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This **Statement of Corporate Intent** sets out Transpower's activities, objectives and performance targets for three years from 1 July 2020.

COVID-19 CONTEXT:

This SCI was prepared prior to COVID-19. The situation remains uncertain however we will continue to monitor and report performance against these targets.

This Statement of Corporate Intent (SCI) is submitted by the Board of Directors of Transpower New Zealand Limited, in accordance with Section 14 of the State-Owned Enterprises Act 1986 (the Act). It sets out the Board's overall intentions and objectives for Transpower New Zealand Limited and its subsidiary companies (the Transpower Group)¹ for the year commencing 1 July 2020 and the following two financial years up to 30 June 2023.

The Transpower Group is referred to as "Transpower" throughout this SCI.

¹ The companies that comprise the Transpower Group are listed in Appendix 1.



1. Role and objectives

1.1 Transpower's Role

Transpower is central to the New Zealand electricity industry, connecting New Zealanders to their power system through safe, smart solutions for today and tomorrow. Our principal commercial activities are:

- As grid owner, to reliably and efficiently transport electricity from generators to distributors and large users; and
- As system operator, to operate a competitive electricity market and deliver a secure power system.

1.2 Transpower's Objectives

Our principal objective, as set out in Section 4 of the State-Owned Enterprises Act (1986), is to operate as a successful business.

SECTION 4 OBJECTIVE	OUR OPERATIONS
As profitable and efficient as comparable businesses that are not owned by the Crown	<ul style="list-style-type: none"> • Within regulatory and commercial parameters: <ul style="list-style-type: none"> □ Deliver and operate a safe, reliable, cost efficient transmission grid that meets New Zealand's needs now and into the future. □ Deliver an efficient system operator service that supports competition and provides a reliable and efficient supply of electricity. • Pursue business opportunities based on the capabilities and expertise developed through our core business activities.
A good employer	<ul style="list-style-type: none"> • Promote a high level of safety, taking all practicable steps to provide safe working conditions. • Maintain a well-qualified and motivated workforce that we treat fairly and properly in all aspects of recruitment, retention and employment.
An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so	<ul style="list-style-type: none"> • Build and maintain effective relationships with landowners, occupiers and other community representatives and interest groups affected by our activities. • Transpower is committed to the principles of Te Tiriti o Waitangi in our operations as an SOE and as a company owned by the Crown as Treaty partner. We seek to build and maintain effective relationships with Māori, including acknowledging their interests in land • Work in partnership with communities to plan, deliver, and operate efficient and effective infrastructure while managing adverse social and environmental impacts of our activities.



2. Transpower's strategy and business environment

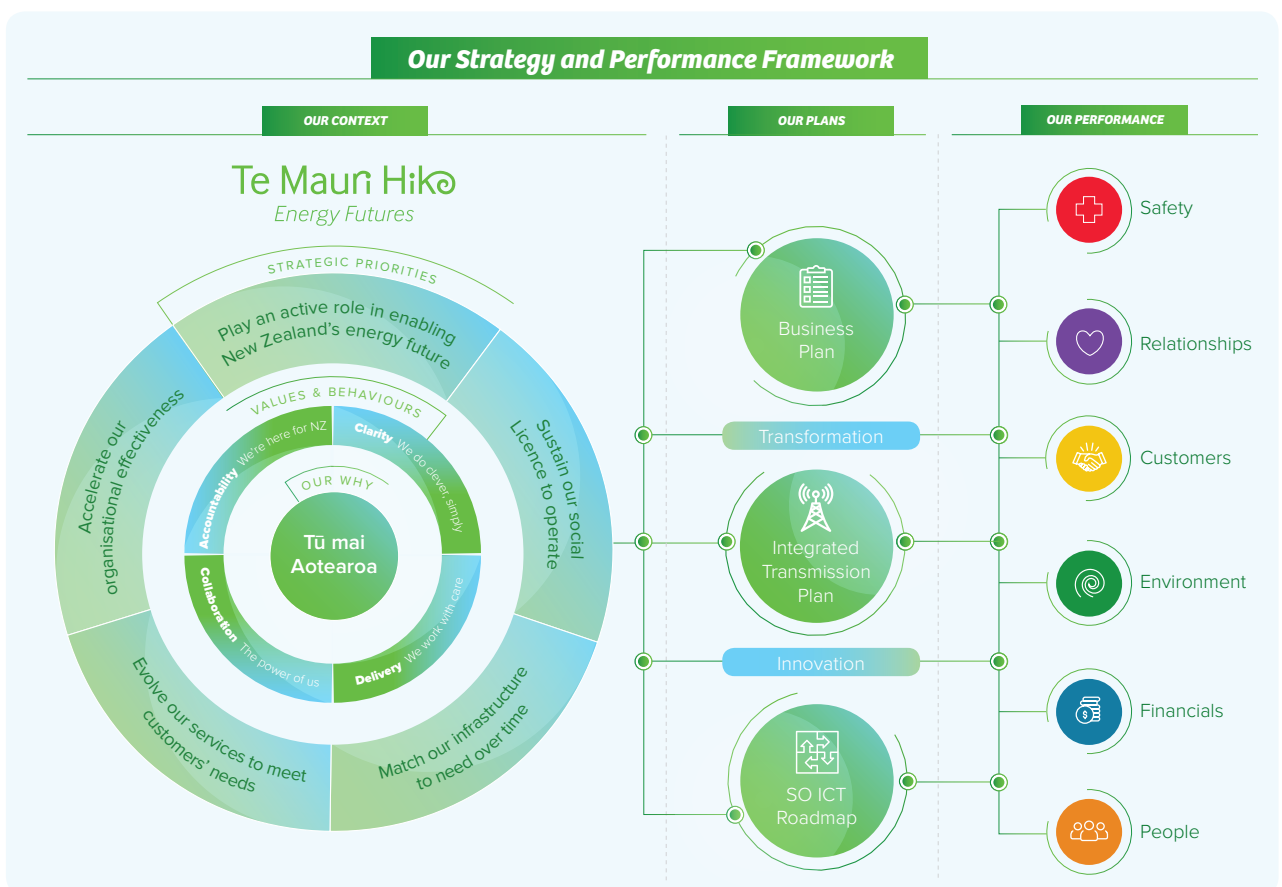
2.1 Purpose

Consistent with the above statutory objectives, we define our purpose as:

We connect New Zealanders to their power system, through safe, smart solutions for today and tomorrow.

2.2 Our Strategic and Performance Framework

We have a company-wide strategic and performance framework that links our *why* and values to our strategic priorities plans and performance measures. This is shown below:



2. Transpower's strategy and business environment

Whakamana Te Mauri Hiko describes our changing context, with climate change and other key trends creating the foundation for a scenario-based view of New Zealand's Energy Future. *Transmission Tomorrow – Our Strategy*² builds on this context to describe our business choices and identifies our five key strategic priorities:

- Evolve our services to meet customers' needs;
- Play an active role in enabling New Zealand's energy future;
- Sustain our social license to operate;
- Match our infrastructure to need over time; and
- Accelerate our organisational effectiveness.

Transmission Services

The Commerce Commission regulates grid services, which account for over 90% of our revenue, under Part 4 of the Commerce Act (1986). Part 4 aims to ensure we:

- have incentives to invest;
- have incentives to innovate, to improve efficiency and to provide services at a quality that reflects consumer demands;
- share the benefits of efficiency gains with consumers, including through lower prices; and
- are limited in our ability to extract excessive profits.



² transpower.co.nz/about-us/transmission-tomorrow



2. Transpower's strategy and business environment

Under Part 4 arrangements, we publish an update of our asset management strategies and our service and expenditure plans each year³. In November 2018, we submitted a proposal for output targets and expenditure levels for the five years commencing 1 July 2020 (i.e. for our third regulatory control period – RCP3). Overall, we are on a path of improving network performance and efficiency and managing increasing reinvestment pressures for lines built during a period of grid expansion from the 1950s to 1980s.

New grid connections are typically funded directly by the connecting customer under an access regime governed by the Electricity Authority and account for less than 4% of our revenue.

System Operator Services

The Electricity Industry Act (2010) requires the Electricity Authority to contract with Transpower for operation of the New Zealand power system. Our System Operator Service Provider Agreement (SOSPA) provides a fixed fee for most of these services and includes mechanisms for agreeing funding for service enhancements and for setting annual performance and delivery incentives. System operator services account for 4% of our revenue. The fixed fee component currently covers the period 2016 to 2021 and this will be reset for 2022.

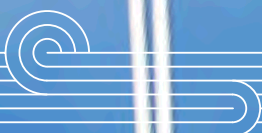
2.3 Key Assumptions

Our financial plan is based on the following key assumptions:

- Our operating expenditure will be \$297 million in 2020/21;
- Renewal capex will average \$293 million across the next three years;
- Grid development capex will average \$130 million across the next three years; and
- Regulatory allowances are adjusted for the latest CPI information.



³ We update our Integrated Transmission Plan annually and publish it on our website – transpower.co.nz/about-us/industry-information/regulatory-control-periods/rcp2/updates



3. Performance measures and targets

We measure our performance against a range of safety, operational, financial and non financial performance targets. These targets are set out below.

For reference, we provide a comparison with prior year performance targets in Appendix 2.

3.1 Safety and Our People Performance Targets

We strive to provide a working environment in which there are no fatalities or injuries causing permanent disability. In addition, we continuously seek to reduce the rate at which our activities cause injury⁴. Each year, we set an improvement target for the coming year.

	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
SAFETY PERFORMANCE TARGETS				
Number of fatalities or injuries causing permanent disability	0	0	0	0
Total recordable injury frequency rate (TRIFR)	6.96	≤ 6	≤ 6	≤ 6
High potential incident frequency rate (HPIFR)	2.53	≤ 3	≤ 3	≤ 3

We recognise that our people are key to our success. An engaged worked force can lead to innovative solutions to overcome challenges and realise our opportunities.

	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
OUR PEOPLE				
Staff Engagement	7.4	Top 25% percentile score for energy & utilities sectors* (12 month rolling average)		

* At the time of setting the 20/21 SCI the Top 25% percentile score was 7.1

⁴ Refer to Appendix 3 for definitions of safety performance targets.

3. Performance measures and targets

3.2 Service Performance Targets

We have set our service measure and targets for 2020/21 aligned to our Quality Standards set by the Commerce Commission for RCP3. These encompass:

- **Grid Unplanned Interruptions** – targets for frequency (occurrence) GP1 and average duration of interruptions GP2. This includes different targets for the six subcategories under each measure.

The target for GP1 and GP2 has been set at Commerce Commission quality standard for RCP3, which is to achieve four or more of the six quality standards under each measure. Not meeting the Commerce Commission quality standards can result in an enforcement process by the Commission, which can lead to pecuniary penalties through the High court.

If the target of ≥ 4 is achieved then the Commerce Commission quality standard is met. If the target is not met in the current year there may not be a breach depending on the performance against the target in previous years.

- **Grid availability** – targets for the inter-island high-voltage direct current (HVDC) link energy availability (AP1) and for key (i.e. market-sensitive) assets within our high-voltage alternating current (HVAC) (AP2) networks have been set at the Commerce Commission quality standard.

The forecast for 2019/20 has not been included for comparison purposes for the Service performance targets as they are on a different basis than the future targets as we transition into a new Regulatory Control Period.

Each year we agree a set of system operation service targets with the Electricity Authority. We also have a financial incentive to meet, or outperform, these targets. Our target is to achieve a revenue-neutral outcome or a result of 70%.

SERVICE PERFORMANCE TARGETS	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
• GP1 Achieve collars for occurrence (unplanned interruptions)	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6
• GP2 Achieve collars for average unplanned interruption duration	≥ 4 out of 6	≥ 4 out of 6	≥ 4 out of 6
• AP1 HVDC energy availability	>96.75%	>96.75%	>96.75%
• AP2 Key HVAC assets availability	>98.6%	>98.6%	>98.6%
Achieve System Operation Targets	✓	✓	✓

3.3 Asset Health Target

The ability to predict time-dependent risk of the physical assets is an essential component of asset management. Our Asset Health Framework provides a common AH score approach across asset classes known as the Asset Health Index (AHI).

An AHI is an indicator that represents an asset's proximity to the end of its useful life. The end of useful life is the period when an asset will either need replacement or a major refurbishment to extend life occurs. This period is typically hard to predict, but when a combination of information is considered, an AHI can inform the expected time when an asset intervention is likely to be required.

We measure and report AHI across six asset classes. Two of these asset classes ('Power transformers' and 'Outdoor circuit breakers') have been set as quality standards by the Commerce Commission for RCP3. We have set our performance targets in alignment to these Commerce Commission quality standards for RCP3.

3. Performance measures and targets

The target is set as the percentage of assets with an AHI of eight or higher.

	2019/20	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
Asset Health Measures				
• Power transformers	NA	≤ 3.22%	≤ 3.68%	≤ 5.37%
• Outdoor circuit breakers	NA	≤ 2.0%	≤ 2.37%	≤ 5.65%

3.4 Financial Performance Targets

Our four key financial performance targets⁵ are focused on:

- **Sustaining our credit rating** – we track free funds from operations (FFO) to interest cover and FFO to debt. Sustaining our credit rating is important for maintaining good access to capital markets and for achieving favourable pricing;
- **Balance sheet strength** – we hold leverage at a level that provides an efficient return on equity, while maintaining resilience to withstand financial shocks; and
- **Financial returns** – we measure our return on equity and overall return on capital employed. Return on capital employed tracks relatively close to the allowable return on our regulated transmission assets.

Our credit strength and financial return metrics was impacted by the reset of the allowable return on our transmission assets for RCP3. This impact flows into transmission prices from 1 April 2020.

	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
FINANCIAL PERFORMANCE TARGETS				
Free Funds from Operations (FFO) Interest Coverage (# of times)	3.9	5.9	5.6	5.4
FFO / Debt	15.1%	15.2%	13.9%	13.6%
Return on Equity	10.7%	7.9%	8.3%	8.1%
Return on Capital Employed	5.8%	4.0%	4.2%	4.1%

3.5 Sustainability Targets and Actions

Transpower's recently refreshed sustainability strategy has a clear focus on the impacts of climate change. Climate change drives our strategy to play an active role in enabling New Zealand's energy future, including the development of Net Zero Grid Pathways, a view of how the Grid would have to evolve to meet a Net Zero carbon future, and ensuring our workforce capacity and capability is matched to future need.

This year we have set a target of delivering 'Year 1' milestones associated with including climate change reporting in our annual reporting document according to the Task Force on Climate related Financial Disclosures ('TCFD') framework.

This will provide transparency around our climate change governance, strategy, risk management, metrics and targets, including our operational carbon footprint.

Transpower has also set a target to introduce sustainability reporting under the ESG reporting framework. The target for 2020/21 will be to deliver Year 1 milestones and work to position Transpower in the upper quartile on the ESG reporting framework within two years.

⁵ Refer to Appendix 3 for definitions of the financial performance targets.



4. Capital investment and dividend policy

4.1 Capital Structure and Investment

Transpower's forecast capital structure at 30 June 2020 and for the following three financial years is set out below.

CAPITAL STRUCTURE AND INVESTMENT ⁶	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
Debt (\$ million)	3,108	3,160	3,275	3,413
Equity (\$ million)	1,681	1,673	1,700	1,726
Capital Investment (\$ million)	358	349	463	492

Most investment in transmission assets (and assets required to support our transmission services) is recovered through regulated revenues approved by the Commerce Commission under Part 4 of the Commerce Act (1986). A key objective of the Act is to ensure that we have incentives to invest. Some investment in transmission assets (forecast to be 5% of total capex in the three years from 1 July 2020) is recovered through bilateral contracts with transmission customers. Most of our transmission customers are electricity distribution businesses or large generators.

Investment in system operation assets is recovered through a contract with the Electricity Authority. The Electricity Industry Act (2010) identifies Transpower as the system operator and provides the Electricity Authority with the ability to levy electricity industry participants for the costs of procuring system operator services.

We maintain a capital structure that will enable us to manage future capital requirements without recourse to equity injection from our shareholder. Retaining our credit rating will ensure access to a wide range of debt capital markets allowing us to fund our balance sheet efficiently.

We have prudent liquidity management policies, consistent with our credit rating, to ensure we have sufficient funding, and to provide protection against any unexpected deterioration in credit markets.

⁶ The figures in this table are expressed on the basis of New Zealand International Financial Reporting Standards (IFRS) in accordance with Transpower's Accounting policies. Refer to Appendix 3 for definitions relating to capital investment.

4. Capital investment and dividend policy

4.2 Dividend Policy and Estimates

We will distribute funds attributable to our shareholder and surplus to our financing and operating requirements to our shareholder. We will determine the level of surplus funds by having regard to:

- Debt and coverage ratios that enable us to maintain our long term credit rating to ensure access to funding markets;
- A sustainable capital structure to enable us to fund long term capital expenditure, and
- A profile across the five-year RCP that enables us to meet our dividend policy and set a level of dividend that is consistent across the period.

Consistent with the stable nature of our underlying business and the influence of periodic regulatory resets on financial returns, we plan for a consistent dividend level across each regulatory control period. We review this level as we progress through the period. The dividend level for each control period is impacted by the allowable return on transmission assets for that period.

The regulated rate of return for our next five-year regulatory control period (RCP3 – 2020/21 to 2024/25) has been set at 4.57% compared to 7.19% in RCP2 (2015/16 to 2019/20). Given the change in our vanilla WACC and our forecasts of capital expenditure, our forecast dividends levels over RCP3 have reduced to \$120m per annum from \$165m per annum over RCP2.

This dividend levels is considered an appropriate balance between returning dividends to the shareholder and maintaining appropriate leverage levels over the period.

DIVIDENDS AND GUIDANCE	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
Estimated amount to be distributed by dividend (\$ million)	165	120	120	120
% Free Cash Flow After Maintenance capex	77%	66%	63%	75%

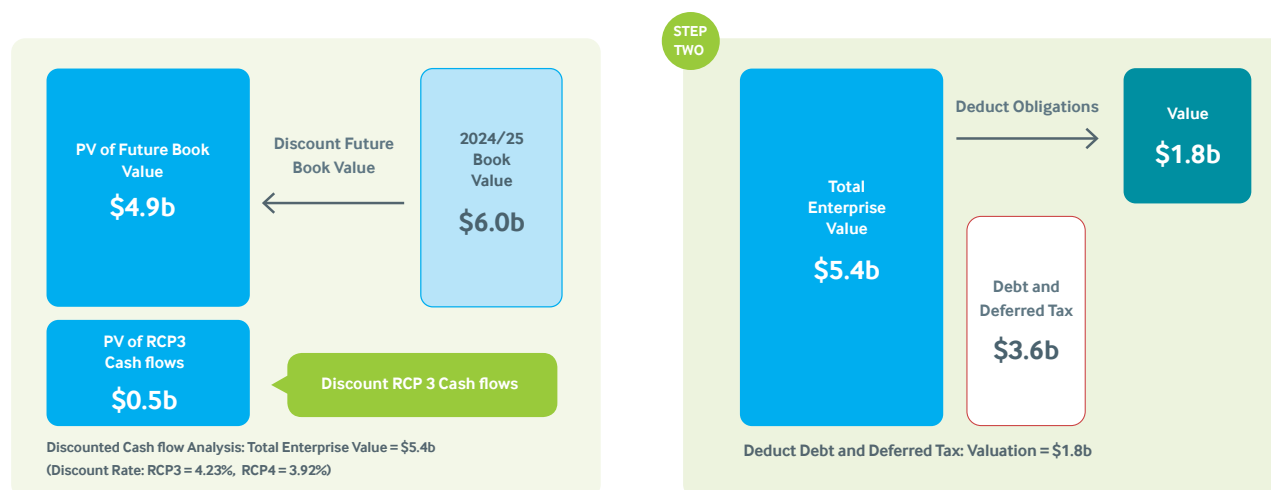
We normally schedule dividend payments into an interim dividend, which is paid in March, and a final dividend that is paid in September.

In recommending the dividend to be paid to the shareholder, Directors will comply with their obligations under the Companies Act and the CE Act.



5. Commercial valuation

The Board's estimate of the commercial value of the Crown's investment in Transpower at 30 June 2020 remains unchanged at \$1.8 billion. This estimate is based on the methodology illustrated below.



The valuation is based on the present value of forecast cash flows to RCP4 plus the present value of the forecast book value of assets at 30 June 2025 (i.e. at the end of RCP3). Combining these two components produces an estimated total enterprise value of \$5.4 billion. Deducting net debt and deferred tax liabilities of \$3.6 billion produces an estimated commercial value of \$1.8 billion.

The following table sets out key components of the valuation.

COMPONENT	SOURCE	COMMENT
Cash Flows	Financial Plan	Regulatory arrangements support a relatively reliable forecast of cash flows for RCP3. We have used forward rates to forecast the likely allowable return for RCP4, which were set prior to the COVID-19 pandemic.
Closing Book Value (terminal value)	Financial Plan	Using the forecast closing asset book value amounts and assuming the Commerce Commission will allow us to recover our actual weighted average cost of capital (WACC) beyond RCP3.
Discount Factor	Allowable Rate of Return	For simplicity, we assume the discount factor matches our allowable return.

Key points are that the valuation:

- is assessed as at 30 June 2020;
- is on an after-tax basis, using nominal future cash flows set out in our Business Plan;
- uses a discount rate of 4.23%, based on the allowable rate of return for our regulated transmission and system operator business for RCP3, and forecasts of 3.92% for RCP4;
- uses a terminal value based on the forecast asset book value at 30 June 2025, discounted back to June 2020 (with no terminal growth factor);
- uses Business Plan cash flows discounted to 30 June 2020, which do not include any forward impacts of the COVID-19 pandemic; and
- was prepared internally and reviewed independently.



6. Other matters

6.1 Information to be provided to Shareholding Ministers

To enable Shareholding Ministers to assess the value of their investment in Transpower, any information that would normally be supplied to a controlling private shareholder will be made available. An Annual Report for each financial year, including audited financial statements, will be submitted in accordance with Section 15 of the Act. The Annual Report will:

- contain sufficient information to enable an informed assessment to be made of Transpower's operations, including a comparison with the SCI; and
- state the dividend payable to the Crown for the relevant financial year.

We will also submit to Shareholding Ministers:

- Half-yearly reports, in accordance with Section 16 of the Act, and quarterly reports with such details as are necessary to permit an informed assessment of the company's performance during that reporting period; and
- Our Business Plan and a draft SCI, which will be made available prior to commencement of the financial year to which they relate.

We will also provide other information relating to the affairs of the company requested by the Shareholding Ministers pursuant to Section 18 of the Act and in accordance with SOE Continuous Disclosure Rules and the Owner's Expectations Manual.

Consultation

We will, in relation to any single transaction or series of transactions, consult with Shareholding Ministers on items outside normal operations and having a material impact on our financial position not contemplated in the Business Plan. This will include:

- Any substantial capital investment in activities within the scope of core business;
- Any substantial expansion of activities outside the scope of our core business;
- Subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve significant overseas equity investment or are outside of our core business;
- The sale or other disposal of the whole, or any substantial part, of the business undertaking; and
- Where Transpower, or its subsidiaries, hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of Transpower), they will not sell or otherwise dispose of any shares in that company without first giving written notice to the Shareholding Ministers of the intended disposal.

We will also consult on any specific items included in the Business Plan as agreed with Shareholding Ministers from time to time.

For the purpose of this document, a substantial investment outside our core business would be any transaction or series of transactions resulting in a maximum potential cash outflow in excess of \$50 million.

6. Other matters

6.2 Procedures for Share Subscriptions or Purchases

Subscriptions for shares in any company or interests in any other organisation will, where material, be subject to consultation with Shareholding Ministers.

6.3 Activities for which Compensation is sought

We will, in accordance with Section 7 of the Act, seek compensation sufficient to allow Transpower's position to be restored if the Government wishes us to undertake activities or assume obligations that in our view will:

- result in a reduction of Transpower's profit or net worth; or
- modify our assets in ways that reduce ongoing security and reliability.

There are currently no activities in relation to which we are seeking, or have sought, compensation from the Crown.

6.4 Accounting Policies

Transpower's financial statements are prepared in accordance with the Financial Reporting Act (1993). This Act requires compliance with generally accepted accounting practice (GAAP) in New Zealand. The financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS). Transpower is not a public benefit entity for the purposes of NZ IAS 1 *Presentation of Financial Statements*.

The detailed accounting policies applied in the preparation of the financial statements are consistent with the accounting policies disclosed in the 2019 Annual Report ⁷.

6.5 Other Matters Agreed by the Shareholding Ministers and the Board

No other matters have been agreed by the Shareholding Ministers and the Board for inclusion in this statement pursuant to section 14(2)(j) of the Act.

⁷ <https://www.transpower.co.nz/resources/201819-annual-report-and-review>

Appendix 1: Subsidiary companies

The terms 'share', 'Shareholding Ministers', and 'subsidiary' have the same meanings as in Section 2 of the Act. Transpower will ensure, at all times, that:

- Control of the affairs of every subsidiary of Transpower is exercised by a majority of the Directors appointed by Transpower; and
- A majority of the Directors of every subsidiary of Transpower are persons who are also Directors or employees of Transpower, or who have been approved by the Shareholding Ministers for appointment as Directors of the subsidiary.

7.1 Our Current Subsidiaries

The Transpower Group contains the following subsidiary companies.

NAME	HOLDING
Halfway Bush Finance Limited	100%
TB and T Limited	100%
Risk Reinsurance Limited	100%
emsTradepoint Limited	100%

7.2 Functions of Subsidiary Companies

Halfway Bush Finance Limited and TB and T Limited were formed during the 2003 cross border lease transaction. This has been subsequently unwound and only the head lease agreement remains. These companies are dormant and do not undertake trading activities. Their purpose is to hold assets on behalf of the Transpower Group.

Risk Reinsurance Limited (RRL) is our captive insurance subsidiary. It is the primary insurer on our material damage and cables insurance programmes (both electricity and fibre optic) and wholly insures some minor programmes. RRL reinsures a portion of the material damage and cable risk with third party insurers. RRL is registered in the Cayman Islands, but is domiciled in New Zealand for tax purposes.

emsTradepoint Limited is a commodity exchange designed to provide anonymity, transparent pricing and transactional certainty to physical energy markets. Launched in late 2013, it currently lists natural gas contracts for delivery in New Zealand.

Appendix 2: Updates to performance targets for 2020/21

The following tables compare the performance targets and measures for the 2019/20 year set out in this SCI with those set out in the previous SCI.

8.1 Safety Performance Targets

	PREVIOUS SCI 2019/20	CURRENT SCI 2020/21
SAFETY PERFORMANCE TARGETS		
Number of Fatalities or Injuries Causing Permanent Disability	0	0
Total Recorded Injury Frequency Rate (TRIFR)	≤ 6.0	≤ 6.0
High Potential Incident Frequency Rate (HPIFR)	≤ 2.5	≤ 3.0

Following 12 months of measuring HPIFR, an increase has been made to the high potential incident frequency rate target to support the continued focus on developing a strong reporting culture for this type of incident.

8.2 Operational Performance Targets not included in SCI

Our service performance targets have been aligned to RCP3 quality targets going forward. The measure are on a different basis between 2019/20 and 2020/21 years and therefore no comparisons has been made.

8.3 Financial Performance Targets

	PREVIOUS SCI 2019/20	CURRENT SCI 2020/21
FINANCIAL PERFORMANCE TARGETS		
FFO Interest Coverage (# of times)	4.7	5.9
FFO / Debt (%)	14.9	15.2
Return on Capital Employed (%)	4.6	4.0
Return on Equity (%)	8.9	7.9

Appendix 2: Updates to performance targets for 2020/21**8.4 Sustainability Targets**

The sustainability measures from 2019 have been refreshed for 2020/21 to be environmental measures focused on climate change and sustainability reporting initiatives. See section 3.5 for detail.

SUSTAINABILITY TARGETS	PREVIOUS SCI 2019/20	CURRENT SCI 2020/21
Environmental		
Publish a carbon emissions report annually to show our overall carbon footprint	✓	NA
As SF ₆ continues to be our main contributor to direct greenhouse gas emissions, hold SF ₆ emissions at or below 0.8% of installed nameplate capacity	≤ 0.8	NA
Community		
% of CommunityCare funding to Māori organisations	≥ 15%	NA
% of CommunityCare applications meeting strategic criteria submitted to the CCF panel	≥ 75%	NA

8.5 Capital Structure and Investment Estimates

CAPITAL STRUCTURE AND INVESTMENT	PREVIOUS SCI 2019/20	CURRENT SCI 2020/21
Debt (\$ million)	3,166	3,160
Equity (\$ million)	1,611	1,673
Capital Investment (\$ million)	294	349
Estimated Amount to be Distributed by Dividend (\$ million)	160	120

Appendix 3: Definitions

9.1 Definition of Safety Performance Targets

Number of Fatalities or Injuries Causing Permanent Disability	Number includes fatalities or injuries causing permanent disability for all Transpower's staff and contractors
High Potential Incident Frequency Rate (HPIFR) (includes injuries and near misses)	Number of incidents reported where there was potential for serious injury or fatality (Level 1 and Level 2) based on assessment against the Transpower risk assessment matrix. Rate is calculated per million hours worked and reported as a rolling 12-month frequency rate
Total Recordable Injury Frequency Rate (TRIFR)	Total number of lost time and medical treatment injuries multiplied by 1,000,000 hours divided by the total number of hours worked in the year

9.2 Definition of Operational Performance Targets

Operational performance targets are based on our RCP3 network service targets. Our Grid Outputs Report sets out detailed definitions⁸.

9.3 Definition of Financial Performance Targets

Free Funds from Operations (FFO) to Interest Coverage (# of times)	Cash Flow from Operations adjusted for changes in working capital plus interest costs and implied depreciation on operating leases, divided by interest costs
Free Funds from Operations (FFO) to Debt (%)	Cash Flow from Operations adjusted for changes in working capital plus interest costs and implied depreciation on operating leases, divided by net debt
Return on Capital Employed (%)	Earnings before interest, tax and changes in the fair value of financial instruments (EBITF) less tax expense (adjusted for interest tax shield), divided by average capital employed. Capital employed is made up of current assets (excluding derivatives) plus fixed assets (excluding works under construction), less current liabilities (excluding current debt, derivatives, interest payable and income in advance)
Return on Equity (%)	Profit After Tax (excluding changes in the fair value of financial instruments) divided by average equity (excluding cumulative changes in the fair value of financial instruments)

9.4 Definitions Relating to Capital Investment

Debt (\$ million)	Current and non-current debt and finance leases
Equity (\$ million)	Share capital, reserves and accumulated retained earnings
Capital Investment (\$ million)	Total capital expenditure, excluding net property acquisitions/disposals

⁸ https://www.transpower.co.nz/sites/default/files/publications/resources/Grid%20Outputs%20Report%202019_0.pdf

Appendix 4: SOE portfolio measures

This Appendix sets out performance measures based on standardised SOE reporting and definitions (definitions are on the Treasury website⁹). Some of these measures do not directly compare with other measures in this SCI (see notes below).

	2019/20 FORECAST	2020/21 TARGET	2021/22 TARGET	2022/23 TARGET
Shareholder Returns				
Total Shareholder Return (%)	9.1	8.1	6.6	6.6
Dividend Yield (%)	9.1	8.1	6.6	6.6
Dividend Pay-Out (%)	76.0	80.4	62.8	64.1
Return on Equity ^A (%)	12.4	8.3	8.8	8.5
Return on Equity Adjusted for IFRS Fair Value Movements and Asset Revaluations ^B (%)	11.3	8.3	8.8	8.5
Profitability/Efficiency				
Return on Capital Employed ^C (%)	8.8	6.0	6.2	6.1
Operating Margins (%)	71.4	67.4	66.2	65.9
Leverage/Solvency				
Gearing Ratio (Net) ^D (%)	64.9	65.4	65.8	66.4
Interest Cover ^E (# of times)	4.1	5.9	5.5	5.3
Solvency (%)	37.5	36.1	34.4	33.4

Notes:

^A Ratio does not adjust for fair value movements. Our ratio also adjusts the Income Statement and equity for fair value

^B Ratio only adjusts the Income Statement for fair value movements. Our ratio also adjusts equity for fair value

^C Ratio excludes tax. Our calculation adjusts tax for the effect of interest costs

^D Our ratio adjusts debt for fair value movements, operating leases and NZPCL debt

^E Our ratio is based on cash flow from operations rather than EBITDAF.

⁹ treasury.govt.nz/commercial/resources/pdfs/fpm-soes.pdf



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