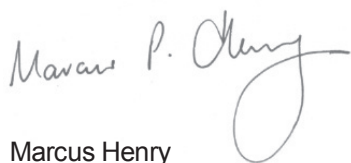
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

### **Independence**

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

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

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

A handwritten signature in black ink that reads 'Marcus P. Henry'.

Marcus Henry  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

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