



INTERIM REPORT
2017_18



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POWERING NEW ZEALAND TODAY + TOMORROW

ALISON ANDREW
CHIEF EXECUTIVE

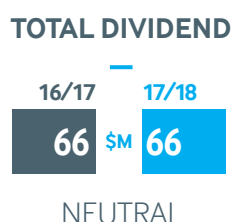
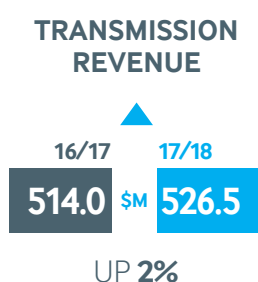
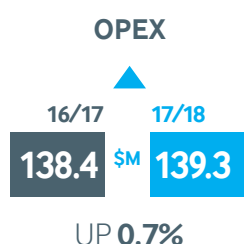
HON. TONY RYALL
CHAIR

The energy industry worldwide is in a transformational period, driven by attitudes to climate change, consumer behaviour, policy and regulation and emerging technologies. The future of energy here in New Zealand also continues to be uncertain facing a range of potential changes.

As the National Grid owner and operator, we have an important role to play in helping to shape an energy future that encourages and supports positive change. We will debate those that may not be in the best interests of New Zealand electricity consumers. The future transmission grid and the wholesale electricity market need to adapt and evolve to ensure we can support new innovations, changes in technology that encourage consumer choice and participation and the embedding of new generation sources. All the while maintaining our core function of providing a reliable, safe and affordable transmission network.



The transmission grid is in a good position to accommodate growth in (emerging energy) technologies for the foreseeable future. ”



1. EBITDAIF: earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments

We believe there are increasing opportunities for the energy industry and New Zealand electricity consumers in the coming years. In the last six months, we have increased our research into the possible impact on the transmission system of emerging technologies like solar PV and batteries. This expands on our 40-year view of the outlook for the industry, developed in *Transmission Tomorrow*, and provides a more detailed look at what we might need to prepare for as these types of technologies become more mainstream.

Positively, these two reports demonstrate that the transmission grid continues to be in a good position to accommodate growth in these technologies. However, the transmission system doesn't work in isolation – we are part of a much wider supply chain. To support both national and regional growth priorities, we need to work closely with our customers, key infrastructure providers and stakeholders like councils, iwi and local businesses around the country to understand issues and opportunities around future transmission infrastructure. We will continue our engagement around these areas with our key stakeholders.

Preparing for this uncertain future requires us to think differently about how we operate our business and how that may change in the future. In the last six months, we entered our second wave of transformation involving a business-wide efficiency programme and several strategic projects aimed at preparing Transpower for the anticipated future states described in *Transmission Tomorrow*.

Our performance

We measure our performance in a number of ways including forecasts in our Statement of Corporate Intent (SCI) and through six strategic business priorities that set out our near, medium and long-term business strategy. We have performed well against these measures in the last six months.

Further information about our strategic priorities and how they inform our decision making can be found in our 2017/18 Interim Review (online only). This interactive document explores each strategic priority in detail, accompanied by case studies of work delivered against them.

Financial summary

Our half year dividend of \$66.0 million, to be paid to the Crown in March 2018, remains the same as last year. To date we have achieved savings against the regulatory approved operating cost allowance of \$50 million, or 6%.

Operating expenses for the first half of the year were \$139.3 million, up slightly from the same time last year (\$138.4 million to 31 December 2016).

Capital expenditure was \$122.1 million, up 11% on the same time last year and in line with the slight increase we expect to see in spend over the next few years with our approved capital programme.

Net profit after tax before net changes in the fair value of financial instruments was \$120.3 million, an 18% increase on the prior period's \$101.6 million. This is largely attributable to an increase in regulated transmission revenue driven by a historical pricing under-recovery wash-up.

This revenue increase flowed through to a 7% increase in EBITDAIF¹ of \$413.5 million (compared with \$388.1 million for the same time last year). Return on capital employed is 7.5%, an increase on last year's score of 6.9%.

Depreciation, amortisation, impairments and write-offs were \$146.8 million, an increase on last year's figure of \$141.4 million. This reflects a higher asset base. Our net interest expenses were \$99.3 million, down from \$105.0 million this time last year, reflecting lower interest rates.

Net profit after tax, including net changes in the fair value of financial instruments, was \$125.3 million, compared with \$164.6 million at the same time last year. The fair value of financial instruments, before tax, saw a gain of \$7.0 million compared with a gain of \$87.5 million for the same period last year.

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 with our predominantly fixed interest portfolio.

Grid service and reliability

We measure our performance against 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 develop these measures and targets in conjunction with our customers and publish them in our annual SCI. Performance against these targets has a direct bearing on our revenue.

Our HVDC availability measure on 31 December 2017 was 97.9%, just under our SCI target of 98.7%. This score was anticipated, given that our annual HVDC maintenance works, including a 48-hour shutdown, took place in November and December.

Our undersea HVDC link is a vital transmission asset, linking the North and South Islands to create one unified electricity market and power system. As we reduce our dependence on North Island thermal generation, this asset is becoming even more critical to meeting New Zealand's electricity needs. Each year, we undergo a 48-hour HVDC shutdown, typically over a weekend to minimise disruption, as we carry out important maintenance work that can only be done with the link out of service.

During this year's outage, we successfully completed important cooling system and warranty work in the Pole 2 and Pole 3 valve halls. This work involved over 600 contractors across four days – a substantial organisational and logistical exercise. The outage was completed on time, within budget, without safety incident and within the guidance provided to our customers who utilise the link to run their businesses.

Our HVAC availability measure on 31 December 2017 was 99.1%, slightly higher than our SCI target of 98.7%.

There has been one notable interruption in the past six months on our HVAC network. On 15 November, nesting birds caused a brief outage on the transmission lines supplying the Matamata, Hinuera and Tirau areas. We identified that these nests had the potential to cause further interruptions to the area and worked with the local distribution company to schedule an outage on 16 November at the lowest power usage time for the area so we could urgently remove the bird nests. We recognise there is never a good time for communities to be without power and remained in regular contact with those affected via the Transpower Facebook page and our usual lines of public communication.

Our safety focus

Our people and service providers continue to demonstrate a strong commitment to safety as we deliver against our safety programme. Effective asbestos management remains a core part of this programme.

Our asbestos management journey began in 2016. We completed visual inspections of all our buildings and grounds, many of which were constructed before the health effects of asbestos were known. Following these inspections, we introduced a formal asbestos strategy, an asbestos management plan, and a service specification register. These key documents have been reviewed by an independent specialist.

We then progressed to systematically testing all our sites for historic asbestos and are working with three panels of asbestos specialists to help us identify, test and remove any potentially problematic materials. We are on track to complete our asbestos testing programme before the end of the financial year.

In the last six months, our safety programme has continued to focus on using our critical risk analysis to understand how controls are working in the field.



Our HVDC availability measure on 31 December 2017 was 99.1%, slightly higher than our SCI target of 98.7%. 📈



The latest TRIFR score of 5.0 is unchanged from June 2017 (rolling 12-month average), while our Year to Date figure is 4.1. 📈

Our sustained commitment to safety is reflected in our overall total recordable injury frequency rate (TRIFR) score, which includes Transpower and all its Service Providers. The latest TRIFR score of 5.0 is unchanged from June 2017 (rolling 12-month average) while our year-to-date figure is 4.1.

We are currently considering the suitability of a severity index measure to help present our safety performance in the future. Commonly used by health and safety practitioners, a severity index reflects the impact of safety incidents on people's lives, providing another measure of organisational performance in health and safety. This measure may supplement or replace the TRIFR measure.

Business challenges

We are facing some unique challenges in the next 6–12 months, with both operational and financial impacts for our business.

Regulation

The Commerce Commission regulates our revenues and service quality using five-year regulatory control periods. We are currently in our second Regulatory Control Period (RCP2), running from 2015/16 through to 2019/20.

We are well under way with the planning and preparation of our RCP3 submission, which will secure funding for the delivery and operation of the New Zealand transmission service beyond 2020. In this submission, we will detail our proposed levels of revenue, capital investment, maintenance, service measures and targets. In June 2018, we will look to re-engage with stakeholders around our submission, which will be finalised by November 2018.

Auckland strategy

In line with *Transmission Tomorrow*, we are developing a strategy for meeting the needs of New Zealand's largest city – Auckland. Our Auckland Strategy² is a long-term planning strategy looking at a range of initiatives and workstreams, which will outline our plans for the next 40 years.

Our existing network in Auckland, which was built over 60 years across rural paddocks, has remained largely unchanged and has expanded to meet the needs of a growing city in a legacy network fashion. We acknowledge the challenge of doing what we can with existing infrastructure while influencing change, given the extensive residential housing that has now developed under and around our transmission assets.

With a step up in the level of anticipated maintenance required on the Auckland network in the coming years, we have taken the opportunity to look holistically at this work in conjunction with our local customers and other infrastructure providers to see how we can best meet the changing needs of our largest city into the future. We are constantly challenged to find ways to accommodate growth while limiting unnecessary grid investment.

We are inviting stakeholder feedback on this key document over the first few months of 2018.

Transmission pricing

Transmission charges remain a relatively small component of end consumers' bills. In addition to transmission charges, end consumers' bills are made up of a number of components including distribution, generation, metering and retail costs as well as taxes and industry levies.

Our contribution to the end consumer's electricity bill is always a key focus for us, and we are committed to keeping our costs as low as possible. This is reflected in our ongoing transformational work, which is focused on finding innovative and more efficient ways to deliver our services while maintaining the level of service quality that our customers and electricity consumers expect.



Our Auckland Strategy is a long-term planning strategy looking at a range of initiatives and workstreams, which will outline our plans for the next 40 years.

2. Available at <https://www.transpower.co.nz/keeping-you-connected/auckland-strategy/our-auckland-strategy>

Our transformation programmes are a way for us to continue to lower our operating costs and keep transmission prices as low as possible. Our second transformation programme is continuing this efficiency focus. Our first 18-month transformation programme, completed in June 2017, saw us reduce our expected costs by hundreds of millions of dollars.

Emerging energy technologies

In *Transmission Tomorrow*—our strategic forward look at the future of New Zealand’s power system—we described three future states bringing new challenges and opportunities for our business.

As the adoption of emerging technologies accelerates, we are looking more closely at our scenarios and assumptions described in 2016. The findings of our solar PV and battery reports are outlined in a dedicated case study in our supporting online, interactive Interim Review.

We are revisiting and retesting the three *Transmission Tomorrow* future states to confirm whether our estimated timelines are on track. Our RCP3 proposal will indicate how we should respond to any significant trends.

Future Directors Programme

We are participating in The Treasury’s Future Directors programme, an initiative designed to increase diversity on state sector boards and strengthen the pipeline of aspiring leaders in the private and public sectors.

Jennifer Moxon, currently Beachhead Advisor with New Zealand Trade and Enterprise and a former Managing Director of IBM New Zealand, has been appointed as Transpower’s first participant in the Future Directors programme. Jennifer attended her first board meeting on 21 November 2017, and her appointment will continue until 31 October 2018.

Our outlook

Predicting the future is not easy, particularly with the level of change anticipated in our industry, but we consider we are well placed to respond to the challenges and opportunities ahead. We continue to evolve our business to ensure we can meet or exceed the expectations and levels of service expected by our customers and stakeholders.

Our ongoing business transformation is enabling us to innovate and optimise our operational and financial performance. We are well into implementing our second major efficiency programme.

We will continue our close work with other key infrastructure providers on projects to support and facilitate growth. We see this collaboration increasing as we retain our focus on how best to support Auckland and Northland. The release of our Auckland Grid Plan will be a key milestone in 2018.

We will continue to provide a level of service that enables continued economic growth and development while keeping our costs as low as possible and safely managing the health of our assets and people.



As the adoption of emerging technologies accelerates, we are looking more closely at our scenarios and assumptions. ■■

ALISON ANDREW
CHIEF EXECUTIVE

HON. TONY RYALL
CHAIR



Financial statements

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Statement of comprehensive income

for the six months ended 31 December 2017

GROUP			
	NOTES	UNAUDITED 6 MONTHS 31 DECEMBER 2017 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M
Operating revenue	2	552.8	526.5
Operating expenses	3	139.3	138.4
Earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments		413.5	388.1
Depreciation, amortisation and write-offs		146.8	141.4
Net interest expenses	4	99.3	105.0
Earnings before changes in the fair value of financial instruments and tax		167.4	141.7
(Gain) loss in the fair value of financial instruments	9	(7.0)	(87.5)
Earnings before tax		174.4	229.2
Income tax expense		49.1	64.6
Net profit and total comprehensive income		125.3	164.6
Total net profit and total comprehensive income for the period is attributable to:			
Non-controlling interest		(0.8)	2.1
Owners of the parent		126.1	162.5
		125.3	164.6

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

Earnings before changes in the fair value of financial instruments and tax		167.4	141.7
Income tax expense excluding changes in the fair value of financial instruments		47.1	40.1
Earnings before net changes in fair values of financial instruments	1	120.3	101.6
(Gain) loss in the fair value of financial instruments		(7.0)	(87.5)
Income tax expense (credit) on changes in the fair value of financial instruments		2.0	24.5
Net profit and total comprehensive income		125.3	164.6

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

Statement of financial position

as at 31 December 2017

GROUP			
	NOTES	UNAUDITED 31 DECEMBER 2017 \$M	AUDITED 30 JUNE 2017 \$M
ASSETS EMPLOYED			
Cash and cash equivalents		55.2	28.3
Investments – short term		102.6	97.2
Trade receivables and other assets	7	153.4	142.1
Derivatives and hedge commitment in gain	7	234.8	197.6
NZPCL investment	7	80.8	77.6
Property, plant and equipment	5	4,555.6	4,589.4
Intangibles – long term		381.9	389.4
Capital work in progress	5	88.5	75.9
TOTAL ASSETS EMPLOYED		5,652.8	5,597.5
FUNDS EMPLOYED			
Liabilities			
Trade and other payables	7	84.1	107.9
Current tax liability		20.1	19.2
Deferred income		88.0	84.0
Derivatives and hedge commitment in loss	7	313.3	339.7
Provisions	7	27.3	30.4
Debt	6	3,143.5	3,082.8
NZPCL debt	7	78.6	74.4
Deferred tax		390.3	377.8
Total liabilities		4,145.2	4,116.2
EQUITY			
Capital		1,200.0	1,200.0
Accumulated surplus		306.1	279.0
Non-controlling interest		1.5	2.3
Total equity		1,507.6	1,481.3
TOTAL FUNDS EMPLOYED		5,652.8	5,597.5

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 22 February 2018.
For, and on behalf of, the board



HON. TONY RYALL
CHAIR
22 February 2018

DON HUSE
DEPUTY CHAIR
22 February 2018

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

Statement of changes in equity

for the six months ended 31 December 2017

GROUP UNAUDITED

	ORDINARY SHARES \$M	RETAINED EARNINGS \$M	OWNERS OF THE PARENT \$M	NON CONTROLLING INTEREST \$M	TOTAL \$M
EQUITY AT 1 JULY 2017	1,200.0	279.0	1,479.0	2.3	1,481.3
Profit for the period	—	126.1	126.1	(0.8)	125.3
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	126.1	126.1	(0.8)	125.3
Dividends	—	(99.0)	(99.0)	—	(99.0)
Total equity at 31 December 2017	1,200.0	306.1	1,506.1	1.5	1,507.6
EQUITY AT 1 JULY 2016	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	—	—	—	—	—
Total comprehensive income	—	162.5	162.5	2.1	164.6
Dividends	—	(98.2)	(98.2)	—	(98.2)
Total equity at 31 December 2016	1,200.0	246.1	1,446.1	(0.2)	1,445.9

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

Cash flow statement

for the six months ended 31 December 2017

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$M	\$M
CASH FLOW FROM OPERATIONS		
Receipts from customers	552.0	524.6
Interest received	2.2	3.0
Payments to suppliers and employees	(159.0)	(144.5)
Tax payments	(35.7)	(32.6)
Interest paid	(98.2)	(108.0)
Net cash inflows (outflows) from operations	261.3	242.5
CASH FLOW FROM INVESTMENTS		
Sale of property, plant and equipment	0.9	0.3
Short term investments	41.7	66.4
Purchase of property, plant and equipment	(131.7)	(118.8)
Short term investments	(46.3)	(36.1)
Net cash inflows (outflows) from investments	(135.4)	(88.2)
CASH FLOW FROM FINANCING		
Net decrease in collateral posted	—	—
Increase in loans	293.5	52.4
Dividends paid	(99.0)	(98.2)
Repayment of loans	(293.5)	(96.4)
Net cash inflows (outflows) from financing	(99.0)	(142.2)
Net increase (decrease) in cash held	26.9	12.1
Opening balance brought forward	28.3	79.9
Closing net cash carried forward	55.2	92.0
Closing net cash carried forward comprises:		
Cash and cash equivalents – asset	55.2	92.0

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 2017 \$M	UNAUDITED 6 MONTHS 31 DECEMBER 2016 \$M
Net profit (loss)	125.3	164.6
Add (deduct) non-cash items:		
Change in fair value of financial instruments	(7.1)	(87.5)
Depreciation, amortisation and write-offs	146.8	141.4
Deferred tax	12.5	40.1
Capitalised interest	(2.8)	(2.7)
Movements in working capital items:		
(Increase)/decrease in trade and other receivables	(11.3)	(2.5)
(Decrease)/increase in trade and other payables, interest payable and deferred income	(2.9)	(0.6)
(Decrease)/increase in taxation payable	0.9	(8.2)
(Decrease)/increase in provisions	(0.1)	(2.1)
Net cash flow from operations	261.3	242.5

Notes to the financial statements

for the six months ended 31 December 2017

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 2016/17 audited annual financial statements.

The accounting policies used in preparation of these financial statements are consistent with those used in preparation of the 2016/17 audited annual financial statements. The 2016/17 audited annual financial statements can be viewed at www.transpower.co.nz.

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 presentation of fair value movement attributing to Transpower's credit risk will move from profit or loss to other comprehensive income. In the event that Transpower qualifies and elects to adopt hedge accounting on cross-currency and interest rate swaps, this may have a material impact upon the Group financial statements.

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

Management has performed an initial assessment on this standard and does not believe it will have a material impact upon the financial statements.

NZ IFRS 16 Leases, effective from 1 July 2019

Management has not yet fully assessed this standard. However, when adopted, it is expected that the present value of lease commitments would be capitalised as an asset and an offsetting liability created. There would be related reductions in leasehold expenditure and an increase in depreciation expense and interest expense.

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 2017

2. OPERATING REVENUE

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$M	\$M
Transmission revenue		
HVAC interconnection	345.0	344.5
HVAC connection	63.4	62.0
EV (rebate) charge – HVAC	12.6	(13.9)
HVDC	63.8	62.9
EV (rebate) charge – HVDC	10.8	13.3
Other regulated transmission	1.9	2.4
Customer investment contracts	13.9	22.1
Other transmission	14.1	3.4
	525.5	496.7
Other revenue		
System operator	20.2	22.5
Other	7.1	7.3
	27.3	29.8
Total operating revenue	552.8	526.5

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 2017	6 MONTHS 31 DECEMBER 2016
	\$M	\$M
Meridian Energy Limited – revenue	58.1	55.9
Electricity Authority – revenue	20.4	22.5
	78.5	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 2017

3. OPERATING EXPENSES

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$M	\$M
Grid maintenance		
HVAC substations maintenance	18.7	22.1
HVDC substations and cables maintenance	4.8	4.5
HVAC lines maintenance	14.7	14.4
HVDC lines maintenance	0.5	0.8
Transmission related rates	3.9	3.8
Other	3.1	4.1
	45.7	49.7
IST maintenance and operations		
Support and maintenance	5.0	5.0
Outsourced services	7.3	7.3
Licences	4.3	4.0
IST leases	4.6	4.4
	21.2	20.7
Other operating expenses		
Investigations	9.0	6.5
Ancillary service costs	1.3	2.7
Employee benefits	52.7	49.0
Capitalised salary costs	(9.5)	(9.4)
Salary transferred to investigations	(3.3)	(2.5)
Operating lease and rental costs	1.9	1.8
Industry levies	5.0	5.1
Insurance	2.1	2.3
Other business support costs	13.2	12.5
	72.4	68.0
Total operating expenses	139.3	138.4

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 2017

3. OPERATING EXPENSES continued

Fees paid to external auditor

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$000	\$000
Audit of financial statements		
Audit and reviews of financial statements	254	249
Other services		
Training courses	40	53
Trust deed requirements	11	13
Remuneration benchmarking report	6	—
Financial model assurance	7	14
	64	80
Total fees paid to external auditor	318	329

4. NET INTEREST EXPENSES

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$M	\$M
Interest revenue		
Interest received	2.2	3.0
	2.2	3.0
Interest expenses		
Interest paid and associated fees	100.9	107.5
Capitalised interest	(2.8)	(2.7)
Imputed interest	3.4	3.2
	101.5	108.0
Total net interest expenses	99.3	105.0

Description

Capitalised interest is based on Transpower's forecast weighted average cost of borrowing, which, for the six months to December 2017, was 6.88% (six months to December 2016: 6.92%).

Imputed interest arises on deferred income and the unwind of the discount of future cash flows related to provisions.

Notes to the financial statements

for the six months ended 31 December 2017

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
At 31 December 2017								
Cost	2,524.5	148.9	2,442.7	866.1	354.7	199.8	6,536.7	88.5
Accumulated depreciation	(605.7)	(51.1)	(701.2)	(307.6)	(184.7)	(130.8)	(1,981.1)	–
Net book value	1,918.8	97.8	1,741.5	558.5	170.0	69.0	4,555.6	88.5
31 December 2017 reconciliation								
Opening net book value (1 July 2017)	1,937.3	98.1	1,738.5	575.6	179.2	60.7	4,589.4	75.9
Additions/transfers	16.4	1.7	44.3	1.1	5.8	16.3	85.6	122.2
Disposals/transfers	(2.7)	–	(2.6)	–	–	(0.8)	(6.1)	(109.6)
Depreciation	(32.2)	(2.0)	(38.7)	(18.2)	(15.0)	(7.2)	(113.3)	–
Closing net book value	1,918.8	97.8	1,741.5	558.5	170.0	69.0	4,555.6	88.5
At 30 June 2017								
Cost	2,511.2	147.4	2,403.0	865.0	349.0	184.4	6,460.0	75.9
Accumulated depreciation	(573.9)	(49.3)	(664.5)	(289.4)	(169.8)	(123.7)	(1,870.6)	–
Net book value	1,937.3	98.1	1,738.5	575.6	179.2	60.7	4,589.4	75.9
30 June 2017 reconciliation								
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	95.2	1.1	87.8	1.3	32.1	12.9	230.4	269.7
Disposals/transfers	(10.1)	–	(7.6)	(0.5)	(2.0)	(4.1)	(24.3)	(261.8)
Depreciation	(62.3)	(4.0)	(73.0)	(36.3)	(25.1)	(15.7)	(216.4)	–
Closing net book value	1,937.3	98.1	1,738.5	575.6	179.2	60.7	4,589.4	75.9
At 31 December 2016								
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
31 December 2016 reconciliation								
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

Description

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

Notes to the financial statements

for the six months ended 31 December 2017

5. NON CURRENT ASSETS continued

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.

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 2017 \$M	AUDITED 30 JUNE 2017 \$M
Current debt		
Short term debt	119.6	119.5
Current portion of long term debt	334.1	—
Total current debt	453.7	119.5
Long term debt		
Bonds	1,290.2	1,286.5
Euro Medium Term Notes	77.7	75.1
Australian Medium Term Notes	552.2	527.2
US Private Placement	1,103.8	1,074.5
	3,023.9	2,963.3
Less current portion of long term debt	(334.1)	—
Total long term debt	2,689.8	2,963.3
Total debt	3,143.5	3,082.8

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 2017, Transpower had no long-term debt issuances or repayments.

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 2017

6. DEBT continued

Debt at face value as amended by foreign exchange derivatives

	GROUP	
	UNAUDITED 31 DECEMBER 2017	AUDITED 30 JUNE 2017
	\$M	\$M
Short term debt	119.4	119.2
Current portion of long term debt	325.0	—
Total current debt	444.4	119.2
Bonds	1,225.0	1,225.0
Euro Medium Term Notes	73.1	73.1
Australian Medium Term Notes	506.9	506.9
US Private Placement	1,013.2	1,013.2
	2,818.2	2,818.2
Less current portion of debt	(325.0)	—
Total long term debt	2,493.2	2,818.2
Total debt	2,937.6	2,937.4

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)
31 December 2017	\$M	\$M	\$M	\$M	\$M	\$M
Trade receivables, payables and other	129.5	23.9	153.4	(83.1)	(1.0)	(84.1)
Derivatives and hedge commitment	45.6	189.2	234.8	(121.0)	(192.3)	(313.3)
NZPCL investment/debt	—	80.8	80.8	—	(78.6)	(78.6)
Provisions	—	—	—	(2.9)	(24.4)	(27.3)
30 June 2017						
Trade receivables, payables and other	117.6	24.5	142.1	(106.8)	(1.1)	(107.9)
Derivatives and hedge commitment	45.5	152.1	197.6	(120.6)	(219.1)	(339.7)
NZPCL investment/debt	—	77.6	77.6	—	(74.4)	(74.4)
Provisions	—	—	—	(6.4)	(24.0)	(30.4)

8. SEGMENT REPORTING

At December 2017, the segments and their measurement basis are unchanged from the 2016/17 annual financial statements.

	TRANSMISSION		OTHER		ADJUSTMENTS		TOTAL	
	UNAUDITED 6 MONTHS 31 DEC 2017	UNAUDITED 6 MONTHS 31 DEC 2016	UNAUDITED 6 MONTHS 31 DEC 2017	UNAUDITED 6 MONTHS 31 DEC 2016	UNAUDITED 6 MONTHS 31 DEC 2017	UNAUDITED 6 MONTHS 31 DEC 2016	UNAUDITED 6 MONTHS 31 DEC 2017	UNAUDITED 6 MONTHS 31 DEC 2016
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
External revenue	522.4	493.6	27.3	29.9	3.1	3.0	552.8	526.5

Notes to the financial statements

for the six months ended 31 December 2017

9. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	GROUP	
	UNAUDITED 6 MONTHS 31 DECEMBER 2017	UNAUDITED 6 MONTHS 31 DECEMBER 2016
	\$M	\$M
Accounting hedges		
Foreign exchange forward contracts – hedge accounted	(1.4)	(0.6)
Hedge commitment	1.4	0.6
	—	—
Other		
Foreign debt	55.6	(50.2)
Cross currency interest rate swaps	(39.2)	55.3
NZD interest rate swaps	(23.0)	(56.8)
Investments	(0.7)	2.0
NZD debt	0.3	(37.8)
	(7.0)	(87.5)
Total fair value (gain) loss	(7.0)	(87.5)

Description

The Group experiences fair value movements principally through movements in underlying interest rates and exchange rates on debt and derivatives and movements in credit spread. 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 2016/17 annual financial statements. There have been no movements between hierarchies during the period.

The following items are recorded at fair value:

	GROUP	
	UNAUDITED 31 DECEMBER 2017	AUDITED 30 JUNE 2017
	\$M	\$M
	ASSET (LIABILITY)	ASSET (LIABILITY)
Investments	102.6	97.2
Derivatives and hedge commitment in gain	234.8	197.6
NZPCL investment	80.8	77.6
Derivatives and hedge commitment in loss	(313.3)	(339.7)
Debt	(3,143.5)	(3,082.8)
NZPCL debt	(78.6)	(74.4)

Notes to the financial statements

for the six months ended 31 December 2017

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.

The balances and expected cash flows from the EV accounts for HVAC and HVDC customers at 30 June 2017 are set out below.

	HVAC \$M	HVDC \$M	TOTAL \$M
30 June 2017 balance			
Pre-input methodology EV balances to be recovered (paid) 1 July 2017 to 31 March 2020	(21.5)	42.9	21.4
Post-input methodology EV balances to be recovered (paid) 1 April 2018 to 31 March 2019	(16.2)	0.9	(15.3)
Post-input methodology EV balances to be recovered (paid) 1 April 2019 to 31 March 2020	(15.0)	0.4	(14.6)
Post-input methodology EV balances to be recovered (paid) 1 July 2017 to 31 March 2018	19.6	(1.0)	18.6
Total to be recovered (paid)	(33.1)	43.2	10.1
30 June 2016 balance			
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

Notes to the financial statements

for the six months ended 31 December 2017

10. CONTINGENCIES continued

(iii) Environmental hazards

Transpower has a programme of identifying, mitigating and removing environmental hazards such as asbestos at its sites. The cost of mitigating and/or removing identified 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. There are a number of hazards that have been identified and mitigated, but we have not yet determined if or how the hazard will be removed. In these situations, we are unable to determine the cost of the removal with sufficient reliability to record a liability at 31 December 2017.

(iv) 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 2017	UNAUDITED 31 DECEMBER 2016	AUDITED 30 JUNE 2017
	\$M	\$M	\$M
Net assets (equity)	1,507.6	1,445.9	1,481.3
Less intangibles	(381.9)	(383.8)	(389.4)
Total net tangible assets	1,125.7	1,062.1	1,091.9
Net tangible assets per share (\$)	0.94	0.89	0.91

The non-GAAP measure above is disclosed to comply with NZX Debt Market Listing Rule 2.3 (f).

12. SUBSEQUENT EVENTS

On 22 February 2018, the board of directors approved the payment of a half year dividend of \$66.0 million to be paid on 20 March 2018. The dividend will be fully imputed.

The directors are not aware of any other matter or circumstance since 31 December 2017 that has significantly or may significantly affect the operations of Transpower or the Group.

BOARD OF DIRECTORS**CHAIR**

HON TONY RYALL

DEPUTY CHAIR

DON HUSE

DIRECTORS

DEAN CARROLL

PIP DUNPHY

PROFESSOR JAN EVANS-FREEMAN

BILL OSBORNE

TIM LUSK

GENERAL MANAGEMENT TEAM**CHIEF EXECUTIVE**

ALISON ANDREW

CHIEF FINANCIAL OFFICER

ALEX BALL

**GENERAL MANAGER SYSTEM OPERATIONS
AND INNOVATION**

JOHN CLARKE

GENERAL MANAGER GRID DEVELOPMENT

STEPHEN JAY

GENERAL MANAGER PEOPLE

DAVID KNIGHT (ACTING)

**GENERAL COUNSEL AND
COMPANY SECRETARY**

DAVID KNIGHT

**GENERAL MANAGER AUCKLAND
DEVELOPMENT AND TRANSFORMATION**

RAEWYN MOSS

**GENERAL MANAGER INFORMATION
SERVICES AND TECHNOLOGY**

COBUS NEL

**GENERAL MANAGER CUSTOMERS
AND PROJECTS**

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GENERAL MANAGER GRID PERFORMANCE

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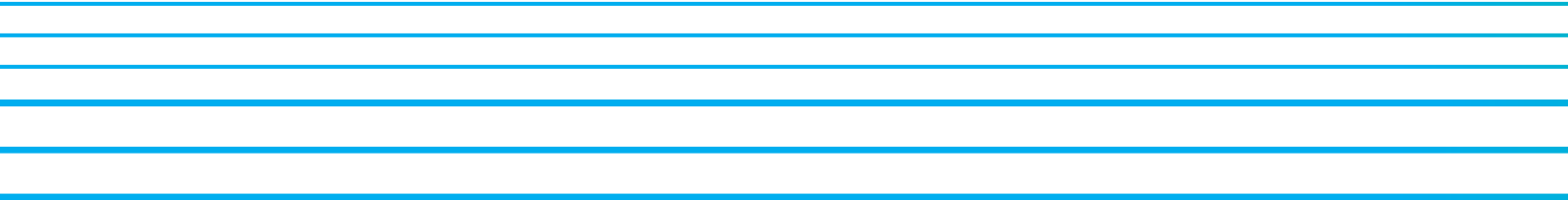
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