

**TRANSPOWER**

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TRANSPOWER NEW ZEALAND LIMITED	
Half-Year Results Announcement to the Market – 28 February 2020	
Reporting Period	01 July 2019 to 31 December 2019 (FY20)
Previous Reporting Period	01 July 2018 to 31 December 2018 (FY19)

	Amount (millions) 6 months to 31 December 2019	Amount (millions) 6 months to 31 December 2018	Percentage Change
Revenue from ordinary activities	\$510.3	\$516.2	1% decrease
Profit (loss) from ordinary activities after tax attributable to security holders (before net changes in fair value of financial instruments)	\$105.2 (9 cents per share)	\$105.3 (9 cents per share)	No change
Net profit (loss) attributable to security holders	\$146.0	\$130.2	12% increase
Interim Dividend Paid / Proposed - fully imputed	\$66.0 (6 cents per share)	\$66.0 (6 cents per share)	No change
Dividend Payment Date	20 March 2020	20 March 2019	

Results are based on unaudited financial statements.

Commentary

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- Net profit after tax, before net changes in the fair value of financial instruments, was \$105.2 million, in line with the previous period's result of \$105.3 million.
- Transmission revenue declined 1.3% to \$482.7 million (2018: \$489.2 million) mainly due to pricing changes.
- Operating expenses at \$135.1 million, were down 5.7% (\$8.2 million) compared to the previous period (2018: \$143.3 million). Of this reduction \$4.8 million is from the reclassification of operating costs resulting from the new accounting standard for leases.
- Capital expenditure was \$173.4 million, up 33 per cent from the same time last year (2018: \$130.4 million) and in line with Transpower's approved capital programme.
- An interim dividend of 6 cents per share or \$66.0 million has been declared, representing 40 per cent of the expected full-year dividend forecast in Transpower's 2019/20 Statement of Corporate Intent.

Chair of Transpower's Board, Pip Dunphy, said the Company has posted a solid first-half result for the six months to December 2019, both in terms of financial performance, delivery of the capital programme and steady returns to shareholders.

"We remain well on track to deliver on the majority of the targets set in our Statement of Corporate Intent. However, two of our Health and Safety targets, namely TRIFR and HIPFR look challenging, as does our staff engagement target. In addition, we expect to not meet our HVDC availability target due to the planned outage for maintenance during the remainder of FY20.

"Ensuring the health, safety, wellbeing and engagement of our workforce is a particular focus for the Board and Management. We are continuing to work closely with our service providers to deliver appropriate intervention programmes to address our injury and high potential incident frequency rates. We have enhanced our staff engagement processes to support continuous feedback, listening and action planning.

"The Commerce Commission continues to investigate breaches under the Individual Price-Quality Path (IPP) regime under Part 4 of the Commerce Act. The Commission issued a warning letter in respect of the 15/16 and 16/17 financial years and is investigating breaches that occurred in 17/18 and subsequent years in the five-year regulatory period through to 30 June 2020 to see whether further enforcement action is warranted.

"The Commission has acknowledged that we largely managed our network in accordance with good electricity industry practice and we have already taken steps to mitigate against the issues raised. We will continue to work alongside the Commission and our customers during these investigations to seek ways to

improve our operational practices.

Chief Executive Alison Andrew said the first half of the financial year brought some new opportunities and some unexpected challenges for Transpower.

"The organisation has performed well over the last six months and is on track with its capital works and maintenance programme.

"The agreement with Contact and Meridian to commence further work on the Clutha-Upper Waitaki lines in response to Rio Tinto's announcement of a review of their New Zealand operations, and the loss of nine towers from the Roxburgh-Islington line following the flooding of the Rangitata River have led to some changes in our programme work.

"Regardless, Transpower has demonstrated its ability to respond quickly to challenges that can arise unexpectedly and seize new opportunities while maintaining service levels to customers and communities.

"We continue to work toward a strong close of the current regulatory period and the commencement of the new regulatory period from July 2020.

"Over the past six months, we have been exploring the future expectations of the grid to meet the needs of New Zealand as we move further toward the Government's goal of a net zero carbon economy. We are committed to doing our part to help the Government achieve its climate change goals and our Te Mauri Hiko – Energy Futures programme of research and industry engagement has continued with some new work to be released in the next few months."

Statement of Corporate Intent (SCI) Performance

Operational and financial performance results for Quarter 2 are shown in the table below.

Transpower is on track to achieve twelve out of eighteen of its Statement of Corporate Intent (SCI) targets. For two Safety and People Performance targets (*Total Recordable Injury Frequency Rate (TRIFR)* and the *High Potential Incident Frequency Rate (HPIFR)*), the rolling 12-month performance results are currently higher than target.

We are forecasting that HVAC and HVDC availability targets will not be met as a result of the scheduled work programme that is necessary to maintain the Grid.

Staff engagement levels, at 65%, are currently lower than the 72% target.

PERFORMANCE AREA:	Six months ending 31 December, 2019		
	FY20	FY19	SCI / Plan Target
Safety and People Performance Targets			
Number of fatalities or injuries causing permanent disability	0	0	0
Total recordable injury frequency rate (TRIFR) ¹	9.89	5.3	≤ 6
High potential incident frequency rate (HPIFR) ¹	2.67	N/A	≤ 2.5
Staff Engagement	65%	N/A	≥ 72%
Sustainability Targets and Actions			
Publish a carbon emissions report yearly to show our overall carbon footprint	On Track	On Track	Achieve Target

Hold SF6 emissions at, or below, 0.8% of installed nameplate capacity	0.35	0.31	≤ 0.8
% of CommunityCare ² funding to Maori organisations	On Track	On Track	≥ 15
% of CommunityCare applications meeting strategic criteria submitted to the Community Care Fund Panel	On Track	N/A	≥ 75
Operational Performance Targets			
Grid interruptions: ³			
Achieve targets for occurrence	On Track	On Track	Achieve Target
Achieve targets for duration	On Track	On Track	Achieve Target
Grid availability: ³			
HVDC energy availability	99.8%	98.8%	98.5%
Key HVAC circuits availability	98.7%	98.6%	TBC
System operations:			
Achieve system operations target	On Track	On Track	Achieve Target
Financial Performance Targets (Unaudited)			
Free funds from operations interest coverage	3.7 times	3.6 times	3.7 times
Free funds from operations / Debt	15.8%	16.3%	15.8%
Debt / (net debt + equity)	65.6%	67.2%	65.5%
Return on equity	11.8%	12.7%	10.1%
Return on capital employed	6.5%	6.9%	5.8%

¹ Safety Performance results for TRIFR and HPIFR at 31 December 2019 are rolling 12-month results.

² The *CommunityCare Fund* assists communities affected by our overhead assets by investing in community-based projects that add real value and benefit to the wider community. The Fund makes one-off grants for projects in communities along the National Grid route, as well as communities affected by new Transpower projects.

³ Grid Interruptions:

- Transpower's performance against network service targets is measured at an aggregate level through a financial incentive framework to meet, or outperform, these targets.
- Our SCI target for grid interruptions and HVDC availability is to achieve a revenue-neutral outcome.
- Grid Interruptions, as a performance category, includes targets for frequency (occurrence) and duration of interruptions.
- There are different targets, collars and caps for high priority, important, standard, N-security and generator connection locations.

ENDS

For further information, please contact:

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