

## FINANCIAL STATEMENTS

Six Months ended 31 December 2020

# Introduction

**On behalf of the Board and Management, we are pleased to share Transpower New Zealand's financial results for the six months ending 31 December 2020.**

The Company has posted a solid first-half result for the six months to December 2020 in the commencement of the new Regulatory Control Period, keeping major projects moving while continuing to manage through Covid-19 and responding to changes in the sector.

Net profit after tax, before net changes in the fair value of financial instruments, was \$70.6 million, down 33% compared to the previous period's result of \$105.2 million.

Transmission revenue declined 6.4% to \$451.8 million (2019: \$482.7 million) mainly due to the impact of the Regulatory Control Period reset which reduced WACC from 7.19% to 4.57%.

Operating expenses at \$145.2 million, were up 7.5% compared to the previous period (2019: \$135.1 million).

Capital expenditure was \$156.8 million, down 10% from the same time last year (2019: \$173.4 million) and in line with Transpower's approved capital programme.

An interim dividend of 4 cents/share or \$48 million has been declared, representing 40 per cent of the expected full-year dividend forecast in Transpower's 2020/21 Statement of Corporate Intent.

We are on track to achieve the majority of our Statement of Corporate Intent (SCI) targets including an improved performance in safety.

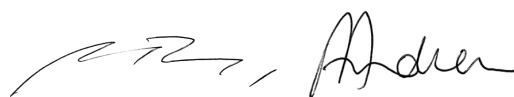
These results speak to the way Transpower has managed to safely deliver its services to New Zealanders, all while continuing to plan for the future.

The main project focus for the business, the Clutha Upper-Waitaki Lines Project (CUWLP), is now well underway and has passed its first major milestone with two circuits uprated. This work is critical to ensuring the low-cost, renewable electricity generated in the South can be shared with the rest of the country when the New Zealand Aluminium Smelter at Tiwai Point closes.

Work to progress the Transmission Pricing Methodology (TPM) has also been a significant focus. In the next six months, we will concentrate on delivering the draft methodology to the Electricity Authority and communicate indicative prices to our customers.

We continue to see an increasing focus from industry and the Government on its response to Climate Change and the electrification of the economy. Transpower is working closely with industry to plan for the development of a net-zero grid, and with the February release of the Electrification Roadmap, identifying the specific steps that could be taken to electrify the process heat and transport sectors.

We remain committed and focussed to doing our part in achieving New Zealand's net-zero carbon ambitions.



Pip Dunphy | Chair

Alison Andrew | Chief Executive



# Statement of comprehensive income

For the six months ended 31 December 2020

Group (\$M)	NOTES	2020 UNAUDITED	2019 UNAUDITED
Operating revenue	2	478.9	510.3
Operating expenses	3	145.2	135.1
<b>Earnings before interest, tax, depreciation, amortisation, asset write-offs, impairment and changes in the fair value of financial instruments</b>		<b>333.7</b>	<b>375.2</b>
Depreciation, amortisation, write-offs and impairment	5, 6	192.2	137.1
Net interest expenses	4, 6	43.5	91.8
<b>Earnings before changes in the fair value of financial instruments and tax</b>		<b>98.0</b>	<b>146.3</b>
Gain (loss) in the fair value of financial instruments	10	20.5	56.7
<b>Earnings before tax</b>		<b>118.5</b>	<b>203.0</b>
Income tax expense		33.1	57.0
<b>Net profit</b>		<b>85.4</b>	<b>146.0</b>
<i>Attributable to:</i>			
Non-controlling interest		1.1	(0.2)
Owners of the parent		84.3	146.2
<b>Other comprehensive income (expense)</b>	<b>10</b>	<b>(8.6)</b>	<b>3.0</b>
<i>Attributable to:</i>			
Non-controlling interest		-	-
Owners of the parent		(8.6)	3.0
<b>Total comprehensive income</b>		<b>76.8</b>	<b>149.0</b>
<i>Attributable to:</i>			
Non-controlling interest		1.1	(0.2)
Owners of the parent		75.7	149.2

## 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>		<b>98.0</b>	<b>146.3</b>
Income tax expense excluding changes in the fair value of financial instruments		27.4	41.1
<b>Earnings before net changes in the fair value of financial instruments</b>	<b>1</b>	<b>70.6</b>	<b>105.2</b>
Gain (loss) in the fair value of financial instruments		20.5	56.7
Income tax credit (expense) on changes in the fair value of financial instruments		(5.7)	(15.9)
<b>Net profit</b>		<b>85.4</b>	<b>146.0</b>

# Statement of financial position

As at 31 December 2020

Group (\$M)	NOTES	2020 UNAUDITED 31 DECEMBER	2020 AUDITED 30 JUNE
<b>Assets Employed</b>			
Cash and cash equivalents		95.2	13.4
Investments		106.6	100.6
Trade receivables and other assets	8	109.4	100.7
Derivatives and hedge commitment in gain	8	271.7	423.1
NZPCL investment	8	91.8	98.1
Property, plant and equipment	5	4,721.9	4,732.2
Intangibles – long term		376.4	374.1
Right-of-use asset	6	116.9	122.0
Capital work in progress	5	134.4	151.7
<b>Total assets employed</b>		<b>6,024.3</b>	<b>6,115.9</b>
<b>Funds Employed</b>			
<b>Liabilities</b>			
Trade and other payables	8	51.4	60.4
Current tax liability		6.6	12.8
Deferred income		137.0	166.0
Derivatives and hedge commitment in loss	8	203.2	232.4
Provisions	8	61.8	56.7
Debt	7	3,311.9	3,311.0
NZPCL debt	8	92.7	100.5
Lease liabilities	6	95.9	99.7
Deferred tax		462.6	453.0
<b>Total liabilities</b>		<b>4,423.1</b>	<b>4,492.5</b>
<b>Equity</b>			
Capital		1,200.0	1,200.0
Accumulated surplus		458.7	500.0
Cash flow hedge reserve		(56.8)	(74.8)
Non-controlling interest		(0.7)	(1.8)
<b>Total equity</b>		<b>1,601.2</b>	<b>1,623.4</b>
<b>Total funds employed</b>		<b>6,024.3</b>	<b>6,115.9</b>

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 24 February 2021.

For, and on behalf of, the Board:



**Pip Dunphy** | Chair



**Kathy Meads** | Chair Audit and Finance Committee

# Statement of changes in equity

For the six months ended 31 December 2020

Group Unaudited (\$M)	ORDINARY SHARES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	OWNERS OF THE PARENT	NON- CONTROLLING INTEREST	TOTAL
Equity at 1 July 2020	1,200.0	500.0	(74.8)	1,625.2	(1.8)	1,623.4
Profit for the period	-	84.3	-	84.3	1.1	85.4
Other comprehensive income	-	(26.6)	18.0	(8.6)	-	(8.6)
<b>Total comprehensive income</b>	<b>-</b>	<b>57.7</b>	<b>18.0</b>	<b>75.7</b>	<b>1.1</b>	<b>76.8</b>
Dividends	-	(99.0)	-	(99.0)	-	(99.0)
<b>Total equity at 31 December 2020</b>	<b>1,200.0</b>	<b>458.7</b>	<b>(56.8)</b>	<b>1,601.9</b>	<b>(0.7)</b>	<b>1,601.2</b>
Equity at 1 July 2019	1,200.0	441.3	-	1,641.3	(0.8)	1,640.5
Profit for the period	-	146.2	-	146.2	(0.2)	146.0
Other comprehensive income	-	(8.1)	11.1	3.0	-	3.0
<b>Total comprehensive income</b>	<b>-</b>	<b>138.1</b>	<b>11.1</b>	<b>149.2</b>	<b>(0.2)</b>	<b>149.0</b>
Dividends	-	(99.0)	-	(99.0)	-	(99.0)
<b>Total equity at 31 December 2019</b>	<b>1,200.0</b>	<b>480.4</b>	<b>11.1</b>	<b>1,691.5</b>	<b>(1.0)</b>	<b>1,690.5</b>

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

# Cash flow statement

For the six months ended 31 December 2020

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
<b>Cash flow from operations</b>		
Receipts from customers	444.3	521.0
Interest received	2.0	2.8
Payments to suppliers and employees	(157.6)	(122.6)
Tax payments	(26.5)	(44.2)
Interest paid	(42.0)	(92.5)
<b>Net cash inflows (outflows) from operations</b>	<b>220.2</b>	<b>264.5</b>
<b>Cash flow from investments</b>		
Sale of property, plant and equipment	1.1	1.6
Sale of short-term investments	24.5	24.7
Purchase of property, plant and equipment and intangibles	(160.0)	(221.5)
Purchase of short-term investments	(30.3)	(34.0)
<b>Net cash inflows (outflows) from investments</b>	<b>(164.7)</b>	<b>(229.2)</b>
<b>Cash flow from financing</b>		
Proceeds from bonds, term debt and commercial paper	589.6	835.1
Dividends paid	(99.0)	(99.0)
Payment of principal portion of lease liabilities	(3.7)	(7.9)
Repayment of bonds, term debt and commercial paper	(460.6)	(724.9)
<b>Net cash inflows (outflows) from financing</b>	<b>26.3</b>	<b>3.3</b>
Net increase (decrease) in cash held	81.8	38.6
Opening balance brought forward	13.4	156.2
<b>Closing net cash carried forward</b>	<b>95.2</b>	<b>194.8</b>
<i>Closing net cash carried forward comprises:</i>		
Cash and on-call deposits	95.2	59.7
Short-term deposits with original maturity less than three months	-	135.1

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

# Cash flow statement reconciliation

Reconciliation of net profit with net cash flow from operations  
For the six months ended 31 December 2020

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
<b>Net profit</b>	<b>85.4</b>	<b>146.0</b>
<b>Add (deduct) non-cash items:</b>		
Change in the fair value of financial instruments	(20.7)	(56.8)
Depreciation, amortisation and write-offs	192.2	137.1
Deferred tax	12.8	26.1
Capitalised interest	(1.9)	(4.7)
<b>Movements in working capital items:</b>		
Increase in trade and other receivables	(6.7)	(12.3)
(Decrease)/increase in trade and other payables, interest payable and deferred income	(32.6)	45.4
Decrease in taxation payable	(6.2)	(13.2)
Decrease in provisions	(2.1)	(3.1)
<b>Net cash flow from operations</b>	<b>220.2</b>	<b>264.5</b>

# 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 2019/20 audited annual financial statements.

The accounting policies used in preparation of these financial statements are consistent with those used in preparation of the 2019/20 audited annual financial statements.

The 2019/20 audited annual financial statements can be viewed at [www.transpower.co.nz](http://www.transpower.co.nz).

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

Where necessary, certain comparative information has been reclassified to conform to changes in presentation in the current period.

## 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.

Additionally, Transpower discloses an alternative measure of profit, which is earnings before net changes in the fair value 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 and is a measure that Directors consider when setting the level of dividend payments to the shareholder. Transpower has consistently reported an alternative profit on this basis since the adoption of IFRS.

## New standards adopted during the period

There are no new or revised standards adopted during the period.

## New standards not yet adopted

There are no new accounting standards issued but not yet effective which materially impact Transpower.



## 2. Operating revenue

For the six months ended 31 December 2020

### Transmission revenue

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
HVAC interconnection	301.3	327.5
HVAC connection	55.9	64.8
EV (rebate) charge – HVAC	(11.6)	(1.5)
HVDC	46.3	74.3
EV (rebate) charge – HVDC	(0.3)	(1.9)
Other regulated transmission	2.4	2.4
Customer investment contracts	11.2	14.1
Undergrounding and transmission realignment	46.1	2.2
Other transmission	0.5	0.8
	<b>451.8</b>	<b>482.7</b>

### Other revenue

System operator	20.6	20.8
Other	6.5	6.8
	<b>27.1</b>	<b>27.6</b>
<b>Total operating revenue</b>	<b>478.9</b>	<b>510.3</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:

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
Meridian Energy Limited – revenue	36.8	56.6
Electricity Authority – revenue	20.9	21.0
	<b>57.7</b>	<b>77.6</b>

### 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).

Transmission revenue is impacted by the reset of the allowable return on the transmission assets for Regulatory Control Period Three (RCP3), which reduced from 7.19% to 4.57% (vanilla WACC). The impact flowed into transmission pricing from 1 April 2020, resulting in a significant decrease in transmission revenue.

Customer investment contracts are contracts entered into with customers to build grid connection assets. Transpower recognises this revenue over the life of the asset.

Undergrounding and transmission realignment contracts are contracts entered into with third parties to underground and/or realign certain transmission line assets. The revenue is recognised based on the revenue source.

In July and August 2020, we commissioned the undergrounding project at Flat Bush, an expanding suburb in South Auckland. As this contract was entered into with third party developers, revenue of \$34.4 million was recognised and the corresponding assets were written off when the project was commissioned. Refer to Note 5 for the disposal disclosure.

The decision to dismantle the Albany-Henderson line accelerated revenue recognition in line with the remaining useful life, resulting in \$9.7 million recognised in the interim accounts. Refer to Note 5 for depreciation and dismantling disclosure.

#### Other revenue

System operator income relates to payments received to operate the electricity market to dispatch generation to ensure the short-term security of the New Zealand electricity system.



### 3. Operating expenses

For the six months ended 31 December 2020

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
<b>Grid maintenance</b>		
HVAC substations maintenance	22.3	19.9
HVDC substations and cables maintenance	4.9	4.5
HVAC lines maintenance	22.0	19.6
HVDC lines maintenance	0.9	0.8
Transmission-related rates	3.4	3.5
Other	3.6	3.3
	<b>57.1</b>	<b>51.6</b>
<b>IST maintenance and operations</b>		
Support and maintenance	4.3	4.1
Outsourced services	6.0	5.5
Licences	5.3	4.5
Other IST	1.1	1.3
	<b>16.7</b>	<b>15.4</b>
<b>Other operating expenses</b>		
Investigations	10.1	7.1
Ancillary service costs	1.3	1.8
Employee benefits	60.0	57.0
Capitalised salary costs	(14.5)	(13.3)
Salary transferred to investigations	(4.0)	(2.6)
Contractors and consultants	5.0	4.7
Operating lease and rental costs	0.1	0.1
Industry levies	5.8	5.0
Insurance	2.6	2.3
Travel and vehicle costs	0.7	1.3
Other business support costs	4.3	4.7
	<b>71.4</b>	<b>68.1</b>
<b>Total operating expenses</b>	<b>145.2</b>	<b>135.1</b>

#### Description

Maintenance includes inspection, servicing and repair costs.

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

Information Service Technology (IST) maintenance and operations expenses include system and software support, software license fees and service lease charges.

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 lease expenses relating to short-term leases and low-value assets, legal fees, office equipment and communications.



## Fees paid to external auditor

Group (\$000)	2020 UNAUDITED	2019 UNAUDITED
<b>Audit of financial statements</b>		
Audit and reviews of financial statements <sup>1</sup>	275	269
<b>Other services</b>		
Training courses	-	25
Trust deed requirements <sup>2</sup>	11	11
Remuneration benchmarking report	3	5
Financial model assurance	8	8
Other assurance <sup>3</sup>	12	59
	<b>34</b>	<b>108</b>
<b>Total fees paid to external auditor</b>	<b>309</b>	<b>377</b>

1. This includes scheduled payments for an annual audit and a six-monthly review.

2. Trust deed requirements include fees to review Directors' certificates in relation to debt held against two trust deeds.

3. This includes an assurance engagement of Transmission Pricing Model development project.



## 4. Net interest expenses

For the six months ended 31 December 2020

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
<b>Interest revenue</b>		
Interest received	2.0	2.8
	<b>2.0</b>	<b>2.8</b>
<b>Interest expenses</b>		
Interest paid and associated fees	41.6	93.1
Capitalised interest	(1.9)	(4.7)
Imputed interest	5.8	6.2
	<b>45.5</b>	<b>94.6</b>
<b>Total net interest expenses</b>	<b>43.5</b>	<b>91.8</b>

### Description

Transpower has policies that seek to mitigate the variability in interest costs over a high proportion of the debt portfolio during Regulatory Control Periods. The interest rate, when fixed, aims to be in line with the allowable return on the transmission assets. The decrease in interest expenses was impacted by the reset of RCP3, which commenced on 1 April 2020.

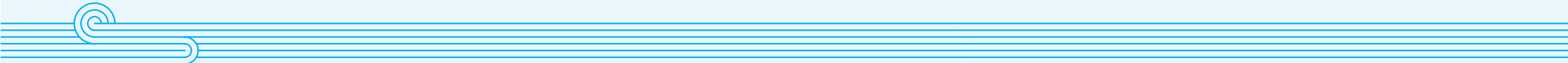
Capitalised interest is based on Transpower's forecast weighted average cost of borrowing, which, for the six months to December 2020, was 2.94% (six months to December 2019: 6.47%).

Imputed interest arises on deferred income, the unwinding of the discount of future cash flows related to provisions, and the interest on lease liabilities.



5. Non-current assets

Group (\$M)	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
At 31 December 2020								
Cost	2,797.6	168.2	2,794.6	876.4	444.5	206.2	7,287.5	134.4
Accumulated depreciation	(817.2)	(62.3)	(880.4)	(417.1)	(248.7)	(139.9)	(2,565.6)	-
Net book value	1,980.4	105.9	1,914.2	459.3	195.8	66.3	4,721.9	134.4
31 December 2020 reconciliation								
Opening net book value (1 July 2020)	1,997.1	107.0	1,884.5	478.2	194.6	70.8	4,732.2	151.7
Additions / transfers	29.6	1.7	69.5	(0.3)	16.2	1.5	118.2	156.8
Disposals / transfers	(0.4)	(0.5)	(1.6)	(0.2)	(0.1)	-	(2.8)	(174.1)
Depreciation	(45.9)	(2.3)	(38.2)	(18.4)	(14.9)	(6.0)	(125.7)	-
Closing net book value	1,980.4	105.9	1,914.2	459.3	195.8	66.3	4,721.9	134.4
At 30 June 2020								
Cost	2,768.7	167.3	2,728.5	876.9	429.2	204.8	7,175.4	151.7
Accumulated depreciation	(771.6)	(60.3)	(844.0)	(398.7)	(234.6)	(134.0)	(2,443.2)	-
Net book value	1,997.1	107.0	1,884.5	478.2	194.6	70.8	4,732.2	151.7
30 June 2020 reconciliation								
Opening net book value (1 July 2019)	1,981.5	91.8	1,790.3	510.8	175.5	71.9	4,621.8	138.3
Additions / transfers	89.5	19.5	169.4	4.9	48.8	11.8	343.9	387.4
Disposals / transfers	(3.0)	(0.2)	(3.5)	(0.5)	(0.6)	(0.1)	(7.9)	(374.0)
Depreciation	(70.9)	(4.1)	(71.7)	(37.0)	(29.1)	(12.8)	(225.6)	-
Closing net book value	1,997.1	107.0	1,884.5	478.2	194.6	70.8	4,732.2	151.7
At 31 December 2019								
Cost	2,716.2	148.2	2,659.7	875.1	390.2	194.6	6,984.0	187.2
Accumulated depreciation	(736.5)	(58.4)	(826.2)	(380.4)	(221.7)	(127.5)	(2,350.7)	-
Net book value	1,979.7	89.8	1,833.5	494.7	168.5	67.1	4,633.3	187.2
31 December 2019 reconciliation								
Opening net book value (1 July 2019)	1,981.5	91.8	1,790.3	510.8	175.5	71.9	4,621.8	138.3
Additions / transfers	33.1	-	79.9	2.6	7.8	1.1	124.5	191.8
Disposals / transfers	-	-	(1.5)	(0.1)	(0.1)	-	(1.7)	(142.9)
Depreciation	(34.9)	(2.0)	(35.2)	(18.6)	(14.7)	(5.9)	(111.3)	-
Closing net book value	1,979.7	89.8	1,833.5	494.7	168.5	67.1	4,633.3	187.2



## Depreciation, amortisation, write-offs and dismantling

Group Unaudited (\$M)	SIX MONTHS ENDED 31 DECEMBER 2020	SIX MONTHS ENDED 31 DECEMBER 2019
Total depreciation	125.7	111.3
Total amortisation	15.6	15.4
Write-offs on disposal	37.7	3.1
Dismantling expense	8.7	2.3
(Gain) loss on disposals	(0.6)	-
	<b>187.1</b>	<b>132.1</b>

For the undergrounding project at Flat Bush, Transpower has treated it as capital contribution as the contract was entered with a third party developer. This resulted in an asset write-off of \$34.4 million at project commissioning.

The decision to dismantle the Albany-Henderson line accelerated the depreciation for the remaining useful life, resulting in an \$8.8 million increase in depreciation and \$7.8 million provision for the dismantling project.

## Description

### Property, plant and equipment

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

## Key judgements

Transpower has exercised judgement in the following four areas:

- 1) Determining the useful life of property, plant and equipment and finite-life intangible assets. Transpower uses assistance from independent engineers. For transmission line assets, a determining factor in the life assumption is proximity to the coast.
- 2) Whether or not an item is capital in nature and the appropriate component level of asset at which to depreciate.
- 3) Determining the appropriate time to commission an asset and commence depreciation.
- 4) Whether there are any regulated assets that ought to be impaired.



## 6. Leases

### Right-of-use assets

Group (\$M)	PROPERTY AND IT DATA CENTRES	FIBRE COMMUNICATION NETWORK	TOTAL
<b>31 December 2020 reconciliation</b>			
Opening net book value (1 July 2020)	61.8	60.2	122.0
Additions	-	0.2	0.2
Depreciation	(2.5)	(2.5)	(5.0)
Impairment/Retirement	-	(0.3)	(0.3)
<b>Closing net book value</b>	<b>59.3</b>	<b>57.6</b>	<b>116.9</b>
<b>30 June 2020 reconciliation</b>			
Opening net book value (1 July 2019)	-	-	-
Effect of adoption of IFRS 16	67.0	62.1	129.1
Additions	0.2	4.2	4.4
Depreciation	(5.1)	(4.9)	(10.0)
Impairment/Retirement	(0.3)	(1.2)	(1.5)
<b>Closing net book value</b>	<b>61.8</b>	<b>60.2</b>	<b>122.0</b>

### Lease liabilities

<b>31 December 2020 reconciliation</b>	
Opening balance (1 July 2020)	99.7
Additions	0.2
Accretion of interest	1.6
Payments	(5.3)
Remeasurement/Write-off	(0.3)
<b>Closing balance</b>	<b>95.9</b>
Current	7.3
Non-current	88.6
<b>30 June 2020 reconciliation</b>	
Opening balance (1 July 2019)	-
Effect of adoption of IFRS 16	106.1
Additions	4.0
Accretion of interest	3.4
Payments	(12.4)
Remeasurement/Write-off	(1.4)
<b>Closing balance</b>	<b>99.7</b>
Current	7.0
Non-current	92.7



## Description

The Group's leases primarily relate to the leasing of fibre optic cables for Transpower's communication network and property leases for office buildings and IT data centres.

## Accounting Policies

### Lease liabilities

Lease liabilities are recognised based on the present value of the remaining lease payments, including lease renewals that are deemed reasonably certain to be exercised. The Group uses the incremental borrowing rate at the lease commencement date to calculate the present value of lease payments.

Lease liabilities will decrease over time as lease payments are made and increase with an imputed interest expense being recognised. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use) except for short-term leases and leases of low-value assets.

The Group applies the recognition exemptions to its short-term leases with less than 12 months remaining and for low-value leases. Lease payments for these leases are recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any prepaid lease payments. The right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group assesses the right-of-use asset for impairment when such indicators exist.

## Key judgements

Transpower has exercised judgement in the following areas:

- 1) Determination of whether or not a lease exists through assessment of contractual arrangements;
- 2) Where the contract contains options to extend or terminate the lease, consideration of the likelihood of exercising the options based on past practice; and
- 3) Use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

## Related Disclosure

The following are the amounts recognised in profit or loss:

Group Unaudited (\$M)	SIX MONTHS ENDED 31 DECEMBER 2020	SIX MONTHS ENDED 31 DECEMBER 2019
Depreciation expense of right-of-use assets	5.0	5.0
Interest expenses on lease liabilities	1.6	1.8
Expense relating to short-term leases and leases of low-value asset (included in operating expenses)	1.2	1.4
<b>Total amount recognised in profit or loss</b>	<b>7.8</b>	<b>8.2</b>

The group had total cash outflow for lease payments of \$5.4 million for the six months ended 31 December 2020 (2020: \$6.8 million).



## 7. Debt

Group (\$M)	31 DEC 2020 UNAUDITED	30 JUN 2020 AUDITED
<b>Current debt</b>		
Short-term debt	224.7	345.3
Current portion of long-term debt	600.9	100.0
<b>Total current debt</b>	<b>825.6</b>	<b>445.3</b>
<b>Long-term debt</b>		
Bonds	1,223.9	921.6
Domestic Bank Term	100.1	150.9
Swiss Medium Term Notes	197.8	200.1
Australian Medium Term Notes	540.9	546.1
U.S. Private Placement Notes	1,024.5	1,147.0
	<b>3,087.2</b>	<b>2,965.7</b>
Less current portion of long-term debt	(600.9)	(100.0)
<b>Total long-term debt</b>	<b>2,486.3</b>	<b>2,865.7</b>
<b>Total debt</b>	<b>3,311.9</b>	<b>3,311.0</b>

### Description

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

### Long-term debt issuances and repayments during the period

During the six months to 31 December 2020, Transpower repaid the following debt:

- NZD 50 million of bank term on 8 September 2020

During the six months to 31 December 2020, Transpower issued the following debt:

- NZD 300 million of bonds on 4 September 2020

### Key judgements

A key judgement has been made in relation to the fair values of debt and derivatives. Fair value is 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.



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

Group (\$M)	31 DEC 2020 UNAUDITED	30 JUN 2020 AUDITED
Short-term debt	223.6	344.6
Current portion of long-term debt	549.8	100.0
<b>Total current debt</b>	<b>773.4</b>	<b>444.6</b>
Bonds	1,125.0	825.0
Domestic Bank Term	100.0	150.0
Swiss Medium Term Notes	196.8	196.8
Australian Medium Term Notes	506.9	506.9
U.S. Private Placement Notes	889.8	889.8
	<b>2,818.5</b>	<b>2,568.5</b>
Less current portion of long-term debt	(549.8)	(100.0)
<b>Total long-term debt</b>	<b>2,268.7</b>	<b>2,468.5</b>
<b>Total debt</b>	<b>3,042.1</b>	<b>2,913.1</b>



## 8. 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.

Group (\$M)	SHORT-TERM ASSET	LONG-TERM ASSET	TOTAL ASSET	SHORT-TERM (LIABILITY)	LONG-TERM (LIABILITY)	TOTAL (LIABILITY)
<b>At 31 December 2020</b>						
Cash and cash equivalents	95.2	-	95.2	-	-	-
Trade receivables, payables and other	106.4	3.0	109.4	(50.9)	(0.5)	(51.4)
Investments	106.6	-	106.6	-	-	-
Derivatives and hedge commitment	83.2	188.5	271.7	(47.3)	(155.9)	(203.2)
NZPCL investment/debt	-	91.8	91.8	-	(92.7)	(92.7)
Current tax liability	-	-	-	(6.6)	-	(6.6)
Provisions	-	-	-	(21.0)	(40.8)	(61.8)
Debt	-	-	-	(825.6)	(2,486.3)	(3,311.9)
Lease liabilities	-	-	-	(7.3)	(88.6)	(95.9)

Transpower has NZD equivalent \$600 million term debt maturing within twelve months. While this is within the treasury policy limit, it results in a current ratio deficit at 31 December 2020. Transpower ensures that adequate liquid assets and funding sources are available at all times to meet both short-term and long-term commitments through an ongoing programme of debt issuance and by maintaining access to alternative funding options to meet commitments as required, such as commercial paper issuance.

Group (\$M)	SHORT-TERM ASSET	LONG-TERM ASSET	TOTAL ASSET	SHORT-TERM (LIABILITY)	LONG-TERM (LIABILITY)	TOTAL (LIABILITY)
<b>At 30 June 2020</b>						
Cash and cash equivalents	13.4	-	13.4	-	-	-
Trade receivables, payables and other	97.5	3.2	100.7	(59.8)	(0.6)	(60.4)
Investments	100.6	-	100.6	-	-	-
Derivatives and hedge commitment	35.5	387.6	423.1	(45.6)	(186.8)	(232.4)
NZPCL investment/debt	-	98.1	98.1	-	(100.5)	(100.5)
Current tax liability	-	-	-	(12.8)	-	(12.8)
Provisions	-	-	-	(19.6)	(37.1)	(56.7)
Debt	-	-	-	(445.3)	(2,865.7)	(3,311.0)
Lease liabilities	-	-	-	(7.0)	(92.7)	(99.7)



## 9. Segment reporting

For the six months ended 31 December 2020

The Group has two segments – transmission and system operator. The segments reported for 31 December 2020 have not changed from 30 June 2020.

- **Transmission** – the transmission of electricity from the point of generation to the point of connection.
- **System operator** – operates the electricity market to dispatch generation to ensure the short term security of the New Zealand electricity system

Both segments have external revenue derived from New Zealand customers and assets based in New Zealand. The Group has no other reportable segments. The material portion of **Other** is made up of Risk Reinsurance Limited, which was established in 2001 to provide insurance services to the Group.

Segment results are determined based on information provided to the Chief Operating Decision Maker, which include only External revenue and Capex. They are calculated using the avoidable cost allocation methodology (ACAM).

	TRANSMISSION		SYSTEM OPERATOR		OTHER		ADJUSTMENTS		TOTAL	
Group Unaudited (\$M)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
External revenue	452.1	483.0	20.6	20.8	6.2	6.5	-	-	478.9	510.3



## 10. Change in fair value of financial instruments

For the six months ended 31 December 2020

### Fair value through profit or loss

Group (\$M)	2020 UNAUDITED	2019 UNAUDITED
<b>Accounting hedges</b>		
Foreign exchange forward contracts - hedge accounted	(0.6)	-
Hedge commitment	0.6	-
	-	-
<b>Other</b>		
Foreign debt	155.3	14.7
Cross currency interest rate swaps	(145.6)	(4.3)
NZD interest rate swaps	(2.2)	34.2
Investments	-	(0.2)
NZD debt	13.0	12.3
	20.5	56.7
<b>Total fair value gain (loss)</b>	<b>20.5</b>	<b>56.7</b>

### Fair value through other comprehensive income

<b>Credit spread on debt</b>		
Foreign debt	(24.2)	(10.3)
NZD debt	(12.6)	(0.9)
Gross fair value gain (loss)	(36.8)	(11.2)
Less income tax credit (expense)	10.2	3.1
	(26.6)	(8.1)
<b>Cash flow hedging</b>		
Interest risk	25.0	15.4
Gross fair value gain (loss)	25.0	15.4
Less income tax credit (expense)	(7.0)	(4.3)
	18.0	11.1
<b>Total other comprehensive income (expenses)</b>	<b>(8.6)</b>	<b>3.0</b>



## Description

The Group experiences changes in fair value through movements in underlying interest rates, exchange rates and credit spread on debt and derivatives. The Group generally seeks to fix interest rates to provide certainty of interest rate costs during regulatory control periods. This means that, prima facie, a decrease in market interest rates will result in the Group sustaining fair value losses, and conversely, an increase in market interest rates will result in fair value gains.

The fair value of debt and derivatives is determined by converting currency exposures and 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. There have been no movements between levels during the period.

Changes in fair value of financial instruments are separately disclosed as fair value changes through profit and loss, or through other comprehensive income. The fair value change through other comprehensive income comprises fair value changes resulting from credit spread changes on the Group's issued debt and the effective portion of fair value changes on derivatives designated as cash flow hedges for accounting.

## Cash flow hedges

To mitigate the variability in interest costs, the Group has designated certain interest rate swaps into the cash flow hedge accounting relationships, which align interest rate exposures to the Regulatory Control Period (RCP). The Group uses the hypothetical derivative method to measure hedge accounting effectiveness and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged item attributable to hedged risk. To the extent these hedges are effective, the change in fair value of the hedging instrument is recognised in other comprehensive income in the Cash Flow Hedge Reserve within Equity, while the change in fair value on the ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. Hedge ineffectiveness in the cash flow hedge accounting relationship can arise from movements in credit risk on hedging instrument counterparties.

## 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 following items are recorded at fair value:

Group (\$M) Asset (Liability)	31 DEC 2020 UNAUDITED	30 JUN 2020 AUDITED
Investments	106.6	100.6
Derivatives and hedge commitment in gain	271.7	423.1
NZPCL investment	91.8	98.1
Derivatives and hedge commitment in loss	(203.2)	(232.4)
Debt	(3,311.9)	(3,311.0)
NZPCL debt	(92.7)	(100.5)



# 11. Contingencies

## (i) Guarantees

### New Zealand Power Caymans Limited (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 customer balance at the end of RCP2 (30 June 2020). These balances are spread evenly over the 5 years of RCP3 from 1 April 2020 to 31 March 2025. The Commerce Commission sets the annual amounts Transpower is returning to its customers in RCP3 to \$18 million, which over-returns the actual customer balance by \$7 million. That over-return will be recovered from customers by RCP4.

Group (\$M)	HVAC	HVDC	Total
EV balance to be recovered (paid) 1 April 2020 to 31 March 2025	(72.1)	(0.3)	(72.4)

## (iii) Environmental hazards

Transpower has a programme of identifying, mitigating and removing environmental contamination and/or hazards such as asbestos at its sites. The cost of mitigating and/or removing identified contamination and/or hazards will vary, depending on the particular circumstances at the site. Where a reasonable estimate of the cost of mitigating or removal of a hazard can be made, a provision has been established. Where a reasonable estimate of any direct loss (if any) from any environmental contamination and/or hazard can be made, a provision will also be established.

## (iv) Various 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.



## 12. Net tangible assets per share

Group (\$M)	2020 UNAUDITED 31 DECEMBER	2019 UNAUDITED 31 DECEMBER	2020 AUDITED 30 JUNE
Net assets (equity)	1,601.2	1,690.5	1,623.4
Less intangibles	(376.4)	(373.5)	(374.1)
<b>Total net tangible assets</b>	<b>1,224.8</b>	<b>1,317.0</b>	<b>1,249.3</b>
Net tangible assets per share (\$)	1.02	1.10	1.04

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

## 13. Subsequent events

On 24 February 2021, the board of directors approved the payment of an interim dividend of \$48.0 million to be paid on 22 March 2021. The dividend will be fully imputed.

The directors are not aware of any other matter or circumstance since 31 December 2020 that has significantly, or may significantly, affect the operations or financial statements of Transpower or the Group.



