



# IR

INTERIM REPORT  
2016\_17

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ALISON ANDREW  
CHIEF EXECUTIVE

HON TONY RYALL  
CHAIRMAN

## POWERING NEW ZEALAND TODAY + TOMORROW

**Our business powers New Zealand. Our two roles as owner and operator of the National Grid, and as the system operator for the wholesale electricity market, are interdependent – both are essential for the power system to operate successfully.**

However, our business is part of a wider supply chain. We work with our customers, the generators, distribution companies, retailers and technology providers to power New Zealand homes and businesses. Our assets are largely located on private property, with around 25,000 landowners an important part of helping us achieve our purpose.

We are focused on meeting the levels of service expected by our customers (and therefore the end consumer), while keeping our costs as low as possible and managing the health and risks of our assets. We also need to make sure we deliver on the expectations of our landowners and our wider stakeholder base.

We have performed well in the last six months and in line with the forecasts laid out in our Statement of Corporate Intent (SCI) for 2016/17. We continue to make savings through cost-reduction projects and business process improvements, while we improve our asset management.

A key component of providing a valuable, cost-effective transmission service is staying abreast of emerging technologies and the opportunities they present to operate the power system more efficiently. We recognise that technologies, retail and business models and consumer choices will change significantly in coming years, bringing new challenges but also new opportunities for our business.

We are planning and investigating these technologies as they come onto the market. This ensures we capitalise on any potential for our network to become more efficient overall, and therefore provide benefits in both reliability and cost to our customers and the end consumer.

### **Our financial performance**

Operating expenses for the first half of the year were \$138.4 million, up slightly from the same time last year, driven by a \$1.9 million increase in ancillary services and industry levies set by other parties. With the exception of these services and levies, which are outside our control, we are pleased that we have managed to hold our operating expenditure flat, despite increasing pressures on operating costs. This is a direct reflection of our strong focus on increasing efficiencies in our business.

Capital expenditure was up 9% from 2015/16, which was an unusually low spend year focused on asset commissioning and completing projects from the previous regulatory control period. Our half year dividend of \$66.0 million to be paid to the Crown in March 2017 is up \$1.2 million from last year. Net profit after tax before net changes in the fair value of financial instruments was \$101.6 million, up 3% from the prior period, reflecting a 3% increase in regulated transmission revenue.

This flowed through to a 2% increase in earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments (EBITDAIF) to \$388.1 million. Return on capital employed remains at 6.9%.

Depreciation, amortisation, impairments and write-offs increased 6% to \$141.4 million, reflecting a higher asset base and accelerated depreciation at certain sites. Our net interest expenses were down slightly to \$105.0 million, from \$107.3 million in the last period, representing lower net debt.

Net profit after tax, including net changes in the fair value of financial instruments, was \$164.6 compared to \$122.1 million at the same time last year. This was impacted substantially by the change in the fair value of financial instruments which, before tax, was a gain of \$87.5 million compared to a gain of \$32.1 million in the previous period.

As a State-Owned Enterprise, we are not in the business of trading financial instruments – we generally hold these to maturity. Fair value movements are non-cash in nature and do not reflect the underlying performance of the business. Changes result from movements in market interest rates and credit spreads compared to our predominantly fixed interest portfolio.

### **Our service performance**

The six months to December 2016 presented a number of unique challenges for our business, primarily in the form of weather events, earthquakes and third-party activity.

A key measure of our performance is meeting targets for the services we provide to our customers. Under our current Regulatory Control Period (RCP2) set by the Commerce Commission, our network performance measures and targets focus on grid reliability and availability of our HVDC and key HVAC assets. We developed the measures and targets with customer input and publish these in our annual SCI. Performance against these targets has a direct bearing on our revenue.

Operationally, we saw three major network interruptions between August and December, which were outside our control. These events have negatively impacted our service performance targets.

From the wintry August blast that covered a large portion of the east coast of the North Island in snow, to the November Kaikoura earthquake, and the loss of both transmission lines in the Far North in early December due to the shooting of insulators on our transmission towers, unexpected events meant significant service disruption in the first half of the financial year. In each of these situations, our crews, alongside local lines workers, restored power safely and in relatively short periods of time given the circumstances.

Although we remain in a revenue positive position on our service performance targets for the six months to December 2016, these events have meant lower performance for grid interruption, duration and availability targets compared to this time last year. It will be a challenge to meet some of these targets at financial year end.

### **Safety performance**

Operating safely remains a top priority for our business. After a 40% reduction in injury frequency year on year in 2015/16, we have continued to promote proactive behavioural awareness initiatives, including campaigns and workshops for our staff and our service providers.

At the six months to December 2016, we are continuing to drive down the level of injuries sustained in our business and performing well below our target for injury frequency. In the six months to date, our total recordable injury frequency rate (TRIFR) is 4.2 against a full-year target of < 8. This compares to 9.8 in the previous comparative period. We are very proud of the commitment our people have shown to make sure everyone goes home safe every night, no exceptions.

Unfortunately, we did have one permanent injury causing disability in October, following a service provider driving incident.

### **Business challenges**

We have some unique challenges to address in the coming 6 to 12 months, both operationally and financially.

Our release of *Transmission Tomorrow* – our long-term outlook for the National Grid and wider electricity industry – last year demonstrated the changing and uncertain environment that our sector faces. During the past six months, we continued to structure our work around the strategic priorities we established in *Transmission Tomorrow*. These are helping to guide our development of more detailed strategies and to set organisational priorities to ensure we are in the best position to adapt to a number of different scenarios that may appear in the future.

### **Auckland Strategy**

One of these programmes of work is the development of a comprehensive and holistic Auckland Strategy to ensure we meet the growth of New Zealand's largest commercial and population centre. We have a number of challenges in Auckland – a number of our older assets requiring refurbishment, increased housing intensification with extensive underbuild under our assets, limited infrastructure corridors and a need to relocate our assets for roading and other infrastructure priorities. We are taking this opportunity to work with others to see how to best meet the city's ongoing electricity needs. In the last six months, we have established a specialist Auckland Development Team to manage the wide programme of work required.

### **Regulation**

Our business is regulated by both the Commerce Commission, which regulates our revenues and service quality, and the Electricity Authority, which determines how that revenue is recovered from our customers through its transmission pricing methodology.

Since April 2011, our transmission business has been subject to individual price-quality path (IPP) regulation by the Commerce Commission. The IPP is reset every five years, giving way to a new Regulatory Control Period. We are now part-way through the second year of RCP2, which began in April 2015 and ends in March 2020.

Determining our IPP includes setting service targets for our customers, setting allowances for operating expenditure to cover our costs of doing business, such as salaries and maintenance

work, and base capital expenditure to fund work on our assets, for example, stations, lines and software, and setting an allowable rate of return on the funds invested in our business.

Preparation of our IPP proposal for the next regulatory control period (RCP3) is challenging due in part to the uncertainties in our environment as described in *Transmission Tomorrow*. We are very mindful of ensuring that we undertake enough investment to maintain reliability, manage asset risk profiles and continue to meet New Zealanders' electricity needs. However, we also need to ensure that we continue to reduce costs, deferring investment as required but maintaining enough agility and flexibility to anticipate and respond to the changes in the way that we use electricity. We will be working closely with our customers and the Commerce Commission throughout the development of this proposal.

### Transmission pricing

Whether it comes to distribution, generation or transmission, electricity pricing is complex.

The wider review of transmission pricing by the Electricity Authority is still under way. As administrator of the Electricity Authority's methodology, we have the unique mandate to implement the review outcome. We continue to work closely with the Electricity Authority to reach an efficient, durable and practical solution that will send efficient price signals to industry.

Our regulated revenues flow through to transmission prices, and although we forecast these to be largely flat across RCP2, there will be fluctuations from year to year. As previously forecast, we expect regulated revenues to peak this year, due to a combination of factors including slightly higher capital investment costs, reduced 'wash-up' credits to customers, higher write-offs and the first year's impact of RCP2 service incentive arrangements.

We are committed to delivering a reliable and secure electricity supply to support the long-term interests of electricity consumers at the lowest possible cost.

### Our outlook

Overall, after allowing for levies and ancillary service cost increases, we expect to contain our operating costs at a similar level to the previous period and anticipate being in line with our SCI targets.

Capital expenditure is expected to increase compared to the previous year, with increases in customer-funded spend associated with moving and undergrounding our lines for roading infrastructure and housing projects. Our ongoing funding task will focus on refinancing existing debt as it falls due, and maintaining access to a range of debt capital markets to ensure we can refinance as required at reasonable prices without being dependent on single sources or markets.

We are continuing with our business transformation programme to innovate and optimise our operational and financial performance.



**ALISON ANDREW**  
CHIEF EXECUTIVE

**HON TONY RYALL**  
CHAIRMAN

## Operational and Financial Performance

for the year ended 31 December 2016

	31 DECEMBER 2016	31 DECEMBER 2015	SCI TARGET
<b>QUARTER TWO</b>			
<b>Safety performance targets</b>			
Number of fatalities or injuries causing permanent disability	1	0	0
Total recordable injury frequency rate (TRIFR)	5.6 <sup>1</sup>	12.8	≤8
<b>Operational performance targets</b>			
Grid interruptions:			
• Achieve targets for occurrence	On track	On track	Achieve target
• Achieve targets for duration	On track	On track	Achieve target
Grid availability:			
• HVDC energy availability	98.3%	97.8%	98.5%
• Key HVAC circuits availability	99.0%	98.8%	98.7%
Achieve system operations target	On track	N/A	Achieve target
<b>FINANCIAL PERFORMANCE TARGETS</b>			
Free funds from operations interest coverage (times)	3.4	3.1	3.2
Free funds from operations/Debt (%)	16.0	14.6	15.8
Debt/(net debt + equity) (%)	69.5	71.1	70.0
Return on equity (%)	12.6	12.6	12.8
Return on capital employed (%)	6.9	6.9	6.9

1. Rolling 12 months.

## Statement of comprehensive income

for the six months ended 31 December 2016

GROUP			
		UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	NOTES	\$M	\$M
Operating revenue	2	526.5	514.0
Operating expenses	3	138.4	135.3
Earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments		388.1	378.7
Depreciation, amortisation and write-offs		141.4	133.1
Net interest expenses	4	105.0	107.3
Earnings before changes in the fair value of financial instruments and tax		141.7	138.3
(Gain) loss in the fair value of financial instruments	9	(87.5)	(32.1)
Earnings before tax		229.2	170.4
Income tax expense		64.6	48.3
<b>Net profit and total comprehensive income</b>		<b>164.6</b>	<b>122.1</b>
Total net profit and total comprehensive income for the period is attributable to:			
Non-controlling interest		2.1	(0.2)
Owners of the parent		162.5	122.3
		<b>164.6</b>	<b>122.1</b>

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

Earnings before changes in the fair value of financial instruments and tax		141.7	138.3
Income tax expense excluding changes in the fair value of financial instruments		40.1	39.3
Earnings before net changes in fair values of financial instruments	1	101.6	99.0
(Gain) loss in the fair value of financial instruments		(87.5)	(32.1)
Income tax expense (credit) on changes in the fair value of financial instruments		24.5	9.0
<b>Net profit and total comprehensive income</b>		<b>164.6</b>	<b>122.1</b>

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

## Statement of financial position

as at 31 December 2016

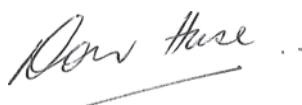
		GROUP	
		UNAUDITED 31 DECEMBER 2016	AUDITED 30 JUNE 2016
	NOTES	\$M	\$M
<b>ASSETS EMPLOYED</b>			
Cash and cash equivalents		92.0	79.9
Investments – short term		98.5	128.8
Trade receivables and other assets	7	138.2	135.7
Derivatives and hedge commitment in gain	7	228.1	346.3
NZPCL investment	7	77.3	76.3
Property, plant and equipment	5	4,548.8	4,599.7
Intangibles – long term		383.8	392.9
Capital work in progress	5	94.1	68.0
<b>TOTAL ASSETS EMPLOYED</b>		<b>5,660.8</b>	<b>5,827.6</b>
<b>FUNDS EMPLOYED</b>			
<b>Liabilities</b>			
Trade and other payables	7	81.4	96.2
Current tax liability		6.4	14.6
Deferred income		73.6	72.9
Derivatives and hedge commitment in loss	7	366.0	491.2
Provisions	7	28.9	31.0
Debt	6	3,212.2	3,334.0
NZPCL debt	7	77.5	79.4
Deferred tax		368.9	328.8
<b>Total liabilities</b>		<b>4,214.9</b>	<b>4,448.1</b>
<b>EQUITY</b>			
Capital		1,200.0	1,200.0
Accumulated surplus		246.1	181.8
Non-controlling interest		(0.2)	(2.3)
<b>Total equity</b>		<b>1,445.9</b>	<b>1,379.5</b>
<b>TOTAL FUNDS EMPLOYED</b>		<b>5,660.8</b>	<b>5,827.6</b>

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 23 February 2017.

For, and on behalf of, the board



**TONY RYALL**  
CHAIRMAN  
23 February 2017



**DON HUSE**  
DIRECTOR  
23 February 2017

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

## Statement of changes in equity

for the six months ended 31 December 2016

### GROUP UNAUDITED

	ORDINARY SHARES	RETAINED EARNINGS	OWNERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
	\$M	\$M	\$M	\$M	\$M
<b>Equity at 1 July 2016</b>	1,200.0	181.8	1,381.8	(2.3)	1,379.5
Profit for the period	–	162.5	162.5	2.1	164.6
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income</b>	–	162.5	162.5	2.1	164.6
Dividends	–	(98.2)	(98.2)	–	(98.2)
<b>Total equity at 31 December 2016</b>	1,200.0	246.1	1,446.1	(0.2)	1,445.9
<b>Equity at 1 July 2015</b>	1,200.0	177.5	1,377.5	(1.4)	1,376.1
Profit for the period	–	122.3	122.3	(0.2)	122.1
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income</b>	–	122.3	122.3	(0.2)	122.1
Dividends	–	(112.8)	(112.8)	–	(112.8)
<b>Total equity at 31 December 2015</b>	1,200.0	187.0	1,387.0	(1.6)	1,385.4

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

## Cash flow statement

for the six months ended 31 December 2016

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$M	\$M
<b>CASH FLOW FROM OPERATIONS</b>		
Receipts from customers	524.6	509.0
Interest received	3.0	5.6
Payments to suppliers and employees	(144.5)	(150.5)
Tax payments	(32.6)	(19.7)
Interest paid	(108.0)	(113.3)
<b>Net cash inflows (outflows) from operations</b>	<b>242.5</b>	<b>231.1</b>
<b>CASH FLOW FROM INVESTMENTS</b>		
Sale of property, plant and equipment	0.3	3.1
Short term investments	66.4	15.3
Purchase of property, plant and equipment	(118.8)	(122.5)
Short term investments	(36.1)	(24.5)
<b>Net cash inflows (outflows) from investments</b>	<b>(88.2)</b>	<b>(128.6)</b>
<b>CASH FLOW FROM FINANCING</b>		
Net decrease in collateral posted	–	0.1
Increase in loans	52.4	491.3
Dividends paid	(98.2)	(112.8)
Repayment of loans	(96.4)	(497.6)
<b>Net cash inflows (outflows) from financing</b>	<b>(142.2)</b>	<b>(119.0)</b>
Net increase (decrease) in cash held	12.1	(16.5)
Opening balance brought forward	79.9	33.9
<b>Closing net cash carried forward</b>	<b>92.0</b>	<b>17.4</b>
<b>Closing net cash carried forward comprises:</b>		
Cash and cash equivalents – asset	92.0	17.4

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

## Reconciliation of net profit (loss) with net cash flow from operations

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$M	\$M
<b>Net profit (loss)</b>	164.6	122.1
<b>Add (deduct) non-cash items:</b>		
Change in fair value of financial instruments	(87.5)	(32.1)
Depreciation, amortisation and write-offs	141.4	133.1
Deferred tax	40.1	25.2
Capitalised interest	(2.7)	(3.6)
<b>Movements in working capital items:</b>		
(Increase)/decrease in trade and other receivables	(2.5)	(5.7)
(Decrease)/increase in trade and other payables, interest payable and deferred income	(0.6)	(11.0)
(Decrease)/increase in taxation payable	(8.2)	3.5
(Decrease)/increase in provisions	(2.1)	(0.4)
<b>Net cash flow from operations</b>	<b>242.5</b>	<b>231.1</b>

## Notes to the financial statements

for the six months ended 31 December 2016

### 1. TRANSPOWER GROUP INFORMATION

#### 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 and its subsidiaries (together, the Group).

The Group is the owner and operator of New Zealand's national electricity grid. The Group is a for-profit entity in accordance with XRB A1 Application of the Accounting Standards Framework.

#### Basis of preparation

The financial statements included in this half yearly report have been prepared in compliance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and should be read in conjunction with the 2015/16 audited annual financial statements.

The accounting policies used in preparation of these financial statements are consistent with those used in preparation of the 2015/16 audited annual financial statements. The 2015/16 audited annual financial statements can be viewed at [www.transpower.co.nz](http://www.transpower.co.nz).

The 2015/16 audited annual financial statements changed the presentation for the statement of financial position and the statement of comprehensive income from previous years. These interim financial statements have also adopted these presentational changes. The comparative period has been restated.

Transpower's operations are not considered seasonal or cyclical in nature.

#### 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, financial assets and financial liabilities.

Transpower discloses an alternative 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. Transpower has consistently reported an alternative profit on this basis since the adoption of IFRS.

#### 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 but not yet effective.

##### *NZ IFRS 9 Financial instruments, effective from 1 July 2018*

On adoption of NZ IFRS 9, the fair value movement attributable to own credit risk will be presented in other comprehensive income. Hedge accounting of cross-currency and interest rate swaps may have a material impact upon the Group financial statements in the event that Transpower chooses to adopt hedge accounting for these instruments.

##### *NZ IFRS 15 Revenue from contracts with customers, effective from 1 July 2018*

Management has not yet assessed whether this standard will cause any material measurement, recognition or disclosure changes for Transpower.

##### *NZ IFRS 16 Leases, effective from 1 July 2019*

Management has not yet fully assessed this standard.

#### New standards adopted during the period

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

## Notes to the financial statements

for the six months ended 31 December 2016

### 2. OPERATING REVENUE

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$M	\$M
<b>Transmission revenue</b>		
HVAC interconnection	344.5	332.2
HVAC connection	62.0	63.5
EV (rebate) charge – HVAC	(13.9)	(16.0)
HVDC	62.9	60.5
EV (rebate) charge – HVDC	13.3	14.5
Other regulated transmission	2.4	4.0
Customer investment contracts	22.1	21.5
Other transmission	3.4	2.4
	496.7	482.6
<b>Other revenue</b>		
System operator	22.5	21.4
Other	7.3	10.0
	29.8	31.4
<b>Total operating revenue</b>	<b>526.5</b>	<b>514.0</b>

#### Government-related transactions

Transpower, being a State-Owned-Enterprise, transacts with other government-related entities. The most significant transactions and balances (greater than \$15 million) are as follows:

	6 MONTHS 31 DECEMBER 2016	6 MONTHS 31 DECEMBER 2015
	\$M	\$M
Meridian Energy Limited – revenue	55.9	57.2
Electricity Authority – revenue	22.5	21.2
	78.4	78.4

#### Description

##### 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).

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

##### 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.

## Notes to the financial statements

for the six months ended 31 December 2016

### 3. OPERATING EXPENSES

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$M	\$M
<b>Grid maintenance</b>		
HVAC substations maintenance	22.1	19.1
HVDC substations and cables maintenance	4.5	6.5
HVAC lines maintenance	14.4	17.3
HVDC lines maintenance	0.8	0.2
Transmission related rates	3.8	3.7
Other	4.1	3.3
	49.7	50.1
<b>IST maintenance and operations</b>		
Support and maintenance	5.0	4.6
Outsourced services	7.3	7.2
Licences	4.0	4.0
IST leases	4.4	4.9
	20.7	20.7
<b>Other operating expenses</b>		
Investigations	6.5	5.2
Ancillary service costs	2.7	1.5
Employee benefits	49.0	49.3
Capitalised salary costs	(9.4)	(10.1)
Salary transferred to investigations	(2.5)	(2.7)
Operating lease and rental costs	1.8	2.2
Industry levies	5.1	4.4
Insurance	2.3	2.7
Other business support costs	12.5	12.0
	68.0	64.5
<b>Total operating expenses</b>	<b>138.4</b>	<b>135.3</b>

#### Description

Maintenance includes inspection, servicing and repair costs.

Other grid maintenance expenses include maintenance support, communication system and training for service providers and third parties.

Investigations includes work that the Group conducts prior to the commencement of a capital project, updates to maintenance standards and demand response costs.

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

## Notes to the financial statements

for the six months ended 31 December 2016

### 3. OPERATING EXPENSES continued

Fees paid to external auditor	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$000	\$000
<b>Audit of financial statements</b>		
Audit and reviews of financial statements	249	236
<b>Other services</b>		
Training courses	53	55
Trust deed requirements	13	13
Financial model assurance	14	40
	80	108
<b>Total fees paid to external auditor</b>	<b>329</b>	<b>344</b>

### 4. NET INTEREST EXPENSES

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016	UNAUDITED 6 MONTHS 31 DECEMBER 2015
	\$M	\$M
<b>Interest revenue</b>		
Interest received	3.0	5.2
	3.0	5.2
<b>Interest expenses</b>		
Interest paid and associated fees	107.5	113.3
Capitalised interest	(2.7)	(3.6)
Imputed interest	3.2	2.8
	108.0	112.5
<b>Total net interest expenses</b>	<b>105.0</b>	<b>107.3</b>

#### Description

Capitalised interest is based on Transpower's forecast weighted average cost of borrowing, which, for the six months to December 2016, was 6.92% (six months to December 2015: 7.1%).

Imputed interest arises on deferred income and discounted future cash flows of provisions.

## Notes to the financial statements

for the six months ended 31 December 2016

## 5. NON CURRENT ASSETS

GROUP	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES	COMMUNICATIONS	ADMINISTRATION ASSETS	TOTAL PROPERTY, PLANT AND EQUIPMENT	CAPITAL WORK IN PROGRESS
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>At 31 December 2016</b>								
Cost	2,446.7	147.3	2,353.6	865.0	333.0	182.0	6,327.6	94.1
Accumulated depreciation	(544.9)	(47.3)	(634.2)	(271.3)	(164.0)	(117.1)	(1,778.8)	–
Net book value	1,901.8	100.0	1,719.4	593.7	169.0	64.9	4,548.8	94.1
<b>31 December 2016 reconciliation</b>								
Opening net book value (1 July 2016)	1,914.5	101.0	1,731.3	611.1	174.2	67.6	4,599.7	68.0
Additions/transfers	26.1	1.0	27.4	0.7	8.8	5.2	69.2	108.8
Disposals/transfers	(8.2)	–	(3.8)	–	0.1	–	(11.9)	(82.7)
Depreciation	(30.6)	(2.0)	(35.5)	(18.1)	(14.1)	(7.9)	(108.2)	–
Closing net book value	1,901.8	100.0	1,719.4	593.7	169.0	64.9	4,548.8	94.1
<b>At 30 June 2016</b>								
Cost	2,429.8	146.3	2,331.8	864.3	324.8	176.9	6,273.9	68.0
Accumulated depreciation	(515.3)	(45.3)	(600.5)	(253.2)	(150.6)	(109.3)	(1,674.2)	–
Net book value	1,914.5	101.0	1,731.3	611.1	174.2	67.6	4,599.7	68.0
<b>30 June 2016 reconciliation</b>								
Opening net book value (1 July 2015)	1,897.4	103.0	1,729.2	641.5	192.2	68.6	4,631.9	77.7
Additions/transfers	82.9	2.0	82.7	6.3	9.9	15.6	199.4	229.5
Disposals/transfers	(5.0)	(0.1)	(6.8)	(0.2)	(1.8)	(2.2)	(16.1)	(239.2)
Depreciation	(60.8)	(3.9)	(73.8)	(36.5)	(26.1)	(14.4)	(215.5)	–
Closing net book value	1,914.5	101.0	1,731.3	611.1	174.2	67.6	4,599.7	68.0
<b>At 31 December 2015</b>								
Cost	2,361.8	145.5	2,286.3	863.7	345.3	167.6	6,170.2	122.7
Accumulated depreciation	(484.4)	(43.4)	(569.9)	(235.0)	(161.9)	(106.7)	(1,601.3)	–
Net book value	1,877.4	102.1	1,716.4	628.7	183.4	60.9	4,568.9	122.7
<b>31 December 2015 reconciliation</b>								
Opening net book value (1 July 2015)	1,897.4	103.0	1,729.2	641.5	192.2	68.6	4,631.9	77.7
Additions/transfers	13.7	1.1	28.0	5.4	4.4	1.2	53.8	101.2
Disposals/transfers	(4.4)	(0.1)	(3.8)	–	(0.6)	(2.0)	(10.9)	(56.2)
Depreciation	(29.3)	(1.9)	(37.0)	(18.2)	(12.6)	(6.9)	(105.9)	–
Closing net book value	1,877.4	102.1	1,716.4	628.7	183.4	60.9	4,568.9	122.7

## Notes to the financial statements

for the six months ended 31 December 2016

### 5. NON CURRENT ASSETS continued

#### Description

##### *Property, plant and equipment*

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

#### Key judgements

Transpower has exercised judgement, with assistance from independent engineers, in determining the useful life of property, plant and equipment and finite life intangible assets. For transmission line assets, a determining factor in the life assumption is proximity to the coast.

Transpower has also used judgement to determine the appropriate component level of asset at which to depreciate and whether or not an item is capital in nature.

### 6. DEBT

	GROUP	
	UNAUDITED 31 DECEMBER 2016 \$M	AUDITED 30 JUNE 2016 \$M
<b>Current debt</b>		
Short term debt	—	—
Current portion of long term debt	322.7	364.5
<b>Total current debt</b>	<b>322.7</b>	<b>364.5</b>
<b>Long term debt</b>		
Bonds	1,222.4	1,260.3
Euro Medium Term Notes	351.6	355.2
Australian Medium Term Notes	513.5	533.5
US Private Placement	1,124.7	1,185.0
	3,212.2	3,334.0
Less current portion of long term debt	(322.7)	(364.5)
<b>Total long term debt</b>	<b>2,889.5</b>	<b>2,969.5</b>
<b>Total debt</b>	<b>3,212.2</b>	<b>3,334.0</b>

#### Description

Debt is reported at fair value and therefore reflects value movements due to interest rate and exchange rate fluctuations.

##### *Debt issuances and repayments during the period*

During the six months to 31 December 2016, Transpower repaid the US Private Placement of NZD41 million in September 2016.

#### Key judgements

A key judgement has been made in relation to the fair values of debt and derivatives. Fair values are determined by discounting cash flows based on the relevant yield curve. The yield curve is adjusted to reflect the credit risk of the counterparty to the transaction or the credit risk of Transpower. These valuations are considered level two in the IFRS three-level valuation hierarchy.

## Notes to the financial statements

for the six months ended 31 December 2016

## 6. DEBT continued

## Debt at face value as amended by foreign exchange derivatives

	GROUP	
	UNAUDITED 31 DECEMBER 2016	AUDITED 30 JUNE 2016
	\$M	\$M
Short term debt	–	–
Current portion of long term debt	357.6	398.7
<b>Total current debt</b>	<b>357.6</b>	<b>398.7</b>
Bonds	1,175.0	1,175.0
Euro Medium Term Notes	380.7	380.7
Australian Medium Term Notes	506.9	506.9
US Private Placement	1,013.2	1,054.3
	3,075.8	3,116.9
Less current portion of debt	(357.6)	(398.7)
<b>Total long term debt</b>	<b>2,718.2</b>	<b>2,718.2</b>
<b>Total debt</b>	<b>3,075.8</b>	<b>3,116.9</b>

## 7. STATEMENT OF FINANCIAL POSITION SHORT TERM LONG TERM SPLIT

Transpower has elected to present its statement of financial position based on liquidity in accordance with NZ IAS 1. The table below presents the short term and long term assets and liabilities where this distinction is not otherwise apparent in the financial statements.

	GROUP					
	SHORT TERM ASSET	LONG TERM ASSET	TOTAL ASSET	SHORT TERM (LIABILITY)	LONG TERM (LIABILITY)	TOTAL (LIABILITY)
	\$M	\$M	\$M	\$M	\$M	\$M
<b>31 DECEMBER 2016</b>						
Trade receivables, payables and other	113.4	24.8	138.2	(80.2)	(1.2)	(81.4)
Derivatives and hedge commitment	45.3	182.8	228.1	(158.3)	(207.7)	(366.0)
NZPCL investment/debt	–	77.3	77.3	–	(77.5)	(77.5)
Provisions	–	–	–	(6.2)	(22.7)	(28.9)
<b>30 JUNE 2016</b>						
Trade receivables, payables and other	110.1	25.6	135.7	(95.0)	(1.2)	(96.2)
Derivatives and hedge commitment	39.0	307.3	346.3	(149.4)	(341.8)	(491.2)
NZPCL investment/debt	2.1	74.2	76.3	(2.1)	(77.3)	(79.4)
Provisions	–	–	–	(8.2)	(22.8)	(31.0)

## Notes to the financial statements

for the six months ended 31 December 2016

### 8. SEGMENT REPORTING

At December 2016, the segments and their measurement basis are unchanged from the 2015/16 annual financial statements. However, the monthly internal management report, upon which the segment information is based, no longer discloses expenses. This has resulted in a change to the disclosures below, where only segmental revenue is disclosed.

	TRANSMISSION		OTHER		ADJUSTMENTS		TOTAL	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2015 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2015 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2015 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2015 \$M
External revenue	493.6	479.9	29.9	31.4	3.0	2.7	526.5	514.0

### 9. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2015 \$M
<b>Accounting hedges</b>		
Foreign exchange forward contracts – hedge accounted	(0.6)	1.7
Hedge commitment	0.6	(1.7)
	–	–
<b>Other</b>		
Foreign debt	(50.2)	(83.0)
Cross currency interest rate swaps	55.3	60.1
Foreign interest rate swaps	–	–
NZD interest rate swaps	(56.8)	(6.4)
Investments	2.0	(0.4)
NZD debt	(37.8)	(3.8)
FX swaps	–	1.4
	(87.5)	(32.1)
<b>Total fair value (gain) loss</b>	<b>(87.5)</b>	<b>(32.1)</b>

#### Description

The Group experiences fair value movements principally through movements in underlying interest rates and exchange rates on debt and derivatives. 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.

#### Fair values in 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. The level of the fair value items in the fair value hierarchy and the method of valuation is unchanged from the 2015/16 annual financial statements. There have been no movements between hierarchies during the period.

## Notes to the financial statements

for the six months ended 31 December 2016

### 9. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following items are recorded at fair value:

	GROUP	
	UNAUDITED 31 DECEMBER 2016	AUDITED 30 JUNE 2016
	\$M	\$M
	ASSET (LIABILITY)	ASSET (LIABILITY)
Investments	98.5	128.8
Derivatives and hedge commitment in gain	228.1	346.3
NZPCL investment	77.3	76.3
Derivatives and hedge commitment in loss	(366.0)	(491.2)
Debt	(3,212.2)	(3,334.0)
NZPCL debt	(77.5)	(79.4)

### 10. 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 USD deposit with a financial institution and a USD 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 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. The likelihood of losses in respect of these matters is considered to be remote.

##### **Debt**

Transpower has given a negative pledge covenant to certain debt holders that, while any debt issued remains outstanding, we will not, subject to certain exceptions, create or permit to exist any charge or lien over any of our assets.

#### (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. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers the economic value of the net balance of any historical gains or losses incurred prior to 30 June 2012 over the regulatory periods until June 2020. Historical balances are those that pre-date the input methodologies developed by the Commission. In addition to the historical balances, further economic gains or losses arising from the beginning of Regulatory Control Period 1, which commenced on 1 July 2012, are required to be passed on or claimed from customers in the following pricing year.

## Notes to the financial statements

for the six months ended 31 December 2016

### 10. CONTINGENCIES continued

The balances and expected cash flows from the EV accounts for HVAC and HVDC customers at 30 June 2016 are set out below.

	HVAC \$M	HVDC \$M	TOTAL \$M
<b>30 June 2016 balance</b>			
Pre-input methodology EV balances to be recovered (paid) 1 July 2016 to 31 March 2020	(29.6)	59.0	29.4
Post-input methodology EV balances to be recovered (paid) 1 April 2017 to 31 March 2018	26.2	(1.4)	24.8
Post-input methodology EV balances to be recovered (paid) 1 July 2016 to 31 March 2017	(10.3)	2.1	(8.2)
Total to be recovered (paid)	(13.7)	59.7	46.0
<b>30 June 2015 balance</b>			
Pre-input methodology EV balances to be recovered (paid) 1 July 2015 to 31 March 2020	(35.9)	71.6	35.7
Post-input methodology EV balances to be recovered (paid) 1 July 2015 to 31 March 2016	(11.0)	3.0	(8.0)
Post-input methodology EV balances to be recovered (paid) 1 April 2016 to 31 March 2017	(12.8)	2.7	(10.1)
Total to be recovered (paid)	(59.7)	77.3	17.6

#### (iii) 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.

### 11. NET TANGIBLE ASSETS PER SHARE

	GROUP		
	UNAUDITED 31 DECEMBER 2016 \$M	UNAUDITED 31 DECEMBER 2015 \$M	AUDITED 30 JUNE 2016 \$M
Net assets (equity)	1,445.9	1,385.4	1,379.5
Less intangibles	(383.8)	(375.3)	(392.9)
Total net tangible assets	1,062.1	1,010.1	986.6
Net tangible assets per share (\$)	0.89	0.84	0.82

The non-GAAP measure above is disclosed to comply with NZX Debt market listing rule 2.3 (f).

### 12. SUBSEQUENT EVENTS

On 23 February 2017 the board of directors approved the payment of a half year dividend of \$66.0 million to be paid on 20 March 2017. The dividend will be fully imputed.

The directors are not aware of any other matter or circumstance since 31 December 2016 that has significantly or may significantly affect the operations of Transpower or the Group.

**BOARD OF DIRECTORS****CHAIRMAN**

HON TONY RYALL

**DEPUTY CHAIRMAN**

DON HUSE

**DIRECTORS**

PROFESSOR JAN EVANS-FREEMAN

PIP DUNPHY

TIM LUSK

BILL OSBORNE

DEAN CARROLL

**GENERAL MANAGEMENT TEAM****CHIEF EXECUTIVE**

ALISON ANDREW

**CHIEF FINANCIAL OFFICER**

ALEX BALL

**GENERAL MANAGER SYSTEM OPERATIONS**

JOHN CLARKE

**GENERAL MANAGER GRID DEVELOPMENT**

STEPHEN JAY

**GENERAL MANAGER PEOPLE**

JENNIFER KERR

**GENERAL COUNSEL AND COMPANY SECRETARY**

DAVID KNIGHT

**GENERAL MANAGER AUCKLAND DEVELOPMENT**

RAEWYN MOSS

**GENERAL MANAGER INFORMATION****SERVICES AND TECHNOLOGY**

COBUS NEL

**GENERAL MANAGER TRANSFORMATION**

ROY NOBLE

**GENERAL MANAGER GRID PROJECTS**

KEVIN SMALL

**GENERAL MANAGER GRID PERFORMANCE**

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