TRANSPOWER

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Annual Report

2019/20

Keeping the energy flowing

Contents

Corporate Governance Statement

For the year ended 30 June 2020

Introduction

As the operator of New Zealand's national electricity grid, Transpower has a unique responsibility to our nation. We are responsible for designing, building, operating and maintaining the national grid. At the same time, we operate and manage New Zealand's electricity market in real-time.

To achieve these dual roles, we are supported by an experienced group of New Zealanders who work across the country in our various departments.

We are headed by a Board of Directors and General Management Team who understand the electricity sector implicitly and who guide our business functions with robust corporate governance policies and practices.

Our Board and General Management Team are committed to creating and maintaining a high standard of corporate governance. Additional information on other activities of the Board this year and plans for next year can be found in the online **Annual Review**.

Our NZX commitments

Transpower is a limited liability company and a State-Owned Enterprise (SOE) with our shares held on behalf of the Crown by the Minister of Finance and the Minister for State-Owned Enterprises. Transpower has debt listed with the NZX and is, therefore, required to comply with debt listing obligations.

This corporate governance statement reports our activities against the NZX Corporate Governance Code (the NZX Code), updated in 2019. The NZX Code is the primary guidance on corporate governance for NZX-listed issuers, describing principles of corporate governance and the recommended action to demonstrate best practice.

There are certain parts of the NZX Code that do not apply to Transpower, such as those clauses related to director appointments, takeovers, directors' remuneration and shareholder rights. As an SOE, these governance arrangements are the responsibility of the Crown and are set out in the State-Owned Enterprises Act 1986 and Transpower's constitution. These are identified in the statement.

Transpower considers that, during the reporting period, the company materially complied with the NZX Code.

Principle 1:
Code of ethical behaviour

Recommendation 1.1
Code of conduct for Transpower's people and directors

"The board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere (a code of ethics)."

Transpower has a **Code of Ethics and Conduct Policy** that directors, employees, contractors and consultants must comply with. The policy is designed to promote and maintain high standards of ethical behaviour and provides advice on how to deal with ethical problems.

Transpower's Code of Ethics and Conduct Policy sets out explicit expectations:

- acting honestly and with high standards of personal and professional integrity;
- appropriately managing conflicts of interest;
- proper use of Transpower's property or information;
- not participating in any illegal or unethical activity, including safeguards against insider trading in the entity's securities (refer also to the **Insider Trading Policy and Guidelines**);
- fair dealing with shareholders, customers and other stakeholders;
- standards around giving and receiving gifts, koha, facilitation payments and bribes (refer also to the **Discretionary Expenditure, Gifts and Travel Policy**);
- compliance with relevant laws and regulations; and
- reporting of unethical decision-making and/or behaviour (refer also to the **Compliance Policy**).

New employees are required to acknowledge that they have read, understood and will comply with the Policy requirements. The induction process includes the completion of the 'Doing the right thing at Transpower' online e-learning module, which ensures people who join Transpower are familiar with the organisation and what is expected of them. This includes familiarisation with the Code of Ethics and Conduct Policy.

The Board reviews the Code of Ethics and Conduct Policy every five years. The Board is updated by the General Manager People and General Counsel & Company Secretary on any non-compliance with the policy.

As part of the recent external evaluation, the Board completed an extensive review of the Board Charter and embedded a code of ethics and conduct and minimum expectations for behaviour.

Recommendation 1.2
Financial dealing policy

"An issuer should have a financial product dealing policy which applies to employees and directors."

Transpower's **Insider Trading Policy and Guidelines** set out the requirements for all directors, officers, staff and contractors of Transpower and its subsidiaries who wish to deal in Transpower's securities. The Board reviews the Insider Trading Policy and Guidelines every five years, last reviewed and approved by the Board in June 2018.

> Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Principle 2:
Board composition and performance

Recommendation 2.1
Board charter

"The board of an issuer should operate under a written charter that sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management."

The role and responsibilities of the Board are set out in Transpower's **Board Charter**. The Board reviews this every three years to ensure its relevance. As part of the recent external evaluation, the Board Charter was reviewed and a new version approved in June 2020.

The Board has a minimum of eight scheduled meetings each year and meets whenever necessary to discuss urgent business. The Chair, Chief Executive, and General Counsel & Company Secretary establish meeting agendas to ensure key issues are covered. Directors receive materials for Board meetings a minimum of seven days in advance except for urgent meetings called at short notice.

The Board appoints and delegates responsibility for Transpower's day-to-day management to the Chief Executive, who in turn may delegate authority to executive managers.

Transpower's **Delegated Authority Policy** describes the limits of delegated authority and prescribes the matters in respect of which the Board reserves its decision-making authority.

Recommendation 2.2
Nominating and appointing directors to the Board

"Every issuer should have a procedure for the nomination and appointment of directors to the board."

The shareholding Ministers and ultimately the Cabinet appoints Transpower directors on advice from The Treasury. Directors are independent and non-executive and are generally appointed for terms of up to three years, although they may be reappointed. Shareholding Ministers, in conjunction with the Board, seek to ensure there is a balance and diversity of skills, knowledge, experience and perspectives among directors.

Recommendation 2.3
Written agreements with each director

"An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment."

Transpower's directors hold office at the pleasure of shareholding Ministers and accept appointment on terms and conditions set out upon their appointment.

Recommendation 2.4
Information on directors

"Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests and director attendance at board meetings."

The members of the Board of Directors and their attendance at meetings during the 2019/20 financial year are listed below.

Profiles of each director can be found on Transpower's **website**. All directors are independent.

DIRECTOR	DATE COMMENCED IN OFFICE	MEETINGS HELD	MEETINGS ATTENDED
Pip Dunphy (Chair from 1 January 2019)	1-May-15	10	10
Dean Carroll (Deputy Chair from 1 January 2019)	1-Nov-16	10	10
Prof Jan Evans-Freeman (term ended 31 October 2019)	1-Nov-12	2	2
Bill Osborne	1-May-16	10	8
Sheridan Broadbent	1-May-18	10	9
Kathy Meads	1-Mar-19	10	10
Ilze Gotelli	1-Mar-19	10	10
Dr Tim Densem (term ended 4 October 2019)	1-Mar-19	2	2
Richard Aitken	1-Nov-19	8	8
Dr Roger Blakeley	1-Jun-20	1	1

No directors hold shares in Transpower, have loans from Transpower or have made any request to use company information received in their capacity as directors that would not otherwise have been available to them.

Transpower's **Directors' Interests Policy** governs how Transpower resolves and manages the way directors' individual interests are disclosed.

The following directors have made general disclosures of interest with certain external organisations based on them being a Chair, director, Board member, trustee, council member, member, employee or consultant of those organisations or holding material securities or shares of those organisations. The disclosures of interest cover the period up to the end of the financial year, on 30 June 2020.

DIRECTOR	POSITION	ORGANISATION
Pip Dunphy	Chair**	First Gas Holdings TopCo Limited and subsidiary companies
	Chair**	Gas Services NZ Limited and subsidiary companies
	Chair	Abano Healthcare Limited
	Director	Fonterra Shareholders Fund
	Director*	DGC Limited
Dean Carroll	Nil	Nil
Prof Jan Evans-Freeman**	Pro Vice-Chancellor	College of Engineering, University of Canterbury
	Director	Wireless Research Institute
	Director	Electric Power Engineering Centre (EPE Centre)
	Director	University of Canterbury Quake Centre
	Director	QuakeCore
	Member	Engineering NZ Governing Board
Bill Osborne	Chair**	PlantTech Research Institute Limited
	Chair	Page Macrae Engineering
	President	New Zealand Rugby Union Incorporated
	Director	Rangitira Services Limited
	Director	Ports of Auckland Limited
Sheridan Broadbent	Shareholder	Figured Limited
	Shareholder	Invivo Wines Limited
	Director	Business Leaders' Health and Safety Forum
	Director	Breach Consulting Limited
	Director	Kordia Group limited
	Director	Spruce Goose Aerospace Limited
	Director	Timberlands Limited
	Director**	NZ Transport Agency
Kathy Meads	Director	Shipowners Mutual Protection and Indemnity Association
	Director	Enable Services Limited
	Director	Enable Networks Limited
	Director	Port Taranaki Limited
	Director	NZPM Group Limited
	Trustee	Christchurch Symphony Orchestra
	Director*	Magic Memories Group Holdings Ltd
Ilze Gotelli	Employee	Head of Major Developments, Watercare Services Limited

* Appointed during the year ** Resigned during the year

DIRECTOR	POSITION	ORGANISATION
Dr Tim Densem**[**]	Director	South West Consulting Group
	Director	Pukeko Rentals
Richard Aitken[*]	Director	BGCF Trustee Limited
	Director	BGL Custodian Limited
	Director	Pitt Vincent Limited
	Director	BGLIR Trustee Limited
	Director	BGL Management Share Trustee Limited
	Director	Albert Pitt Limited
	Director	BGS Trustee Limited
	Director	Derceto Trustee Limited
	Director	John Scotts Investment Limited
	Trustee	Beca Indemnity Fund Custodian Trust
	Trustee	BGLIR Custodian Trust
	Trustee	BGL Custodian Trust
	Trustee	BGS Custodian Trust
	Member[**]	Building Advisory Panel at Ministry of Business, Innovation and Employment
	Member	National Asset Management Plan Reference Group for the Ministry of Health
	Chair	Te Punaha Matatini Advisory Board
	Chair[**]	Waterview Project Alliance Board
Dr Roger Blakely[*]	Director	Greater Wellington Regional Council and subsidiaries
	Director	Capital and Coast District Health Board
	Trustee	Harkness Fellowships Trust Board
	Trustee	Wesley Community Action Trust

The Transpower Group has directors' and officers' liability insurance policies. An indemnity is also permitted by Transpower's constitution and separate deeds of indemnity have been entered into between Transpower and individual directors. These ensure that, generally, directors will incur no financial loss as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines that may be imposed in respect of breaches of the law.

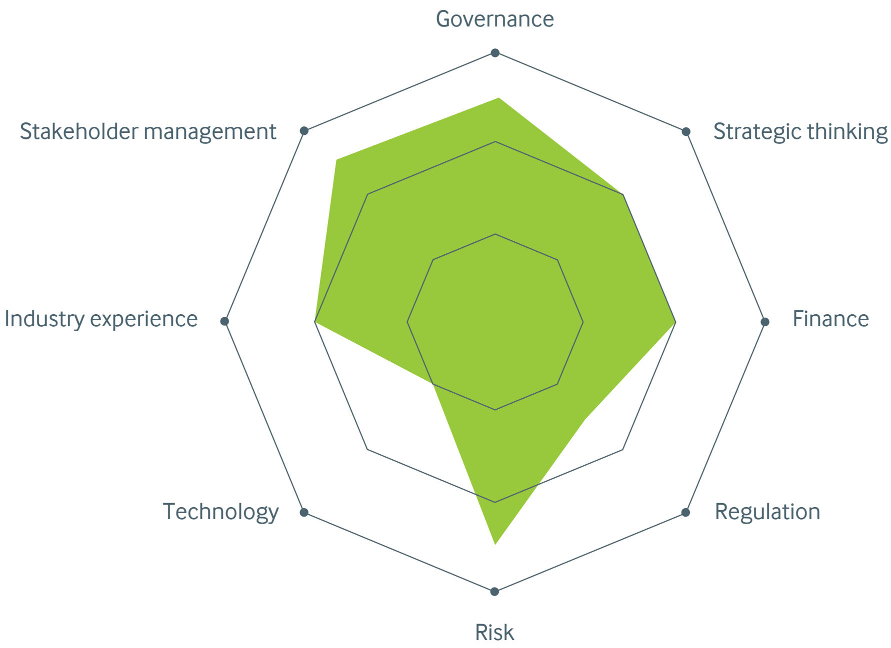
Diversity of skills and experience

Transpower's Board of Directors comprises individuals with a broad and diverse set of skills and experience that collectively benefit our company and the electricity sector. The board is a collective unit directing and guiding Transpower's direction and business activities. Complementing the Board's over-arching view of the business, each board member spends time with our General Management Team, extending their knowledge base in the day-to-day operations and understanding what happens at every layer of the organisation.

> "To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

* Appointed during the year ** Resigned during the year

Director skills matrix



Information on directors of subsidiary companies

as at 30 June 2020

TB AND T LIMITED	RISK REINSURANCE LIMITED
Christopher Sutherland	David Knight (Chair)
David Knight	John Clarke
	Gordon Davidson

HALFWAY BUSH FINANCE LIMITED	emsTRADEPOINT LIMITED
Christopher Sutherland	John Clarke (Chair)
David Knight	David Knight
	Gordon Davidson

The directors of the subsidiary companies are all Transpower employees. Employees do not receive any additional remuneration for their role as a director of a subsidiary company.

Directors declare any interests they have after they are appointed to the Board, and interests are updated at every meeting. The Chair and General Counsel & Company Secretary together decide whether the interests present any conflicts and manage those accordingly, including not allowing directors to vote or be present during discussions where there may be a conflict.

Recommendation 2.5

Diversity policy

"An issuer should have a written diversity policy that includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it."

Transpower has a **Diversity and Inclusion Policy**. Created in November 2017, the policy defines Transpower's commitment to building a culture that promotes diversity and inclusiveness, pay parity and attracting, recruiting, developing, promoting and retaining a diverse group of talented individuals over a three-year period. The policy prescribes the responsibilities of the Board, the General Management Team and other employee groups and outlines Transpower's approach to the measurement and reporting of gender and ethnic diversity and inclusiveness of culture.

The policy identifies five priorities that Transpower is focused on:

- make diversity and inclusion a core part of Transpower's corporate policy framework;
- attracting and retaining more women with the objective of achieving a 40/40/20 gender target in teams over time (40% men, 40% women and 20% unallocated);
- attracting and retaining more Māori;
- eliminating the gender pay gap in Transpower; and
- making diversity and inclusion a core part of Transpower's employee value proposition.

Guided by our Chief Executive, Alison Andrew, who is part of the Champions for Change initiative in New Zealand, Transpower has made considerable progress during the 2019/20 year to support greater diversity and an inclusive culture across the organisation including:

- **Young Professional Community:** We have a strong focus on mentorship within Transpower. In the 2019/20 year, our Young Professional Community established a calendar of regular meetings, both online and in person, focused on professional development and mentoring.
- **Establishment of a hearing-impaired group:** More than 200,000 New Zealanders have a hearing impairment. This year we established an online group for our staff affected by hearing loss, providing a safe forum for members to share stories and provide guidance for the organisation.
- **Whanaungatanga:** We saw increased numbers attending the regular Noho Marae around New Zealand, immersing Transpower staff and local service providers in Māori culture.
- **Flexible work arrangements:** Transpower has always had flexible working arrangements and this came to the fore during the COVID-19 lockdown and the subsequent return to the office (with many staff juggling increased stress levels, school closures and 'business as usual').

MEASURE	DESCRIPTION	AS AT JUNE 2020		AS AT JUNE 2019	
AGE PROFILE	Median age	45 years		45 years	
GENDER IDENTITY BY ROLE*	Role groupings by gender identity	Female (%)	Male (%)	Female (%)	Male (%)
	All	33	66	33	66
	People leaders	32	66	34	64
	General Management	30	70	33	67
	Board	57	43	62.5	37.5
ETHNICITY**		(%)		(%)	
	% of staff providing ethnicity data	59		52	
	European (incl NZer)	80		87	
	Māori	4		5	
	Middle Eastern/Latin American/African	7		7	
	Asian	18		18	
	Pacific	2		2	
	Other Ethnicity	7		5	
PART-TIME WORKING ARRANGEMENTS	Percentage of staff working part-time hours	5.6		5.5	
NEW EMPLOYEES	The previous year's intake by age and gender	Median age 38.4 years Gender Identity: Female 39.7%; Male 59.5%		Median age 38 years Gender Identity: Female 39.5%; Male 60.5%	
	Ethnicity	(%)		(%)	
	% of staff providing ethnicity data	98		98	
	European (incl NZer)	66		65	
	Māori	1		4	
	Middle Eastern/Latin American/African	7		7	
	Asian	15		13	
	Pacific	3		0	
	Other Ethnicity	9		10	

* Note: data as at 30 March 2020. Data may not add up to 100% if staff chose not to state their gender or state 'gender diverse' in the survey.
** Note: data as at 30 March 2020. Data is based on 59% of all staff who submitted ethnicity data when surveyed.
Totals may be greater than 100% due to staff being able to identify with up-to three ethnicities.

MEASURE	DESCRIPTION	AS AT JUNE 2020	AS AT JUNE 2019
INTERNAL HIRE RATE	The previous year's appointments identifying internal versus external hires	30.5% of all appointments have been internal.	41% of all appointments have been internal.
EMPLOYEE SATISFACTION	Response to the diversity statement: "I feel Transpower values diversity (e.g. age, gender, ethnicity, language, education qualifications, ideas and perspectives)."	Question not posed in 2020 survey.	82%
	Response to the diversity statement: "People from all backgrounds are treated fairly at Transpower."	8.6 (out of a possible 10)	Question not posed previously

Recommendation 2.6
Director training

"Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer."

From the outset of their tenure, Transpower directors participate in a comprehensive induction programme that includes one-on-one meetings with the Chief Executive and the General Management Team and site visits to key locations.

At least once a year, the Board holds strategic and professional development workshops. These provide opportunities for management to update the Board on key issues. Outside of these workshops, directors are regularly updated on relevant industry and company issues through an education programme agreed with the Chair. There is an ongoing programme of presentations to the Board by all parts of the business. Transpower's directors ensure that they are independently familiar with the company's operations through continuous education to appropriately and effectively perform their duties. This includes participating in an ongoing site visits programme.

Directors have ongoing Continuing Professional Development (CPD) objectives through their professional and director organisations which they are individually responsible for.

Recommendation 2.7
Performance

"The board should have a procedure to regularly assess director, board and committee performance."

Transpower's Board is accountable to shareholding Ministers for company performance. The Treasury monitors and advises shareholding Ministers on the Board's performance. Each director's performance is evaluated by the Chair, and the Board also evaluates its overall performance annually through external evaluations, which are provided to shareholders. The most recent evaluation was undertaken in 2019/20.

Recommendation 2.8
Independent Directors

"A majority of the board should be independent directors."

All directors are independent directors.

Recommendation 2.9
Chair and CEO

"The Chair and the CEO should be different people."

Transpower's **Board Charter** states that the Chair is separate from the Chief Executive. Pip Dunphy is the Chair of the Board of Transpower. Alison Andrew is Transpower's Chief Executive.

Principle 3:
Board committees

Transpower has five regular Board committees:

- Risk Committee;
- Audit and Finance Committee;
- People and Performance Committee;
- System Operator Committee (established during the 2019/20 year); and
- Transmission Pricing Methodology Committee (established during the 2019/20 year)

Each Board committee has terms of reference that outline the role, rights, responsibilities and membership requirements for that committee.

Other committees may be established from time-to-time to consider matters of special importance or to exercise the Board's delegated authority. The Board is responsible for appointing committee members according to the skills, experience and other qualities they bring to the committee.

A minimum of two directors are required to sit on each committee, although typically three or more do so. The General Counsel & Company Secretary attends all meetings as Secretary at the invitation of the Board. Each committee is chaired by a director who is not the Board Chair. The agenda, papers and minutes of each committee meeting are provided to all directors. The Board is also given a verbal or written report by the committee Chair on the outcomes of each Committee meeting.

The committees attend meetings each year scheduled to coincide with the timing of that committee's responsibilities. Each committee reviews its activities annually to ensure it is adequately covering its roles and responsibilities. The external evaluation of the Board also evaluates how each Board committee is functioning.

Recommendation 3.1
Audit committee

"An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The Chair of the audit committee should be an independent director and not the Chair of the board."

Transpower's Audit and Finance Committee is responsible for monitoring the financial performance and reporting of Transpower and its subsidiaries. It also reviews the appointment of external auditors (subject to the authority of the Auditor-General) and manages the external audit process, including reviewing and monitoring external audit and management reports.

> The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Meetings of the Audit and Finance Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Kathy Meads	4	4
Pip Dunphy	4	4
Dean Carroll**	3	3
Sheridan Broadbent**	3	3
Bill Osborne*	1	1
Ilze Gotelli*	1	1

The external auditor is subject to the independence rules of the Auditor-General. These rules require the audit partner to be rotated after a maximum of six years. Transpower discloses fees paid to external auditors in its Annual Report and differentiates between audit fees and fees for individually identified non-audit work.

The Auditor-General has appointed Grant Taylor of Ernst & Young to carry out the audit on his behalf.

The Audit and Finance Committee also manages the internal audit process for financial matters, including reviewing, monitoring and approving internal audit reviews, annual audit plans and internal audit and management reports. All members of the Audit and Finance Committee are independent directors.

Recommendation 3.2
Employee attendance at audit committee meetings

"Employees should only attend audit committee meetings at the invitation of the audit committee."

The Audit and Finance Committee terms of reference set out that the Chief Executive and Chief Financial Officer are included as attendees at committee meetings at the request of the Chair of the committee. The General Counsel & Company Secretary attends all meetings as Secretary. All other attendees are only at the invitation or request of the Chair or Chief Executive.

Recommendation 3.3
Remuneration Committee

"An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee."

Transpower's People and Performance Committee performs the functions of a remuneration committee. This committee oversees Transpower's culture and performance and approves recruitment, remuneration, retention and termination decisions, and policies and procedures regarding executive management. It reviews and recommends to the Board the Chief Executive's remuneration, terms, annual key performance indicators and performance recommendations.

* Appointed to the Committee during the year   ** Left the Committee during the year

Meetings of the People and Performance Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Prof Jan Evans-Freeman**	1	1
Pip Dunphy	2	2
Bill Osborne	2	1
Ilze Gotelli**	1	1
Dean Carroll*	1	1
Kathy Meads*	1	1

The People and Performance Committee terms of reference set out that the Chief Executive and the General Manager People are included as attendees at committee meetings. The General Counsel & Company Secretary attends all meetings as Secretary. All other attendees are only at the invitation or request of the Chair of the committee or Chief Executive.

Recommendation 3.4
Nomination committee

"An issuer should establish a nomination committee to recommend director appointments to the board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors."

The shareholding Ministers and ultimately the Cabinet appoints Transpower's directors on advice from The Treasury. The Board discusses potential candidates and makes recommendations to The Treasury. The Chair and Deputy Chair participate in interviews for potential candidates.

Recommendation 3.5
Other committees

"An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance."

Risk Committee

Transpower's Risk Committee has responsibility for reviewing health and safety matters on the Board's behalf and is responsible for ensuring that management has established a risk management framework that includes policy, procedures and assessment methodologies that enable Transpower to effectively manage and monitor business risks.

The Risk Committee also recommends the appointment of internal auditors and manages the internal audit process, including reviewing, monitoring and approving internal audit reviews, annual audit plans and internal audit and management reports. The Risk Committee will direct internal audit functions or material to either the Audit and Finance Committee or the People and Performance Committee where the subject matter is within the expertise of the respective committee. The primary objective of these internal audits is to assist the Board and the executive team in exercising good governance by providing independent assurance.

These recommendations came into play in earnest in the 2019/20 year with the COVID-19 lockdown. Strategic, external and operational risks were reviewed and updated as part of our ongoing efforts to manage our risks in the COVID-19 pandemic environment.

Meetings of the Risk Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Dean Carroll	4	4
Sheridan Broadbent	4	3
Pip Dunphy*	2	2
Prof Jan Evans-Freeman**	1	1
Dr Tim Densem**	1	1
Richard Aitken*	2	2

System Operator Committee

The System Operator Committee was formed during the 2019/20 year to oversee and provide guidance on all business activities related to Transpower's role as System Operator and reporting requirements to the Electricity Authority.

During the 2019/20 year the System Operator Committee provided recommendations to the business on system operator business assurance audits, software audits and major project assurance, real time pricing management and risk, and structure.

Meetings of the System Operator Committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Dean Carroll	2	2
Pip Dunphy	2	2
Sheridan Broadbent	2	2
Richard Aitken	2	2

Transmission Pricing Methodology Committee

The Transmission Pricing Methodology Committee was formed on 30 June 2020 to oversee and provide guidance on Transpower's activities on the new pricing system, which is responsible for 90% of Transpower's revenue. The Committee met in the first quarter of the 2020/21 financial year.

* Appointed to the Committee during the year ** Left the Committee during the year

Principle 4:
Reporting and disclosure

Recommendation 4.1
Continuous disclosure

"An issuer's board should have a written continuous disclosure policy."

Transpower's External Communications Policy contains the Board approved policy on continuous disclosure.

Transpower has debt listed on the NZX Debt Market quoted under the ticker codes TRP030, TRP040, TRP050, TRP060 and TRR070 (together, bonds) and debt listed on the Swiss Stock Exchange (SIX). As a listed issuer, Transpower is subject to certain requirements and obligations under the NZSX/NZDX and SIX Listing Rules, including a continuous disclosure obligation.

The Board has appointed the General Counsel & Company Secretary as the Disclosure Officer and, with the Disclosure Officer, examines continuous disclosure at the end of every meeting, including whether anything discussed at the meeting warrants disclosure, and reviews any disclosures made the previous month. The General Management Team also evaluates disclosure at its two-weekly meetings.

Other disclosures

Based on the register of bondholders, Transpower has at least the following number of bondholders as at 30 June 2020:

BONDHOLDER NUMBERS	TRP030		TRP040		TRP050		TRP060		TRP070	
	No. of bond holders	No. of bonds (000)	No. of bond holders	No. of bonds (000)	No. of bond holders	No. of bonds (000)	No. of bond holders	No. of bonds (000)	No. of bond holders	No. of bonds (000)
1,001–5,000	9	45	5	25	1	5	3	15	3	15
5,001-10,000	34	320	22	204	17	156	2	18	9	83
10,001–100,000	103	3,673	44	1,594	56	2,033	9	387	78	3,194
>100,001	67	145,962	36	98,177	28	122,806	30	149,580	28	146,708
TOTAL	**213**	**150,000**	**107**	**100,000**	**102**	**125,000**	**44**	**150,000**	**118**	**150,000**

Top twenty largest listed bondholders	Holdings
BNP Paribas Nominees NZ	86,800,000
Cogent Nominees Limited	79,039,000
HSBC Nominees (New Zealand)	68,804,000
ASB Bank Limited	55,000,000
Citibank Nominees (NZ) Ltd	53,564,000
Tea Custodians Limited	47,416,000
JP Morgan Chase Bank	44,645,000
Premier Nominees Ltd	29,650,000
TSB Bank Ltd (Associate)	28,900,000
Investment Custodial Services	28,081,000
National Nominees New Zealand	22,725,000
Custodial Services Limited	22,241,000
FNZ Custodians Limited	21,682,000
Forsyth Barr Custodians	20,415,000
Lynette Therese Erceg	7,400,000
The Co-Operative Bank Limited	7,000,000
JBWere (NZ) Nominees Limited	6,345,000
NZ Permanent Trustees Ltd	5,750,000
PT (Booster Investments)	5,400,000
Southland Building Society	3,000,000

The **Insider Trading Policy and Guidelines Policy** has clear rules for when directors, officers and staff are dealing in listed Transpower securities.

Recommendation 4.2
Make key documents available

"An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website."

Transpower's Code of Ethics and Conduct Policy, Board Charter and Terms of Reference for board committees recommended in the NZX Code, together with other governance documents, are available on Transpower's **website.**

Recommendation 4.3
Financial reporting

"Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how it plans to manage those risks and how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward-looking assessments, and align with key strategies and metrics monitored by the Board."

Transpower's Audit and Finance Committee is responsible for monitoring the financial performance and reporting of Transpower and its operating subsidiaries, emsTradepoint Limited and Risk Reinsurance Limited.

Transpower measures performance against a range of safety, operational, financial and non-financial performance targets. The 2019/20 targets are set out in the **2019/20 Statement of Corporate Intent**.

Each year, Transpower also agrees a set of system operation service targets with the Electricity Authority. There is a financial incentive to meet or outperform these targets.

Financial reporting

The Board requires, and the Audit and Finance Committee monitors and ensures, that Transpower's General Management Team implements and maintains best practice and fit-for-purpose financial reporting principles, policies and internal controls designed to comply with accounting standards and applicable laws and regulations.

Transpower develops targets for, and reports against, five key financial metrics. These are focused on sustaining Transpower's credit rating, balance sheet strength and returns.

Non-financial reporting

Transpower is committed to transparency at all levels of the organisation. Transpower reports on several non-financial performance measures to ensure transparency across the organisation. The Audit and Finance Committee ensures the Board is well informed about best practice reporting, including the **International Integrated Reporting Council Framework** and the **NZX Environmental, Social and Governance Guidance Note** issued on 11 December 2017.

Other non-financial performance measures relate to the health of Transpower's long-life assets – availability of the transmission grid and the length of outages on the transmission grid – as well as measures relating to safety and the environment.

The following tables compare the performance targets and measures for the 2019/20 year set out in the Statement of Corporate Intent (SCI) with those set out in the previous SCI. Further information on these targets and activities can be found in the online **Annual Review**.

> “ The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Statement of Corporate Intent Measures

Year-end performance	30 JUNE		SCI / PLAN
	2020	2019	TARGET
Safety and People Performance Targets			
Number of fatalities or injuries causing permanent disability	0	0	0
Total recordable injury frequency rate (TRIFR)[1]	6.34	6.89	≤ 6
High potential incident frequency rate (HPIFR)[1]	2.11	2.48	≤ 2.5
Staff Engagement	65%[2]	69%	>72%
Sustainability Targets			
Publish a carbon emissions report yearly to show our overall carbon footprint	Achieved	Achieved	Achieve Target
Hold SF_6 emissions at or below 0.8% of installed nameplate capacity	0.47	0.35	≤ 0.8
% of CommunityCare funding to Māori organisations	22%	31%	≥ 15
% of CommunityCare applications meeting strategic criteria submitted to the CommunityCare Fund Panel	78%	52%	≥ 75
Operational Performance Targets[3]			
Grid interruptions:[4]			
Achieve targets for occurrence	Achieved	Achieved	Achieve Target
Achieve targets for duration	Achieved	Achieved	Achieve Target
Grid availability:			
HVDC energy availability[5]	88.26%	99.1%	98.5%
Key HVAC circuits availability[5]	99.10%	98.7%	*5
Achieve system operations target	Achieved	Achieved	Achieve Target
Financial Targets			
Free funds from operations interest coverage (# of times)	3.9	3.6	3.7
Free funds from operations / Debt (%)	15.7	15.8	15.8
Debt/(Net Debt +Equity)	65.5	66.6	65.5
Return on equity (%)	10.1	11.9	10.1
Return on capital employed (%)	5.6	6.5	5.8

1: Safety Performance results at 30 June are rolling 12 months. All reported injuries were minor in nature. We are continuing to work closely with our service providers to maintain a focus on the contributing low-level incidents and deliver appropriate intervention programmes to address this trend.

2: Our employee engagement score result is a derived score as we are transitioning to a new survey platform. The result, from the new survey undertaken in May, was 8.0 out of a possible score of 10. This places Transpower in the top 10% of benchmark, global Energy and Utilities sector organisations. Participation was at 94%.

3: The Commerce Commission sets the price-quality standards for our network performance – a range of upper and lower limits within which we are expected to perform. Standards are set for outages and for asset health with financial penalties possible should standards be breached. These standards are not contained in the Statement of Corporate Intent (SCI) and differ from the targets listed in the SCI. Instead, they are listed on our website under RCP2 updates. For each year of RCP2, we have breached some of these standards resulting in investigations from the Commerce Commission.

4: Grid Interruptions
Transpower's performance against network service targets is measured at an aggregate level through a financial incentive framework to meet or outperform these targets. Our SCI target across grid interruptions and HVDC availability is to achieve a revenue-neutral outcome.

Grid Interruptions, as a performance category, includes targets for frequency (occurrence) and duration of interruptions. There are different targets, collars and caps for high priority, important, standard, N-security and generator connection locations.

5: Grid Availability
We breached our targets for the HVAC and HVDC availability due to the scheduled work programme necessary to maintain the grid.

6: No SCI target was set for the 2019/20 year.

The Task Force on Climate-related Financial Disclosures

Established in the 2019/20 financial year, the Task Force on Climate-related Financial Disclosures (TCFD) created a framework for New Zealand organisations to manage risks, identify and seize climate-related business opportunities, and disclose reliable information about the risks and opportunities to investors.

Transpower has a keen interest in climate-related financial disclosures for several reasons. We are a debt issuer under the NZX and have a number of subsidiaries and carry out group reporting. We are a signatory to the Climate Leaders Coalition and have committed to voluntarily measuring and reporting greenhouse gas emissions, setting a public emissions reduction target and working with our suppliers to reduce their emissions. We accept that the effects of climate change present risks to our assets. We are also a reporting organisation under the Climate Change Response (Zero Carbon) Amendment Act 2019 (Zero Carbon Act).

We have developed a staged approach for enhancing and integrating our identification and assessment of climate-related risks and opportunities across the organisation. Our TCFD roadmap to the 2022/23 financial year provides an outline of the key steps we will take to manage climate-related transition, physical risks and liability risks and opportunities and effectively disclose any material information.

This report includes full disclosure against six of the recommended 11 disclosures in the four key areas: Governance, Strategy, Risk management and Metrics and Targets.

Transpower TCFD roadmap

KEY: Complete In progress Planned

	FY2019-20	FY2020-21	FY2021-22	FY2022-23
Governance	Board approval of TCFD approach	Describe management's role and Board oversight of climate-related risks and opportunities		Review management's role and Board oversight of climate-related risks and opportunities
	Establish a project team to define scope, approach and roadmap for TCFD			
Strategy	Conduct initial climate change risk analysis and assessment	Conduct a gap analysis between current disclosures and TCFD recommendations	Review climate metrics and targets	Review results of scenario analysis and management of related risks and opportunities and fully integrate into strategic planning and decision making
		Undertake detailed assessment of climate-related transition risks, physical risks and liability risks	Develop range of scenarios and assess impact and risks/opportunities associated with selected scenarios using risk bowties	
Risk Management	Describe current approach to identifying, assessing and managing climate-related risks	Develop climate change resilience targets to flag potential climate change adaptation.	Integrate management of climate-related risks and opportunities into the enterprise risk management framework and associated processes	Principles on how an investment programme for adaptation can operate is developed with input from the regulator
Metrics and targets	Disclose Scope 1 – 3 GHG emissions	Report Scope 1 – 3 GHG emissions and carbon intensity of grid electricity	Report stage 2 baseline and targets for identified metrics	
Assurance	Board approval of GHG emission target	Undertake assurance of GHG emissions	Prepare for assurance over climate-related disclosures	Undertake assurance over climate-related disclosures

TCFD Disclosures FY2019/20

KEY Complete disclosure · Partial disclosure · Planned

DISCLOSURE	INFORMATION
GOVERNANCE	Disclose the actual and potential impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material
Describe the Board's oversight of climate-related risks and opportunities.	The Transpower Board is committed to responding to the challenges posed by climate change and has approved the updated sustainability strategy. A core function of the Board is to provide oversight of Transpower's enterprise risk management framework, including monitoring of Transpower's strategic, external and key operational risks and opportunities. Monitoring of risks and controls is performed by Board sub-committees, specifically the Risk Committee.
Describe management's role in assessing and managing climate-related risks and opportunities.	In March 2020 management released its *Whakamana i Te Mauri Hiko* report, an update to the 2018 paper highlighting the opportunity that New Zealand has to decarbonise its economy. *Whakamana i Te Mauri Hiko* was completed after a great deal of work with a range of stakeholders and underlines the commitment of management to respond to the challenges of climate change. The Chief Executive has overall responsibility for the management of Transpower. Day-to-day management is delegated to respective General Managers who together make up the General Management Team (GMT). General Managers are responsible for assessing and managing risks in their Divisions. GMT is responsible for directing and providing assurance over Transpower's enterprise Risk Management Framework. Transpower's Chief Finance Officer is the responsible business owner of the framework. On a quarterly basis GMT reviews all strategic, external and key operational risks. The risk related to climate change is a key external risk to Transpower. In addition, the impact of a changing climate is reflected in other strategic and external risks such as the risk of serious harm to the environment, the risk of geopolitical instability and the risk of a significant fire or bushfire.
STRATEGY	Disclose the actual and potential impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material
Describe the climate-related risks and opportunities the organisation has identified overt the short-term, medium-term and long-term.	Transpower has modelled a range of future scenarios as part of the development of *Whakamana i Te Mauri Hiko*. Relevant key points underpinning New Zealand's energy future for 2035 (medium-term) and 2050 (long-term) are: • Our electricity system provides economic advantages and risks • Electrification will drive decarbonisation • Electricity demand will increase by 68% by 2050 • The electrification of transport and process heat must be priorities • Renewables will dominate • A renewable future is the most affordable • The grid lies at the heart of the decarbonisation opportunity • Delivering this opportunity will require substantial investment • Our workforce is inadequate for the future Using the *Whakamana i Te Mauri Hiko* scenarios as a basis, Transpower has completed an initial assessment of climate-related risks and opportunities. The following categories have been identified:

Transition risks	Technology risks Market risks Reputation risks	• Substitution of current products and services • Changing customer preferences • Uncertainty in market signals • Shift to decentralised energy generation • Increased cost of materials • Increased stakeholder concerns

Physical risks	Acute physical risks Chronic physical risks	• Increased frequency and severity of extreme weather events • Changes in precipitation patterns and extreme variability in weather patterns • Rising mean temperatures • Rising sea levels
Liability risks	Regulatory risks Litigation risks	• Mandates on and regulation of existing products and services • Exposure to litigation
Opportunities	More favourable physical conditions Resource efficiency Products and services	• Climate conditions in some parts of New Zealand become more favourable • Use of more efficient distribution processes • Waste minimalisation • Development and expansion of products and services

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Climate-related risks impact on Transpower in a range of areas. Our financial position might be impacted by write-offs and early retirement of existing assets, additional costs to adopt and deploy new technologies, higher material and transport prices, reduced revenue and fines for grid interruptions and increased insurance premiums. We might also see an impact on our service performance, caused by an increasing number of unplanned grid interruptions and longer restoration times. Our reputation might be impacted by public and stakeholder dissatisfaction caused by more frequent and longer grid interruptions, as well as longer restoration times. Conversely, climate-related opportunities could help reduce our operating costs, increase the value of our fixed assets and increase our revenue through new products and services.
Describe the resilience of the organisation's strategy, taken into consideration different climate-related scenarios, including a 2-degrees or lower scenario.	Transpower uses the scenarios developed for *Whakamana i Te Mauri Hiko* to inform the organisation's strategies, taking into account the impacts of climate change. *Whakamana i Te Mauri Hiko* does not specifically include a 2-degrees or lower scenario. The development of these scenarios is planned for completion in FY2021/22.
RISK MANAGEMENT	Disclose how the organisation identifies, assesses and manages climate-related risks
Describe the organisation's processes for identifying and assessing climate-related risks.	Transpower carries out the identification and assessment process for climate-related risks in accordance with its enterprise risk management framework. Risks and opportunities are identified both bottom-up and top-down. For example, our acute and chronic physical risks consider climate-related threats to our fixed assets and our operating processes. Examples of a top-down or enterprise-wide risk are changes in customer preferences and Transpower's ability to adequately respond. Transpower is using risk workshops with subject matter experts, bowtie risk analysis and semi-quantitative risk assessment to get a deeper understanding of its climate-related risk. A comprehensive assessment of climate-related risk is planned for FY2020/21.
Describe the organisation's processes for managing climate-related risks.	Transpower recognises that risk management is an integral element of good management practice and governance. Risk management is the responsibility of line managers. Managers at each level are responsible for evaluating their risk environment, identifying and assessing risks to the achievement of their objectives and putting controls in place to prevent these risks from occurring or, once they have eventuated, to mitigate the impact. Risks are assessed against the enterprise risk rating framework which is derived from the Board's risk appetite statement. Transpower's risk and assurance function conducts an annual internal audit programme to provide assurance to management and the Board that controls are well-designed and working effectively.

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	A further integration of climate-related risks and opportunities into Transpower's enterprise risk and assurance framework and associated processes is planned for FY2021/22.
METRICS AND TARGETS	Disclose the metrics and targets used to assess climate-related risks and opportunities where such information is material
Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.	Climate change metrics include Transpower's greenhouse gas emissions and our absolute carbon reduction target. Our sustainability framework dashboard includes qualitative KPIs addressing climate resilience, planning grid networks, enabling renewable and electrification connections and reporting the carbon impact of grid electricity delivered. KPIs are subject to review. This is published on our website and in our Annual Review.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Greenhouse gas emissions are disclosed according to Scope 1,2 and 3 of the GHG Protocol Corporate Standard. This will be disclosed in a separate GHG reporting section of the Annual Review and published on our website.
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	Transpower is targeting a 60% reduction in emissions below 2005 levels by 2030, on track to achieve a net zero grid by 2050. This target applies to Scope 1 and 2 emissions. Our focus is on emissions we can control therefore the target excludes emissions due to transmission losses reported in Scope 2 emissions.

Principle 5:
Remuneration

Recommendation 5.1
Director remuneration

"An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report."

Remuneration and benefits payable to directors for services as a director are determined by shareholding Ministers. As a consequence of COVID-19, the Board agreed to take a 20% reduction in board fees for a six-month period. Remuneration paid to Transpower's directors during the 2019/20 financial year is detailed in the following table.

DIRECTOR	DATE COMMENCED IN OFFICE	DATE CEASED IN OFFICE	2019/20 $000	2018/19 $000
Pip Dunphy (Chair from 1 January 2019)	1 May 2015		112	101
Dean Carroll (Deputy Chair from 1 January 2019)	1 November 2016		69	71
Prof Jan Evans-Freeman	1 November 2012	31 October 2019	19	65
Bill Osborne	1 May 2016		54	65
Sheridan Broadbent	1 May 2018		54	65
Kathy Meads	1 March 2019		54	22
Ilze Gotelli	1 March 2019		54	22
Dr Tim Densem	1 March 2019	4 October 2019	13	22
Richard Aitken	1 November 2019		35	-
Dr Robert Blakeley	1 June 2020		-	-
Total			**464**	**511***

* Total includes directors who ceased in office in 2018/19.

During the 2019/20 year, no director of Transpower or the Transpower Group has received or become entitled to receive any benefit other than that disclosed above.

Recommendation 5.2
Remuneration policy for directors and officers

"An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria."

Transpower's **Directors' Fees and Expenses Policy** sets out the directors' fees policy and how expenses incurred by directors are managed.

Transpower's Remuneration Policy and framework for officers is managed by the People and Performance Committee in line with the **committee's terms of reference**. Members of the executive team can earn incentive payments, subject to company and individual targets being met, such payments being at the absolute discretion of the Board. Any changes to executive management salaries are subject to consultation with the Chair and reviewed by the People and Performance Committee annually. Executives have performance objectives with line of sight to the company and Chief Executive objectives. Their salaries are informed by performance assessment by the Chief Executive, and incentives can be 20-25% of their salary. In relation to their 2019/20 objectives, the General Management Team received an average of 99% of their available incentives.

Remuneration of Transpower employees including executives

The remuneration model is designed to provide line of sight between the company objectives and individual objectives. It aims to attract, maintain and motivate employees.

All employees have fixed remuneration, reviewed each year within a budget agreed by the Board on recommendation from the People and Performance Committee. Any increase is informed by data from independent remuneration specialists. Employee remuneration is calculated based on a combination of their performance and how their salary compares to the market of a comparable position.

Transpower's employee remuneration tables for remuneration greater than $100,000

Aside from the Chief Executive, Transpower employees who received total remuneration of greater than $100,000 were in the following bands:

	2019/20	2018/19
550-559	1	-
540-549	1	-
530-539	-	1
520-529	-	1
450-459	4	2
440-449	1	1
390-399	1	-
370-379	-	1
330-339	-	1
320-329	1	1
310-319	1	2*
300-309	2	2
290-299	1	4*
280-289	1	-
270-279	2	2
260-269	6*	5
250-259	11	9*
240-249	8	9
230-239	9	13*
220-229	8*	6
210-219	7	11
200-209	7	11
190-199	23	19*
180-189	13*	17*
170-179	19	21
160-169	39*	31*
150-159	67	56
140-149	84*	77
130-139	74	66
120-129	77	81*
110-119	73	85*
100-109	60*	65*
	601	**600**

The bands above include all remuneration paid to or on behalf of employees, including base salary, performance payment, KiwiSaver, medical insurance, death and disability insurance, income protection insurance and severance or redundancy payments.

* The asterisk indicates those remuneration bands that include at least one former employee who received a severance or redundancy payment, without which they would not have been in that band.

Recommendation 5.3
CEO remuneration

"An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short-term incentives and long-term incentives and the performance criteria used to determine performance-based payments."

The Chief Executive can earn incentive payments, subject to company and individual targets being met and at the discretion of the Board. Any changes to Chief Executive salary is subject to approval by the Board following a review by the People and Performance Committee. As a consequence of COVID-19, the Chief Executive has taken a 20% reduction in her salary for a six-month period.

The Chief Executive objectives for 2019/20 related to the following:

> The remuneration of directors and executives should be transparent, fair and reasonable.

70% COMPANY COMPONENT

WEIGHTING	PERFORMANCE OUTCOME AREA	PERFORMANCE DRIVER	INDICATOR	TARGET
15%	Safety	Zero Fatalities	Number of fatalities or injuries causing permanent disability	0
		Severe Harm & Injury Frequency	Severity Index (% of actual and potential serious harm)	≤2%
			Total recordable frequency rate (TRIFR)	≤6%
10%	Our People	Organisational Health	Engagement	≥76%
		Diversity & Inclusion	Gender balance 40/40/20[1]	Progress toward 40/40/20
		Establishment	Establishment FTE	836 Budget Full Time Equivalent (FTE)
15%	Customers	Grid Reliability	Grid Interruptions	Achieve targets for occurrence
		Grid Availability	Grid HVDC Energy Availability	Achieve ComCom target for HVDC of 98.5%
			Key HVAC circuits Availability	Achieve Transpower target for key HVAC of 98.7%
		Service Restoration	Customer Restoration	Achieve targets for duration
20%	Financial	Operating Profit	EBITDA	Achieve plan EBITDA (+/-2%)
		Works Delivery	Deliver 2019/20 base capex plan (Spend basis)	Deliver ≥95% of 2019/20 base capex plan (Spend basis)
		Works Planning	RCP3 Planning	Submit RCP3 Plan to ComCom
		Business Optimisation	Transformation Benefits	2019/20 Transformation Benefits Realised
5%	Relationships	Stakeholder Relationships	System Operator Service Targets	Achieve targets under SOSPA
5%	Sustainability	Environmental	Annual Carbon Emissions Report showing our overall carbon footprint	Publish Carbon Emissions report
			SF_6 emissions	Hold SF_6 emissions ≤0.8% of installed nameplate capacity
		Community	Percentage of CommunityCare applications meeting strategic criteria being approved	≥75%
			Percentage of CommunityCare funding to Māori organisations	≥15%

[1] 40/40/20 is explained under Principle 2.5.

30% STRATEGIC COMPONENT

WEIGHTING	COMPANY FOCUS AREA	STRATEGIC INITIATIVE	KEY PERFORMANCE INDICATORS
7.5%	Competitive costs and services	Deliver first year of Service Excellence programme	Stage one Service Excellence milestones achieved as planned
7.5%	Shape industry future	Constructively engage stakeholders in Te Mauri Hiko; engage key government and related organisations in conversations	Feedback to Chairman's satisfaction from stakeholders (Treasury, Electricity Networks Association, Climate Commission, Electricity Price Review, and Mercury Energy) as assessed by the Board Chair
7.5%	Setting direction for RCP3	Proposed service targets and expenditure benchmarks for RCP3 planned and agreed	Achieve RCP3 outcome from the Commerce Commission against base case +/- 10%
7.5%	Organisational effectiveness	Implement second year of transformation programme. Deliver year one of people strategy activities to achieve cultural transformation	Progress against diversity targets 40/40/20 Improve assessment against four behaviours by increase of 5% points or greater on 2018/19 results

The details of the Chief Executive remuneration are set out below. Figures include KiwiSaver. Incentives are based on company and individual objectives.

YEAR	FIXED REMUNERATION ($000)	AMOUNT OF INCENTIVE ($000*)	TOTAL REMUNERATION
2019/20	1,052	292	1,344
2018/19	1,017	288	1,305
2017/18	1,002	271	1,273
2016/17	994	271	1,245
2015/16	945	237	1,182

* Performance incentive paid during the financial year but relates to the prior year's performance as they were paid after balance date. It includes Kiwisaver paid on the incentive.

The details of the Chief Financial Officer remuneration are set out below. Figures include Kiwisaver. Incentives are based on company and individual objectives.

YEAR	FIXED REMUNERATION ($000)	AMOUNT OF INCENTIVE ($000)	TOTAL REMUNERATION
FY20[1]	444.5	-	444.5
FY19[2]	499.6	114.6	614.2
FY18	499.6	114.7	614.3
FY17	494.8	109.0	604.0
FY16	488.6	70.3	558.9

[1] Gordon Davidson started 29 April 2019 so was not eligible for incentive payment in the 2019/20 year.

[2] Alex Ball left 17 December 2018.

Principle 6:
Risk management

Recommendation 6.1:
Risk Management Framework

"An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed."

Transpower recognises that risk management is an integral element of good management practice and governance. The Board requires rigorous processes for risk management, supported by internal controls, to ensure that Transpower meets strategic objectives and the organisation is protected from adverse events.

Transpower's risk management covers the enterprise's entire perspective, including strategic, operational, commercial and financial aspects. The risk management policy is consistent with the internationally recognised standard AS/NZS ISO 31000:2009[1] and reflects the same risk management principles. Transpower's risk management methodologies include bowtie risk analysis and semi-quantitative risk assessment.

These methodologies enable Transpower to have a more comprehensive understanding of the risks faced and the control environment used to manage those risks. An independent review of Transpower's risk and assurance framework confirmed that the organisation has good risk and assurance practices in place, enabled by a culture that understands the value of risk management. The auditors reported that Transpower's risk and assurance performance is one of the stronger examples they had recently seen relative to their other clients.

Transpower's Risk Committee has responsibility for ensuring that management has established a risk management framework that includes policy, procedures and assessment methodologies that enable us to effectively manage and monitor organisational risks.

Management report on the status of key risks and the control environment to the Risk Committee on a quarterly basis.

The following pages are a summary of our strategic priorities and the key risks that relate to them.

> Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

[1] This standard has since been superseded by AS/NZS ISO 31000:2018. Transpower is in the process of aligning its risk policy and framework to the new standard. This will be completed in FY2020/21

KEY RISKS AND RELATED STRATEGIC PRIORITIES	EXPLANATION AND MITIGATION
Risk of a serious workplace injury or death at a Transpower site or involving Transpower assets • Sustain our social licence to operate	Our work relates to the development, operation and maintenance of assets where there is a risk of serious personal injury. We have sound, documented work processes in place to identify and manage hazards and risks throughout the lifecycle of our assets including project and maintenance work. We collaborate closely with our service providers in the planning and delivery of work in the field and support this with robust assurance processes to ensure works are completed to a high standard and without placing the health, safety and wellbeing of our people and members of the public at risk. Transpower continuously seeks to learn from others both within and external to our industry sector in order to share knowledge and drive improvements in safety. In response to the unfolding threat of COVID-19 we put additional measures in place to manage the risk of a workplace transmission of the virus, including development of COVID-19 site-specific management plans, physical separation of critical functions and protocols for office work and illness reporting.
Risk of serious harm to the environment • Sustain our social licence to operate	Our sustainability strategy seeks to position Transpower to support New Zealand's transition to a sustainable energy future. We do this through our focus on four challenges. The first is on enabling renewable and electrification connections while also reducing our own carbon footprint. The second relates to restoring the natural environment and reducing the impacts of materials and resources used. The third challenge is ensuring that our regulatory, governance and decision frameworks include full consideration of social and environmental impact while our reporting transparently describes our impacts, goals and progress. Lastly, we acknowledge mana whenua's connection to the land and partner with iwi to remediate the natural environment. We also work with landowners to minimise the impact of our work on their land and seek to reduce our footprint.
Risk of significant power supply interruptions • Sustain our social licence to operate	A core part of our role is to plan, build, operate and maintain the national grid, with the objective of 'keeping the energy flowing' for New Zealand electricity consumers. In the unlikely event that 'the lights do go off', we need to ensure there is sufficient resilience in the grid to reconnect people to their power supply as soon as possible. Those events could be related to asset failure, operations error or external circumstances, such as severe adverse weather or a national catastrophe. An important risk-reduction measure is our investment in the replacement and refurbishment of assets as their health and condition deteriorates. Ongoing measures include reliability-informed maintenance reviews, emergency preparedness and a collaborative approach to contingency planning with our customers. Following the outbreak of COVID-19 we have increased our stock of spare parts and materials in critical areas. We have also increased our level of coordination with our service providers to ensure critical works could continue as planned.
Risks in system operations • Sustain our social licence to operate • Accelerate our organisational effectiveness	Another core part of our role is that of system operator, in which we manage and coordinate electricity generation and operation of the electricity market minute-by-minute, 24/7, 365 days per year to provide an efficient and reliable power system. There is a constant risk that an event on the power system could impact our ability to ensure delivery of electricity around the country or maintain operation of the market. Key risk controls include having the people, systems and processes with which we plan for and manage any event in real-time and having the flexibility to respond and adapt to whatever event arises.
Risk of a cybersecurity breach • Sustain our social licence to operate • Evolve services to meet customers' needs • Play an active role in enabling New Zealand's energy future	We use a number of information, communications and technology systems that are critical for the supply of power and for system operations. To protect our systems and information against this sophisticated and ever-changing threat, continuous and systematic work aligned to international best-practice standards is ongoing to ensure information security. To achieve this, we are working closely with other stakeholders in the sector and with national authorities. We are also investing appropriately to increase our capabilities to better understand and respond to cybersecurity events.

KEY RISKS AND RELATED STRATEGIC PRIORITIES	EXPLANATION AND MITIGATION
Risk of not being able to find the skilled resources we need to effectively deliver our services • Accelerate our organisational effectiveness • Play an active role in enabling New Zealand's energy future	Engineers (electrical, civil and mechanical) and IT professionals with transmission and/ or power systems experience have always been a skills shortage in New Zealand. The skills shortage will increase as our population ages and as market demand for skilled people to build and connect generation increases globally, as electric vehicles grow their share for transport and as renewable energy increasingly substitutes for fossil fuels. As markets for skilled people are internationally connected, New Zealand will continue to recruit from a global talent pool, subject to New Zealand Immigration settings for acquiring skilled migrants. Equally, New Zealand may become a source of workforce supply for other countries, thus further reducing the skilled workforce required nationally to operate and maintain the grid. In response, we have developed a people strategy and we are focused on building a diverse and inclusive workforce, having a strong employment brand and employee value proposition that will enable us to attract and retain talent. We continue to build awareness of the sector and attractiveness of science, technology, engineering and maths (STEM) jobs at a national level. Transpower is engaging with stakeholders in the energy sector to increase domestic training of electricity workers.
Risk of not being able to adequately respond to exponential growth of emerging technologies such as batteries or in transport • Evolve services to meet customers' needs • Match our infrastructure to need over time	Potential changes in electricity consumption, generation and customer response technologies bring with them greater uncertainty about future grid usage. Our challenge is to sustain a cost-effective transmission service that continues to provide an appropriate level of reliability while adapting to changing demands. We foster dialogue and develop forecasts to help us understand trends that will impact the grid and invest in asset management improvements and innovation so we can anticipate and respond to changes.
Reputational risk • Sustain our social licence to operate • Play an active role in enabling New Zealand's energy future	Transpower provides a lifeline utility service for New Zealand and grid reliability is highly valued by our customers and electricity consumers. Our biggest reputational risk is associated with our ability to deliver on our mission 24/7, through all seasons and unaffected by weather conditions and other events. Furthermore, through our investments and operations, we have a physical presence throughout the country. This means that we need to continuously seek acceptance for our plans and ongoing activities. To establish and maintain good relations with the outside world, we proactively reach out to communities and stakeholders in specific cases.
Financial risk • Evolve services to meet customers' needs	Transpower's activities expose it to a variety of financial risks. We have a strong framework for financial risk management and treasury policies that include guidelines and limits related to liquidity risk, interest rate risk, currency risk, credit risk, commodity risk and insurance risk. Further details for each of these categories is provided in the notes to the financial section of this report. A specific financial risk relates to the fact that Transpower, as a natural monopoly, is regulated by the Commerce Commission. The Commerce Commission determines what rate of return applies to our assets, as well as the incentives for meeting and exceeding operating expenditure, capital expenditure and meeting certain deliverables and outage targets.
Supply Chain risk • Sustain our social licence to operate • Evolve services to meet customers' needs • Play an active role in enabling New Zealand's energy future	The unfolding outbreak of COVID-19 has elevated the risk to Transpower's international and domestic supply chain. In response, we have increased stock levels of supplies and materials for critical projects, identified alternative supply arrangements and ramped up our engagement with our international and domestic suppliers. We have also advanced the planning of materials and resources for our upcoming projects to enable early ordering of components.

Recommendation 6.2
Health and safety risks

"An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management."

Transpower strives to provide a working environment in which there are no fatalities or injuries causing permanent disability. The company also seeks to reduce the rate at which activities cause injury through continuously focusing on safety and making improvements to processes. The Board focuses on reducing the target for injuries in each year. The target for fatalities is always zero.

The Board closely monitors health and safety, and it is a standing agenda item at the commencement of every meeting. The Risk Committee also undertakes deep dives into matters of interest relevant to health and safety at the Board's direction. Reporting to the Board and the business on relevant metrics is crucial in understanding health and safety risks and trends. As well as the Total Recordable Injury Frequency Rate (TRIFR), Transpower also uses a severity index to measure and track the severity of health and safety incidents, including near misses, to provide us with more information about our more serious incidents.

The staff who work for Transpower's service provider organisations – Broadspectrum, Electrix, ElectroNet and Northpower – are the most exposed to health and safety risks inherent in carrying out high voltage work, often at height in remote parts of New Zealand. Transpower works with these organisations on health and safety issues, and a health and safety leadership team, comprising the Transpower Chief Executive and Chief Executive Officers of the four service providers, meets three times a year to ensure a national focus for an ongoing safe healthy working environment. The objective of these meetings is to implement major change programmes to improve safety performance, with a strong focus on behavioural safety management.

Principle 7:
Auditors

Recommendation 7.1
Establish a framework

"The board should establish a framework for the issuer's relationship with its external auditors."

Transpower's Audit and Finance Committee reviews the appointment of external auditors (subject to the authority of the Auditor-General) and manages the external audit process, including reviewing and monitoring external audit and management reports. There is regular dialogue between the Board and Board committees with both the internal and external auditors.

The external auditor is subject to the independence rules of the Auditor-General. These rules require the audit partner to be rotated after a maximum of six years. Transpower discloses fees paid to external auditors in our Annual Report and differentiates between audit fees and fees for individually identified non-audit work.

Recommendation 7.2
External auditor attendance at annual meeting

"The external auditor should attend the issuer's Annual Meeting to answer questions from shareholders in relation to the audit."

Transpower meets with shareholding Ministers or their representatives annually to examine the company's performance and review the strategic direction. Shareholding Ministers or their representatives can place items on the agenda for the annual meeting (including any governance or strategy items) and request other meetings throughout the year, if required. Transpower's Board, Chief Executive, General Counsel & Company Secretary and other executives by invitation, attend the annual shareholders' meeting and are available to answer any questions the shareholding Ministers have.

Transpower also attends the Transport and Infrastructure Select Committee annually to discuss the company's performance during the year. The Transport and Infrastructure Select Committee also meets separately with Transpower's external auditors.

Recommendation 7.3
Internal audit

"Internal audit functions should be disclosed."

The Risk Committee recommends the appointment of internal auditors and provides governance oversight of the internal audit process for all audits including any financial audits. This includes reviewing, monitoring and approving internal audit reviews, annual audit plans and internal audit and management reports. Any financial audits are also shared with the Audit and Finance Committee. The primary objective of these internal audits is to assist the Board and the General Management Team in exercising good governance by providing independent assurance. All Board members have access to these reports.

Transpower predominantly delivers its internal audit function using external resources (mostly Deloitte) to carry out a range of compliance and improvement audits. Deloitte's internal audit partner attends the Risk Committee on request.

> The board should ensure the quality and independence of the external audit process.

Principle 8:
Shareholder rights and relations

Recommendation 8.1
Website

"An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer."

Financial disclosures and information for investors can be found in the **investor section** of Transpower's website.

Recommendation 8.2
Investor communications

"An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically."

Transpower communicates with investors via multiple channels throughout the year: continuous market disclosure, half-year and full-year reporting of financial and non-financial performance and half-year and full-year investor briefings. Numerous stakeholder events are held throughout the year. The Board has hosted and attended a number of these events, and directors have also undertaken several customer visits to better understand customer needs.

Transpower's Board has a clear policy for engagement and regular communication with significant stakeholders, in particular, customers and regulators. The Board regularly assesses its stakeholder engagement and ensures that conduct towards stakeholders complies with ethical obligations and the law, and is within broadly accepted social, environmental and ethical norms.

Transpower has debt securities listed on the NZX. Its bond holders are set out in Principle 4. Transpower regularly updates bond holders with information relevant to their investment and takes the opportunity to meet with them and their representatives regularly.

Investors can contact the executive or the Board by entering their query details on Transpower's **website**.

> The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

Financial Statements

For the year ended 30 June 2020

Statement of comprehensive income

For the year ended 30 June 2020

	NOTES	2020 Group ($M)	2019 Group ($M)
Operating revenue	**2**	**986.9**	**1,029.9**
Operating expenses	**3**	**291.6**	**297.0**
Earnings before interest, tax, depreciation, amortisation, asset write-offs, impairment and changes in the fair value of financial instruments	**1**	**695.3**	**732.9**
Depreciation, amortisation, asset write-offs and impairment	5, 6	284.5	263.8
Net interest expenses	4, 6	159.2	181.3
Earnings before changes in the fair value of financial instruments and tax		**251.6**	**287.8**
Gain (loss) in the fair value of financial instruments	16	64.2	71.0
Earnings before tax		**315.8**	**358.8**
Income tax expense	17	84.7	100.4
Net profit		**231.1**	**258.4**
Attributable to:			
Non-controlling interest		(1.0)	0.3
Owners of the parent		232.1	258.1
Other comprehensive income (expense)*	**16**	**(83.2)**	**(8.6)**
Attributable to:			
Non-controlling interest		-	-
Owners of the parent		(83.2)	(8.6)
Total comprehensive income (expense)		**147.9**	**249.8**
Attributable to:			
Non-controlling interest		(1.0)	0.3
Owners of the parent		148.9	249.5

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

Earnings before changes in the fair value of financial instruments and tax		**251.6**	**287.8**
Income tax expense excluding changes in the fair value of financial instruments		66.7	80.5
Earnings before net changes in the fair value of financial instruments	1	**184.9**	**207.3**
Gain (loss) in the fair value of financial instruments		64.2	71.0
Income tax expense on changes in the fair value of financial instruments		18.0	19.9
Net profit		**231.1**	**258.4**

* During the year, 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).

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

Statement of financial position

As at 30 June 2020

	NOTES	2020 Group ($M)	2019 Group ($M)
Assets Employed			
Cash and cash equivalents		13.4	156.5
Investments	10	100.6	99.9
Trade receivables and other assets	11	100.7	136.1
Derivatives and hedge commitment in gain	8	423.1	321.2
NZPCL investment	9	98.1	85.7
Property, plant and equipment	5	4,732.2	4,621.8
Intangibles	5	374.1	372.9
Right-of-use asset	6	122.0	-
Capital work in progress	5	151.7	138.3
Total assets employed		**6,115.9**	**5,932.4**
Funds Employed			
Liabilities			
Cash and cash equivalents		-	0.3
Trade and other payables	12	60.4	97.2
Current tax liability		12.8	24.0
Deferred income	2	166.0	129.8
Derivatives and hedge commitment in loss	8	232.4	213.4
Provisions	13	56.7	63.5
Debt	7	3,311.0	3,227.4
NZPCL debt	9	100.5	86.7
Lease liabilities	6	99.7	-
Deferred tax	17	453.0	449.6
Total liabilities		**4,492.5**	**4,291.9**
Equity			
Capital	14	1,200.0	1,200.0
Accumulated surplus		500.0	441.3
Cash flow hedge reserve		(74.8)	-
Non-controlling interest	9	(1.8)	(0.8)
Total equity		**1,623.4**	**1,640.5**
Total funds employed		**6,115.9**	**5,932.4**

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 20 August 2020.

For, and on behalf of, the Board

Pip Dunphy | Chair

Kathy Meads | Chair Audit and Finance Committee

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

Statement of changes in equity

For the year ended 30 June 2020

2019/20 Group	NOTES	ORDINARY SHARES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	OWNERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
		($M)	($M)	($M)	($M)	($M)	($M)
Equity at 1 July 2019		1,200.0	441.3	-	1,641.3	(0.8)	1,640.5
Profit for the year		-	232.1	-	232.1	(1.0)	231.1
Other comprehensive income		-	(8.4)	(74.8)	(83.2)	-	(83.2)
Total comprehensive income		-	**223.7**	**(74.8)**	**148.9**	**(1.0)**	**147.9**
Dividends paid	14	-	(165.0)	-	(165.0)	-	(165.0)
Total equity at 30 June 2020		**1,200.0**	**500.0**	**(74.8)**	**1,625.2**	**(1.8)**	**1,623.4**

2018/19 Group	NOTES	ORDINARY SHARES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	OWNERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
		($M)	($M)	($M)	($M)	($M)	($M)
Equity at 1 July 2018		1,200.0	356.8	-	1,556.8	(1.1)	1,555.7
Profit for the year		-	258.1	-	258.1	0.3	258.4
Other comprehensive income		-	(8.6)	-	(8.6)	-	(8.6)
Total comprehensive income		**-**	**249.5**	**-**	**249.5**	**0.3**	**249.8**
Dividends paid	14	-	(165.0)	-	(165.0)	-	(165.0)
Total equity at 30 June 2019		**1,200.0**	**441.3**	-	**1,641.3**	**(0.8)**	**1,640.5**

Non controlling interest - refer to Note 9 for detailed description.

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

Cash flow statement

For the year ended 30 June 2020

	2020 Group ($M)	2019 Group ($M)
Cash flow from operations		
Receipts from customers	1,025.1	1,054.2
Interest received	6.0	5.9
Payments to suppliers and employees	(303.0)	(292.6)
Tax payments	(60.2)	(64.3)
Interest paid	(184.4)	(189.4)
Net cash inflows from operations	**483.5**	**513.8**
Cash flow from investments		
Sale of property, plant and equipment	2.1	9.5
Sale of short-term investments	61.0	130.4
Purchase of property, plant and equipment and intangibles	(425.5)	(328.8)
Purchase of short-term investments	(60.5)	(78.6)
Net cash (outflows) from investments	**(422.9)**	**(267.5)**
Cash flow from financing		
Proceeds from bonds, term debt and commercial paper	1,495.5	707.4
Dividends paid	(165.0)	(165.0)
Payment of principal portion of lease liabilities	(8.6)	-
Repayment of bonds, term debt and commercial paper	(1,525.3)	(707.5)
Net cash (outflows) from financing	**(203.4)**	**(165.1)**
Net increase/(decrease) in cash held	(142.8)	81.2
Opening balance brought forward	156.2	75.0
Closing net cash carried forward	**13.4**	**156.2**
Closing net cash carried forward comprises:		
Cash and on-call deposits	13.4	81.1
Short-term deposits with original maturity less than three months	-	75.1

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

Cash flow statement reconciliation

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

	2020 Group ($M)	2019 Group ($M)
Net profit	**231.1**	**258.4**
Add (deduct) non-cash items:		
Change in the fair value of financial instruments	(63.8)	(70.7)
Depreciation, amortisation and write-offs	284.5	263.8
Deferred tax	35.7	39.2
Capitalised interest	(8.5)	(8.1)
Movements in working capital items:		
(Increase)/decrease in trade and other receivables	(11.1)	(0.5)
(Increase)/decrease in prepayments	21.8	3.2
(Decrease)/increase in trade and other payables, interest payable and deferred income	4.8	27.2
(Decrease)/increase in taxation payable	(11.2)	(3.1)
(Decrease)/increase in provisions	0.2	4.4
Net cash flow from operations	**483.5**	**513.8**

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 comprise 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 Accounting Standards Framework.

Basis of preparation

The financial statements have been presented in accordance with the State-Owned Enterprise Act 1986 and are prepared in accordance with the Financial Markets Conduct Act 2013. The financial statements have been prepared and comply with generally accepted accounting practice (GAAP) in New Zealand and the Financial Reporting Act 2013.

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements comply with International Financial Reporting Standards (IFRS).

The statement of comprehensive income and the cash flow statement are prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables, which include GST.

The financial statements of the Group's subsidiaries are prepared in the functional currency of that entity, being New Zealand dollars. The exception to this is New Zealand Power Cayman 2003-1 Limited which has a functional currency of US dollars and a presentational currency of New Zealand dollars.

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

COVID-19 Pandemic

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3 until 13 May inclusive.

During Alert Levels 3 and 4 Transpower had the majority of staff working from home with the exception of those unable to complete their tasks outside of the offices such as our Control Centres and warehouse staff. Under Alert Level 4 we suspended our non-essential routine maintenance programme, and our capital works and on 13 May 2020, we resumed all our operations. There was no unplanned interruptions or significant impact on supply on the grid over this period.

The impacts on our maintenance and capex programmes as a result of COVID-19 are being rescheduled with our service providers over the Regulatory Control Period 3. These delays are not expected to impact negatively on reliability of supply.

Due to concerns about the COVID-19 virus' impact on the global economy and resultant significant financial market volatility, Transpower delayed its plans to issue Term Debt on 16 March 2020. Instead Transpower improved short-term liquidity by way of issuing a bank facility of $50 million maturing May 2022 and commercial paper of $98.8 million maturing April 2021. Transpower used these funds to help fund our customers and suppliers impacted by COVID-19. We continue to monitor market conditions with a view to return to the bond market.

The Directors have considered the effects on the business and financial statements caused either directly or indirectly by COVID-19. The effect on the overall results was not material due to the majority of Transpower's revenue being regulated, the period of the lockdown within this financial year and continuation of essential services during the lockdown period. An assessment of the impact of COVID-19 on Transpower's balance sheet is set out below, based on information available at the time of preparing these financial statements:

STATEMENT OF FINANCIAL POSITION ITEMS	COVID-19 ASSESSMENT	NOTE
Cash	No impact to the carrying value of cash on hand.	
Trade receivables and other assets	The majority of Transpower's revenue is covered by the Input Methodologies, which ultimately provides credit protection. Transpower has no evidence that there is any expected credit loss at balance date due to COVID-19. There was no impact on the net realisable value of inventory on hand at balance date.	11
Capital assets and commitment	Transpower uses the cost model for all capital assets, including capital work in progress. There was no impact on the carrying value of capital assets at balance date.	5
Right-of-use assets	Transpower is not currently seeking any rent relief from landlords and has not considered any changes to or extension of leases within its lease portfolio resulting from COVID-19.	6
Derivatives Financial instruments	COVID-19 has impacted financial markets. Derivatives are valued and recorded at fair value, the carrying value reflects the movements of underlying market rates at balance date.	7
Trade and other payables	To assist the cash flows to New Zealand businesses, Transpower increased payment frequency to domestic suppliers, which resulted in lower payable balance at balance date.	12
Income tax	There was no material impact on profitability driven by COVID-19 as such provisional tax payment level remained unchanged.	17
Provisions	To assist the cash flow of Transpower's key service providers, Transpower has reviewed and was able to release some retentions on certain projects, where the risk is anticipated to be low. This has reduced the balance of contractor provisions at balance date.	13

The Directors are continuing to closely monitor the COVID-19 situation. The Company has not identified any going-concern issues and is working closely with customers and contractors to ensure that appropriate actions are taken, with people's safety and wellbeing as the priority.

New standards adopted during the year

During the period, Transpower adopted NZ IFRS 16 Leases.

NZ IFRS 16 supersedes NZ IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognise most leases on the balance sheet. Accordingly, the profit or loss impact is a decrease in operating lease and rental expenditures and an increase in depreciation expense and imputed interest.

Transpower adopted NZ IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the cumulative effect will flow through retained earnings at the date of initial application.

Upon adoption of NZ IFRS 16, Transpower applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Transpower applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Transpower also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments for these leases are recognised as an expense on a straight-line basis over the lease term.

The effect of adopting NZ IFRS 16 as at 1 July 2019 (increase/(decrease)) is, as follows:

Assets

($M)	
Right-of-use assets	129.1
Property, plant and equipment	-
Prepayments	(23.0)
Total assets	**106.1**

Liabilities

($M)	
Lease liabilities	106.1
Deferred tax liabilities	-
Trade and other payables	-
Total liabilities	**106.1**

Total adjustment on equity

($M)	
Retained earnings	-
Non-controlling interest	-
Total equity	**-**

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follow:

($M)	
Operating lease commitments as at 30 June 2019	112.2
Weighted average incremental borrowing rate as at 1 July 2019	3.48%
Discounted operating lease commitments as at 1 July 2019	**83.9**
Less:	
Commitments relating to short-term leases	-
Commitment relating to leases not containing an asset	(20.8)
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to extensions deemed reasonably certain	43.0
Lease liabilities as at 1 July 2019	**106.1**

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 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 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.

Significant accounting policies

a) The Group financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2020. Subsidiaries are those entities controlled, directly or indirectly, by Transpower. All significant intercompany balances and transactions are eliminated on consolidation. The Group discloses a non-controlling interest (NCI) relating to New Zealand Power Cayman 2003-1 Limited. NCI is measured at the NCI's share of net assets.

b) Accounting policies, and information about judgements that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

i.	Operating revenue and deferred income	Note 2
ii.	Capital assets and commitments	Note 5
iii.	Debt, financial instruments and risk management	Note 7

New standards not yet adopted

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

2. Operating revenue and deferred income

Transmission revenue

Group ($M)	2020	2019
HVAC interconnection	641.4	673.9
HVAC connection	124.6	129.6
EV (rebate) charge – HVAC	(8.1)	(16.6)
HVDC	134.7	150.6
EV (rebate) charge – HVDC	(3.0)	(0.2)
Other regulated transmission	5.3	4.5
Customer investment contracts	30.6	27.8
Undergrounding and transmission realignment	4.3	4.4
Other transmission	2.0	1.7
	931.8	**975.7**

Other revenue

System operator	41.9	41.1
Other	13.2	13.1
	55.1	**54.2**
Total operating revenue	**986.9**	**1,029.9**

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. 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.

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.

Included in the above numbers is revenue subject to the telecommunications development levy of $2.5 million in the year to 30 June 2020 (2019: $2.5 million).

Accounting policies

Transmission revenue with customers, excluding customer investment contracts and transmission realignment contracts, are recognised on a monthly basis as Transpower delivers the service and customers consume the benefit. The transmission revenue performance obligation is the provision of access to the network.

The money received from customer investment contracts can be received over different contract periods varying between all up-front to over 40 years. The assets built for the customers are owned by Transpower, however, Transpower is providing a service to the customers over the life of the asset. The service is the monthly delivery of electricity and the customers' consumption of that benefit. Therefore, the revenue is grossed up for an imputed interest expense and recognised over the estimated life of the related assets. The performance obligation is the provision of access to the network.

Agreements between Transpower and third parties to underground and/or realign certain transmission line assets are recognised based on the revenue source. If the revenue is received from central or local government, or their agencies, then the revenue is recognised according to the government grants standard (NZ IAS 20) with revenue grossed up for an imputed interest expense and recognised over the life of the related transmission assets. If revenue is received from non-government parties, then it is recognised at a point in time, once the transmission assets are commissioned. The decommissioned transmission assets are then immediately written off for the same value. In contracts with non-government customers, the performance obligation is the shifting of the transmission line.

Summary of revenue recognition

	Recognised monthly as customers use service	Recognised over life of relevant asset	Recognised in year of commissioning asset
Transmission revenue	●		
Customer investment contracts		●	
Undergrounding and transmission realignment – Government		●	
Undergrounding and transmission realignment – non-Government			●

Certain transactions relating to the operation of the electricity market, specifically wholesale market-related ancillary services and losses and constraint payments, are passed through and are, therefore, not recorded in profit or loss. This pass-through occurs because Transpower is deemed to act only as an agent. Similarly, Transpower acts as an agent relating to its natural gas market operation.

Related disclosures

Group ($M)	2020	2019
Deferred income		
Customer investment contracts	71.2	53.2
Undergrounding and transmission realignment	90.0	73.2
Other	4.8	3.4
Total deferred income	**166.0**	**129.8**
Current portion	34.1	16.9
Non-current portion	131.9	112.9
Total deferred income	**166.0**	**129.8**

A reconciliation of deferred income as it relates to revenue is shown below for the two major categories:

2020 ($M)	Customer investment contracts	Undergrounding and transmission realignment
Opening balance 1 July 2019	53.2	73.2
Advance payments received from customers	44.6	17.1
Net revenue recognised in the year from		
Amounts included in the contract liability at the beginning of the year	(0.2)	(0.3)
Advance payments applied to current year	(26.4)	-
Closing balance 30 June 2020	**71.2**	**90.0**

2019 ($M)	Customer investment contracts	Undergrounding and transmission realignment
Opening balance 1 July 2018	35.4	58.8
Advance payments received from customers	42.4	14.6
Net revenue recognised in the year from		
Amounts included in the contract liability at the beginning of the year	(0.1)	(0.2)
Advance payments applied to current year	(24.5)	-
Closing balance 30 June 2019	**53.2**	**73.2**

3. Operating expenses

Group ($M)	2020	2019
Grid maintenance		
HVAC substations maintenance	44.4	46.5
HVDC substations and cables maintenance	11.4	10.3
HVAC lines maintenance	41.5	39.1
HVDC lines maintenance	1.9	1.9
Transmission-related rates	6.5	6.4
Other	6.6	6.9
	112.3	**111.1**
IST maintenance and operations		
Support and maintenance	9.0	9.0
Outsourced services	11.2	15.6
Licences	9.2	9.2
Other IST	2.5	7.5
	31.9	**41.3**
Other operating expenses		
Investigations	18.3	15.3
Ancillary service costs	3.2	4.6
Employee benefits	117.0	112.7
Capitalised salary costs	(26.7)	(24.6)
Salary transferred to investigations	(6.0)	(6.2)
Contractors and consultants	11.7	9.5
Operating lease and rental costs	0.3	5.0
Industry levies	10.3	10.8
Insurance	4.8	4.3
Travel and vehicle costs	1.9	2.6
Other business support costs	12.6	10.6
	147.4	**144.6**
Total operating expenses	**291.6**	**297.0**

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.

In the June 2019 comparatives, the Group had total lease payments of $12.6 million in Other IST and Other business support costs.

Related disclosures

Fees paid to external auditor

Group ($000)	2020	2019
Audit of financial statements		
Audit and reviews of financial statements [1]	474	472
Other services		
Other assurance [2]	18	8
Independent review of economic modelling and demand forecasting	64	34
Training courses	49	54
Trust deed requirements [3]	11	11
Remuneration benchmarking report	9	8
	151	**115**
Total fees paid to external auditor	**625**	**587**

1. This includes an annual audit and a six-monthly review.
2. This includes an assurance of the Group's Carbon footprint report in 2020.
3. Trust deed requirements include fees to review Directors' certificates in relation to debt held against two trust deeds.

4. Net interest expenses

Group ($M)	2020	2019
Interest revenue		
Interest received	6.0	5.9
	6.0	**5.9**
Interest expenses		
Interest expenses and associated fees	161.5	187.8
Capitalised interest	(8.5)	(8.1)
Imputed interest	12.2	7.5
	165.2	**187.2**
Total net interest expenses	**159.2**	**181.3**

Description

Capitalised interest is based on Transpower's forecast weighted average cost of borrowing. For 2020, capitalised interest was 5.83% (2019: 6.59%).

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. Capital assets and commitments

This note includes property, plant and equipment, intangible assets, non-current assets held for sale, capital work in progress and capital commitments.

Group ($M)	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES
At 30 June 2020				
Cost	2,768.7	167.3	2,728.5	876.9
Accumulated depreciation/amortisation	(771.6)	(60.3)	(844.0)	(398.7)
Net book value/carrying value	**1,997.1**	**107.0**	**1,884.5**	**478.2**
30 June 2020 reconciliation				
Opening net book value/carrying value (1 July 2019)	1,981.5	91.8	1,790.3	510.8
Additions/transfers	89.5	19.5	169.4	4.9
Disposals/transfers	(3.0)	(0.2)	(3.5)	(0.5)
Depreciation/amortisation	(70.9)	(4.1)	(71.7)	(37.0)
Closing net book value/carrying value	**1,997.1**	**107.0**	**1,884.5**	**478.2**
At 30 June 2019				
Cost	2,683.9	148.2	2,583.1	873.0
Accumulated depreciation/amortisation	(702.4)	(56.4)	(792.8)	(362.2)
Net book value/carrying value	**1,981.5**	**91.8**	**1,790.3**	**510.8**
30 June 2019 reconciliation				
Opening net book value/carrying value (1 July 2018)	1,958.8	96.7	1,765.1	542.4
Additions/transfers	95.1	1.9	102.0	5.0
Disposals/transfers	(4.3)	(2.9)	(5.3)	-
Depreciation/amortisation	(68.1)	(3.9)	(71.5)	(36.6)
Closing net book value/carrying value	**1,981.5**	**91.8**	**1,790.3**	**510.8**

Depreciation, amortisation, write-offs and dismantling

Group ($M)	2020	2019
Total depreciation	225.6	220.4
Total amortisation	30.0	29.1
Impairment	(0.9)	1.5
Write-offs on disposal	9.2	12.2
Dismantling expense	9.2	4.0
(Gain) loss on disposals	1.3	(3.4)
	274.4	**263.8**

The 2020 dismantling expense includes an asbestos provision movement of $4.4 million (2019: $1.3 million).

COMMUNICATIONS	ADMINISTRATION ASSETS	TOTAL PROPERTY, PLANT AND EQUIPMENT	EASEMENTS AND RIGHT OF ACCESS	SOFTWARE	TOTAL INTANGIBLE ASSETS	CAPITAL WORK IN PROGRESS
429.2	204.8	7,175.4	310.3	376.6	686.9	151.7
(234.6)	(134.0)	(2,443.2)	(5.3)	(307.5)	(312.8)	-
194.6	**70.8**	**4,732.2**	**305.0**	**69.1**	**374.1**	**151.7**
175.5	71.9	4,621.8	305.6	67.3	372.9	138.3
48.8	11.8	343.9	-	31.6	31.6	387.4
(0.6)	(0.1)	(7.9)	-	(0.4)	(0.4)	(374.0)
(29.1)	(12.8)	(225.6)	(0.6)	(29.4)	(30.0)	-
194.6	**70.8**	**4,732.2**	**305.0**	**69.1**	**374.1**	**151.7**
382.5	193.6	6,864.3	310.4	348.9	659.3	138.3
(207.0)	(121.7)	(2,242.5)	(4.8)	(281.6)	(286.4)	-
175.5	**71.9**	**4,621.8**	**305.6**	**67.3**	**372.9**	**138.3**
177.6	74.4	4,615.0	304.4	73.0	377.4	75.0
27.2	9.2	240.4	1.8	23.3	25.1	328.9
(0.6)	(0.1)	(13.2)	-	(0.5)	(0.5)	(265.6)
(28.7)	(11.6)	(220.4)	(0.6)	(28.5)	(29.1)	-
175.5	**71.9**	**4,621.8**	**305.6**	**67.3**	**372.9**	**138.3**

Capital work in progress is split into the following classes:

Group ($M)	2020	2019
HVAC transmission lines	51.4	34.9
HVAC substations	78.1	80.8
Communications	2.0	5.7
Other	20.2	16.9
	151.7	**138.3**

Description

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

The most significant right-to-access asset relates to the 2011 purchase of access rights to the Vector Tunnel in Auckland for $50 million. The Vector Tunnel right-to-access asset is being amortised over the contract life, which is 90 years.

Accounting policies

Transpower uses the cost model for all capital assets. Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for use. Finance costs incurred during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the total cost for capital work in progress.

Assets are transferred from capital work in progress at cost to property, plant and equipment, or intangible assets as they become operational and available for use.

At each reporting date, Transpower reviews the carrying amounts of its tangible and intangible assets and exercises judgement to determine whether there is any indication that those assets have suffered an impairment loss. This is based on allocating the assets to cash generating units. If any such indication exists, the recoverable amount of the asset or cash generating unit is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount for regulated assets is generally equal to the regulatory book value for revenue recovery purposes. In 2020, there has been no impairment to the regulatory asset base (2019: nil).

For unregulated assets, Transpower tests for indicators of impairment, such as deterioration in the credit worthiness of the customer, and any indicated factors in pricing the future cash flows Transpower expects to derive from the assets are reflected in the calculation of the asset's value in use. In 2020, there was an impairment movement of $(0.9) million (2019: $1.5 million).

Depreciation

Depreciation of property, plant and equipment is calculated using the straight line method to write down the cost of property, plant and equipment to its estimated residual value over its estimated useful life.

Transpower has a variety of different assets with different lives. The estimated weighted average of useful lives by asset category is as follows:

HVAC transmission lines	58 years
HVAC transmission high voltage cables	45 years
HVAC transmission lines (tower painting)	15 years
HVAC substations	43 years
HVDC substations (incl submarine cables)	28 years
HVDC transmission lines	55 years
Communication assets	15 years
Administration assets	16 years

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Intangibles

The cost of acquiring a finite-life intangible asset is amortised from the date the underlying asset is held ready for use on a straight line basis over the period of its expected benefit, which is as follows:

Software	5-8 years
Right-to-access asset	90 years

Easements are deemed to have an indefinite useful life and are tested for impairment annually.

Certain easements have been donated by the Crown. These are recognised at cost (nil) plus any direct costs associated with putting the easement in place.

Key judgements and estimates

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.

Related disclosures

Land and buildings are contained within the above classes and have a net book value of $305.4 million (2019: $260.6 million).

Held-for-sale non-current assets are contained within the above classes and have a net book value of $0.2 million (2019: $0.2 million).

Capital commitments in respect of contracts for property, plant and equipment:

Group ($M)	2020	2019
Property, plant and equipment	103.7	175.4
	103.7	**175.4**

Capital commitments in respect of contracts for intangible assets:

Easements and right to access assets	-	-
Software	-	-
Total capital commitments	**103.7**	**175.4**

6. Leases

Right-of-use assets

Group ($M)	PROPERTY AND IT DATA CENTRES	FIBRE COMMUNICATION NETWORK	GROUP TOTAL
30 June 2020 reconciliation			
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)
Closing net book value	**61.8**	**60.2**	**122.0**

Lease liabilities

30 June 2020 reconciliation

Group ($M)	
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)
Closing balance	**99.7**

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 expenses 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 remaining 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 ($M)	2020
Depreciation expense of right-of-use assets	10.0
Interest expenses on lease liabilities	3.4
Expense relating to short-term leases (included in operating expenses)	2.9
Total amount recognised in profit or loss	**16.3**

The group had total cash outflow for lease payments of $12.1 million in 2020.

7. Debt, financial instruments and risk management

(a) Summary

Debt is issued by the Group in both New Zealand dollars (NZD) and foreign currencies. Derivatives are used to manage currency risk and interest rate risk by converting foreign borrowings to NZD and by converting floating interest rates to fixed interest rates. The use of derivatives means that Transpower effectively has borrowings denominated in NZD, predominantly at fixed interest rates.

Debt and associated derivatives are designated as fair value through profit or loss on the basis of preventing an accounting mismatch, unless the derivatives are designated in an effective hedge accounting relationship. For these derivatives that are effectively hedged, the resulting gain or loss is recognised in other comprehensive income. Group's debt and derivatives are managed as one integrated portfolio.

The Group also uses derivatives (foreign exchange forward contracts) in its purchase of goods and services.

The Group is subject to a number of financial risks that arise as a result of its business activities, including having a debt portfolio that is denominated in both NZD and foreign currencies, holding an investment portfolio and from purchases in certain foreign currencies.

Financial risk management is carried out by a central treasury function, which operates under policies approved by the Board of Directors.

Key judgements

The fair values of debt and derivatives are 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 has been no movement between levels during the year.

(b) Financial risks

i. Liquidity risk

Liquidity risk is the risk of the Group being unable to access sufficient funds to meet its financial obligations in an orderly manner. This might result from the Group not maintaining adequate funding facilities or being unable to replace existing debt maturities.

To smooth the Group's refinancing requirements and exposures to adverse market rate movement in future periods, the Group's policy is that debt, net of cash, maturing in any 12-month period is not to exceed NZD750 million, or up to NZD1 billion with prior approval of the Board.

The Group's liquidity policy requires the Group to have access to committed funding facilities to cover the sum of all debt that matures over the next six months, plus peak cumulative anticipated operating cash flow requirements over the next six months. To meet this policy requirement Transpower has committed standby facilities split into two tranches of NZD250 million each, maturing 7 December 2020 and 7 December 2021, which supports the commercial paper programmes and liquidity. The facilities have been undrawn since inception.

Debt Facilities

The Group has four debt facilities. The aggregate principal amount of the debt outstanding may not exceed the following:

($M)	CURRENCY	FOREIGN CURRENCY EQUIVALENT	NZD	UTILISED NZD
Domestic medium term note programme	NZD	-	No set limit	825
Australian medium term note programme	AUD	750	802	507
European commercial paper programme (ECP)	USD	500	775	-
Domestic commercial paper programme (CP)	NZD	500	500	345

ii. Interest rate risk

Interest rate risk is the risk of an adverse impact on the present and future finance costs of the Group arising from an increase in interest rates. Transpower uses various financial instruments to fix interest rates to mitigate interest rate risk.

The Group generally seeks to fix interest rates with interest rate derivatives to provide certainty of interest rates and costs during Regulatory Control Periods (RCP). 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 Group's policy sets minimum and maximum hedging parameters expressed as a percentage of forecast debt. Interest rate swaps and options are used to change the interest rate profile on existing and forecast debt and cross-currency interest rate swaps entered into.

iii. Currency risk

Currency risk on debt is the risk of adverse impact of exchange rate movements, which determine the NZD cost of debt (principal and interest) issued in foreign currencies.

Foreign currency borrowings are converted into a NZD-denominated exposure at the time of commitment to drawdown. Currency risk on foreign currency-denominated borrowings is managed using cross-currency interest rate swaps and basis swaps.

Cross-currency interest rate swaps eliminate foreign currency risk on the underlying debt by determining the NZD equivalent of the interest payments and final principal exchange at the time of entering into the swap.

Basis swaps are used to eliminate currency basis risk when the Group issues bonds in a foreign currency. In a basis swap, the Group receives the offshore currency floating interest rate and pays the NZD floating interest rate.

Currency risk on foreign currency-denominated purchases is the risk of adverse impact of exchange rate movements which determine the NZD cost of foreign currency-denominated purchases. It is the Group's policy to hedge committed foreign currency-denominated payments greater than NZD200,000 (NZD equivalent) by using forward foreign exchange contracts to fix or offset the NZD cost. For committed payments below NZD200,000 the Group has discretion on whether or not to hedge.

Debt and related derivatives - interest rate, currency and liquidity risk

The following tables detail Transpower's debt and associated derivatives. The result after derivatives is that Transpower effectively has a debt portfolio in New Zealand dollars at predominantly fixed interest rates matching Transpower's Regulatory Control Periods.

The derivatives in the table below are interest rate swaps and cross-currency interest rate swaps that relate directly to the particular debt issue. The effective interest rate on debt including the effect of all derivative financial instruments was 5.4% (2019: 6.4%).

2020 Group	DEBT CURRENCY	DEBT AND DERIVATIVE MATURITY DATE	DEBT FACE VALUE	DEBT FAIR VALUE	DERIVATIVE FAIR VALUE	TOTAL DEBT + DERIVATIVES FAIR VALUE
			($M)	NZ ($M)	NZ ($M)	NZ ($M)
Bank Term						
Bank Term 2021	NZD	17-Jun-21	100.0	100.0	-	100.0
Bank Term 2022	NZD	4-May-22	50.0	50.9	-	50.9
Domestic Commercial Paper						
NZ Issue	NZD	3-Jul-20	13.0	13.0	-	13.0
NZ Issue	NZD	6-Jul-20	24.9	25.0	-	25.0
NZ Issue	NZD	11-Aug-20	32.9	33.0	-	33.0
NZ Issue	NZD	19-Aug-20	25.0	25.0	-	25.0
NZ Issue	NZD	26-Aug-20	25.0	25.0	-	25.0
NZ Issue	NZD	3-Sep-20	30.0	30.0	-	30.0
NZ Issue	NZD	9-Sep-20	30.0	30.0	-	30.0
NZ Issue	NZD	16-Sep-20	35.0	34.9	-	34.9
NZ Issue	NZD	23-Sep-20	30.0	29.9	-	29.9
NZ Issue	NZD	14-Apr-21	98.8	99.5	-	99.5
Domestic Bonds						
Bonds 2022	NZD	30-Jun-22	75.0	80.5	(5.2)	75.3
Bonds 2022	NZD	30-Jun-22	75.0	80.5	(4.9)	75.6
Bonds 2022	NZD	16-Sep-22	100.0	108.9	(7.6)	101.3
Bonds 2023	NZD	15-Mar-23	50.0	57.2	(6.0)	51.2
Bonds 2024	NZD	14-Mar-24	150.0	161.6	(10.5)	151.1
Bonds 2025	NZD	6-Mar-25	125.0	142.7	(16.5)	126.2
Bonds 2025	NZD	4-Sep-25	150.0	155.7	(5.5)	150.2
Bonds 2028	NZD	15-Mar-28	100.0	134.5	(29.4)	105.1
Australian Medium Term Notes						
AUD MTN 2021	AUD	6-Aug-21	150.0	169.8	(3.1)	166.7
AUD MTN 2023	AUD	28-Aug-23	300.0	376.3	(24.4)	351.9
Swiss Bonds						
CHF MTN 2027	CHF	16-Dec-27	125.0	200.1	(5.0)	195.1
US Private Placement						
USPP 2021	USD	13-Oct-21	232.0	376.3	(84.1)	292.2
USPP 2022	USD	15-Dec-22	150.0	250.2	(39.9)	210.3
USPP 2023	USD	13-Oct-23	78.0	133.6	(33.0)	100.6
USPP 2026	USD	28-Jun-26	75.0	128.4	(13.6)	114.8
USPP 2026	USD	13-Oct-26	70.0	127.8	(35.1)	92.7
USPP 2028	USD	28-Jun-28	75.0	130.7	(15.7)	115.0
				3,311.0	**(339.5)**	**2,971.5**

Debt short term	345.3
Current portion of long-term debt	100.0
Debt short term	**445.3**
Debt long term	**2,865.7**
Total debt as per statement of financial position	**3,311.0**

Debt face value (as per above)	
New Zealand dollar debt	1,319.6
Foreign debt after adjusting for related cross-currency interest rate swaps	1,593.5
	2,913.1

The notional amount of the cross-currency interest rate swaps is NZD1,593.5 million.
Group debt, net of cash, maturing in the 12 month period is $432.6 million, within the $750 million policy threshold.

Interest rate swaps (IRS) are used to fix interest payments as per the Group's treasury policy. The table below shows the notional IRS that are not directly related to underlying debt. The table includes forward starting and offsetting IRS. The IRS are net settled. The table below reflects the net cash outflows comprising both IRS assets and liabilities. IRS with unrealised gains are assets and IRS with unrealised losses are liabilities.

($M)	DERIVATIVE NOTIONAL VALUE	DERIVATIVE FAIR VALUE
Value of interest rate swaps – liabilities	3,140.0	232.1
Value of interest rate swaps – (assets)	660.0	(83.3)
Total fair value of interest rate swaps		**148.8**
Total fair value of debt-related derivatives as shown above		**(339.5)**
Total debt derivatives fair value (assets) / liabilities (refer to note 8 for further derivatives breakdown)		**(190.7)**

Effective net payable contractual cash flow maturity profile

The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows.

($M)	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
Debt	539.1	802.8	442.3	631.3	149.1	834.2	3,398.8
Debt-related derivatives	(53.5)	(120.7)	(62.6)	(25.2)	(7.9)	(48.4)	(318.3)
Interest rate swap (portfolio) – liabilities	44.8	52.5	49.3	43.4	38.2	8.4	236.6
Interest rate swap (portfolio) – assets	(14.7)	(17.5)	(16.9)	(15.4)	(14.6)	(5.9)	(85.0)
Trade and other payables	59.8	0.2	0.1	0.1	0.1	0.1	60.4
Leases	10.3	10.1	9.9	9.7	9.8	75.9	125.7
Total contractual cash flows	**585.8**	**727.4**	**422.1**	**643.9**	**174.7**	**864.3**	**3,418.2**

These interest rate swaps (portfolio) have an average contracted fixed interest rate of 1.36% (2019: 3.68%)

Reconciliation of liabilities arising from financing activities

($M)	BALANCE 30 JUNE 2019	CASH FLOWS	FAIR VALUE CHANGES IN P&L	FAIR VALUE CHANGES IN OCI	OTHER	BALANCE 30 JUNE 2020
Short-term borrowing	74.8	270.0	0.7	(0.4)	0.2	345.3
Long-term borrowing	3,152.6	(293.2)	103.1	12.0	(8.8)	2,965.7
Total liabilities from financing activities	**3,227.4**	**(23.2)**	**103.8**	**11.6**	**(8.6)**	**3,311.0**

Fair value changes in the table above include foreign exchange movements

Debt and related derivatives - interest rate, currency and liquidity risk

The following tables detail Transpower's debt and associated derivatives. The result after derivatives is that Transpower effectively has a debt portfolio in New Zealand dollars at predominantly fixed interest rates matching Transpower's Regulatory Control Periods.

The derivatives in the table below are interest rate swaps and cross-currency interest rate swaps that relate directly to the particular debt issue. The effective interest rate on debt including the effect of all derivative financial instruments was 6.4% (2018: 6.8%).

2019 Group	DEBT CURRENCY	DEBT AND DERIVATIVE MATURITY DATE	DEBT FACE VALUE ($M)	DEBT FAIR VALUE NZ ($M)	DERIVATIVE FAIR VALUE NZ ($M)	TOTAL DEBT + DERIVATIVES FAIR VALUE NZ ($M)
Bank Term						
Bank Term 2021	NZD	17-Jun-21	100	100.1	-	100.1
Domestic Commercial Paper						
NZ Issue	NZD	2-Jul-19	19.9	20.0	-	20.0
NZ Issue	NZD	7-Aug-19	29.9	29.9	-	29.9
NZ Issue	NZD	28-Aug-19	24.9	24.9	-	24.9
Domestic Bonds						
Bonds 2019	NZD	6-Sep-19	200.0	204.0	(3.1)	200.9
Bonds 2019	NZD	12-Nov-19	50.0	51.4	(1.2)	50.2
FRN CPI linked 2020	NZD	15-May-20	100.0	117.7	(16.8)	100.9
Bonds 2020	NZD	10-Jun-20	150.0	157.6	(7.9)	149.7
Bonds 2022	NZD	30-Jun-22	150.0	163.0	(9.6)	153.4
Bonds 2022	NZD	16-Sep-22	100.0	107.2	(6.6)	100.6
Bonds 2023	NZD	15-Mar-23	50.0	56.5	(5.6)	50.9
Bonds 2024	NZD	14-Mar-24	150.0	153.5	(4.6)	148.9
Bonds 2025	NZD	6-Mar-25	125.0	135.0	(10.9)	124.1
Bonds 2028	NZD	15-Mar-28	100.0	123.4	(22.1)	101.3
European Medium Term Notes						
HKD EMTN 2020	HKD	24-Mar-20	400.0	78.0	(4.7)	73.3
AUD EMTN 2021	AUD	6-Aug-21	150.0	167.8	(0.4)	167.4
AUD EMTN 2023	AUD	28-Aug-23	300.0	368.7	(16.9)	351.8
US Private Placement						
USPP 2019	USD	27-Sep-19	75.0	114.2	9.2	123.4
USPP 2021	USD	13-Oct-21	232.0	357.1	(62.8)	294.3
USPP 2022	USD	15-Dec-22	150.0	233.7	(29.2)	204.5
USPP 2023	USD	13-Oct-23	78.0	123.1	(23.1)	100.0
USPP 2026	USD	28-Jun-26	75.0	113.7	(0.6)	113.1
USPP 2026	USD	13-Oct-26	70.0	113.5	(24.1)	89.4
USPP 2028	USD	28-Jun-28	75.0	113.4	(1.4)	112.0
				3,227.4	**(242.4)**	**2,985.0**

Debt short term	74.8
Current portion of long-term debt	722.9
Debt short term	**797.7**
Debt long term	**2,429.7**
Total debt as per statement of financial position	**3,227.4**

Debt face value (as per above)	
New Zealand dollar debt	1,349.7
Foreign debt after adjusting for related cross-currency interest rate swaps	1,593.2
	2,942.9

The notional amount of the cross-currency interest rate swaps is NZD1,593.2 million.
Group debt, net of cash, maturing in the 12 month period is $614 million, within the $750 million policy threshold.

Interest rate swaps (IRS) are used to fix interest payments as per the Group's treasury policy. The table below shows the notional IRS that are not directly related to underlying debt. The table includes forward starting and offsetting IRS. The IRS are net settled. The table below reflects the net cash outflows comprising both IRS assets and liabilities. IRS with unrealised gains are assets and IRS with unrealised losses are liabilities.

($M)	DERIVATIVE NOTIONAL VALUE	DERIVATIVE FAIR VALUE
Value of interest rate swaps – liabilities	3,905.0	202.5
Value of interest rate swaps – (assets)	905.0	(67.9)
Total fair value of interest rate swaps		**134.6**
Total fair value of debt-related derivatives as shown above		**(242.4)**
Total debt derivatives fair value (assets) / liabilities (refer to note 8 for further derivatives breakdown)		**(107.8)**

Effective net payable contractual cash flow maturity profile

The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows.

($M)	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
Debt	996.6	87.3	729.7	429.4	616.0	610.3	3,469.3
Debt-related derivatives	(52.6)	(31.6)	(80.3)	(38.4)	(5.0)	(30.0)	(237.9)
Interest rate swap (portfolio) – liabilities	110.3	19.3	21.1	19.9	17.6	22.3	210.5
Interest rate swap (portfolio) – assets	(13.2)	(10.3)	(12.0)	(11.7)	(10.8)	(14.3)	(72.3)
Trade and other payables	96.6	0.1	0.1	0.1	0.1	0.2	97.2
Total contractual cash flows	**1,137.7**	**64.8**	**658.6**	**399.3**	**617.9**	**588.5**	**3,466.8**

These interest rate swaps (portfolio) have an average contracted fixed interest rate of 3.68% (2018: 3.88%)

Reconciliation of liabilities arising from financing activities

($M)	BALANCE 1 JULY 2018	CASH FLOWS	FAIR VALUE CHANGES IN P&L	FAIR VALUE CHANGES IN OCI	OTHER	BALANCE 30 JUNE 2019
Short-term borrowing	-	74.6	-	-	0.2	74.8
Long-term borrowing	3,152.9	(75.0)	63.1	12.0	(0.4)	3,152.6
Total liabilities from financing activities	**3,152.9**	**(0.4)**	**63.1**	**12.0**	**(0.2)**	**3,227.4**

Fair value changes in the table above include foreign exchange movements

iv. Credit risk

Credit risk is the risk of adverse impact on the Group through the failure of a counterparty bank, financial institution or customer to meet its financial obligations. Transpower's credit risk arises from financial assets. These include investments, derivatives and accounts receivable.

Transpower has not recognised an expected credit loss impairment on its financial assets. No loss is expected due to Transpower maintaining a high quality credit policy as explained below.

Treasury credit risk

The Group's policy is to buy high quality credit and establish credit limits with counterparties that are either a bank, a financial institution, a special-purpose derivative products company, or a New Zealand corporate. These net credit limits are not to exceed 20% of Shareholder Funds of Transpower as shown in the most current audited annual report. In addition, if the counterparty is a New Zealand corporate, the credit limit for investments is not to exceed $40 million.

Counterparties must have a minimum long-term Standard & Poor's credit rating of A or above (or Fitch or Moody's equivalent). For minimum credit ratings for Risk Reinsurance Limited (RRL) investments, please refer to Note 10 Investment disclosure.

For those counterparties with which the Group has a collateral support agreement (CSA), the counterparty credit limit for derivatives is defined as the maximum exposure threshold dictated by the CSA.

The maximum credit exposure in respect of non-derivative assets is best represented by their carrying value.

The credit risk arising from the use of derivative products is minimised by the netting and set-off provisions contained in the Group's International Swaps and Derivatives Association (ISDA) agreement. Under these agreements, transactions are net settled. Therefore, the maximum credit exposure is best represented by the net mark-to-market valuation by counterparty where the net valuation is positive as follows:

Group ($M)	2020	2019
Cross-currency interest rate swaps (CCIRS)	253.9	153.9
Interest rate swaps (IRS)	56.7	26.9
Foreign exchange forward contracts	-	0.1
Total	**310.6**	**180.9**

The net movement in value of CCIRS is primarily driven by a movement lower in both US interest rates and the New Zealand dollar against the CCIRS derivatives used to hedge foreign currency debt.

The breakdown of the CCIRS by counterparty is as follows:

Group ($M)	2020	2019
ANZ Bank New Zealand Limited	68.9	48.8
Bank of New Zealand	24.4	16.9
Citibank N.A.	39.9	20.0
Commonwealth Bank of Australia	45.6	34.4
Westpac Banking Corporation	75.1	33.8
	253.9	**153.9**

Customer credit risk

Regulated customers

Transpower recovers the value of its transmission assets over their useful lives in accordance with Commerce Commission input methodology regulations. The effect of these regulations is that for the majority of assets, a customer default would result in Transpower recovering any revenue shortfall from all other transmission customers.

Transpower's customers comprise predominantly electricity generators, distribution companies and some large industrial users. There is a high concentration of credit risk with respect to trade receivables due to the small number of significant customers from which the majority of revenue is received. It is the Group's policy to perform credit evaluations on customers requiring credit, and the Group may, in some circumstances, require collateral. Collateral held at 30 June 2020 was $0.2 million (2019: $0.2 million).

The entities below have receivables balances greater than 10% of the total trade receivables of $86.9 million at 30 June 2020 (2019: $99.4 million).

Group ($M)	2020	2019
Vector Limited	18.6	19.9
Meridian Energy Limited	9.1	11.6
Powerco Limited	8.7	10.4

Unregulated customers

The Group holds bank guarantees to protect itself in the event private developers are unable to pay any outstanding balances owing on transmission realignment projects performed on their behalf. The bank guarantee may reduce as payments are made by the developers.

There is a specific credit risk in relation to customer default on customer investment contracts where revenue is recovered from individual customers over time for specific assets already in use. Transpower has performed a credit risk assessment on its customers with investment contracts. The assessment is based on the latest financial and non-financial information available from the customer, and Transpower's understanding and experience with the customer. The majority of this credit exposure is to Electricity Lines companies and Electricity Generators, most of whom remain financially stable. Transpower anticipates minimal impact from these customers due to COVID-19. Transpower believes the majority of credit risk relates to certain large industrial users. Transpower monitors the creditworthiness of these organisations. The largest credit risk in this category relates to an organisation with future receivables out to 2046 of $7.8 million on a net present value basis. Transpower has no evidence that there will be any default risk associated with this customer due to COVID-19 as at balance date.

There have been no customer defaults in 2020 (2019: nil).

v. Sensitivity analysis

Currency risk - debt

All foreign currency debt is converted back to NZD, eliminating foreign currency exposure. Therefore, no sensitivity analysis has been performed for foreign currency debt.

Interest rate risk

The Group has issued fixed and floating rate debt and is exposed to interest rate risk. The Group manages the exposure through the use of interest rate swaps with the net exposure being predominantly fixed rate and aligned to Regulatory Control Periods. A portion of the portfolio is left at floating interest rates which will result in a reduction to finance costs should interest rates fall and an increase in finance costs should interest rates rise.

Group ($M)	2020	2020	2019	2019
Yield curve interest rate change and impact on pre-tax profit/(loss)/equity	+100bp	-100bp	+100bp	-100bp
Net interest expenses (annual impact)	(4.1)	4.1	(1.0)	1.0

Fair value risk

The Group is subject to fair value gains or losses. Fair value gains and losses are measured by discounting cash flows on debt and derivatives using market interest rates or yield curves. A move upwards of interest rates and yield curves results in fair value gains and a move downwards results in fair value losses.

A parallel shift in the yield curve by 1% (100 basis points) or the same movement due to a change in credit spreads would create the following fair value movements based on debt, investments and derivatives held at balance date:

Group ($M)	2020	2020	2019	2019
Yield curve interest rate change and impact on pre-tax profit/(loss)/equity	+100bp	-100bp	+100bp	-100bp
Fair Value	123.3	(129.6)	55.1	(57.7)

vi. Commodity risk

Commodity risk is the risk of an adverse impact in commodity prices such as prices for aluminium and copper. These are some of the raw materials used in the construction of the electricity transmission network. Generally, Transpower has contracts in which commodity risk is borne by the supplier.

vii. Insurance risk

Transpower operates a captive insurance company through its subsidiary Risk Reinsurance Limited (RRL) and also has external insurance. RRL maintains an investment portfolio to meet insurance claims.

The more significant insurance policies are outlined in the table below. These policies are renewed annually in September.

INSURANCE POLICY ($M)	AMOUNT INSURED	DEDUCTIBLE	RRL RETAINED RISK	EXTERNALLY INSURED RISK	TOTAL INSURED
HVDC submarine cables	0-15	-	15.0	-	90.0
	15-40	-	8.7	16.3	-
	40-90	-	-	50.0	-
Other grid assets (excluding transmission lines)	0-10	0.1	9.9	-	750.0
	10-750	-	-	740.0	-
Transmission lines	0-10	0.1	9.9	-	10.0

For the HVDC cables above, RRL would pay up to the first $15m of any claim and 35% of the layer between $15 - $40m, with the remaining 65% covered by external insurance providers on a pro-rata basis. The remaining layer between $40 - $90m is covered entirely by external insurance providers.

viii. Regulatory risk

Transpower is a natural monopoly and is regulated by the Commerce Commission and the Electricity Authority. The Commerce Commission determines what rate of return applies to Transpower's assets and approves large capital projects. It also determines the incentives that apply to Transpower which covers operating expenditure, capital expenditure, and meeting certain deliverables and outage targets. The Electricity Authority governs the running of the electricity market.

There is a risk that Transpower's rate of return may be set at too low a level to compensate Transpower for undertaking investments in grid assets. There is also a risk that Transpower does not meet some or all of the performance targets set by the Commerce Commission. Financial penalties would apply and The Commerce Commission can further penalise Transpower for failing to meet targets for which quality standards have been set. The network performance incentive is +/- $11 million per annum. The operating expenditure and base capex incentive is one quarter of the overspend or underspend.

8. Derivatives and hedge commitment

This note shows the short-term (ST) and long-term (LT) breakdown of the derivatives and hedge commitments.

	ASSET			(LIABILITY)			ASSET (LIABILITY)
2020 Group ($M)	ST	LT	TOTAL	ST	LT	TOTAL	NET ASSET
Debt-related derivatives							
Cross-currency interest rate swaps	-	253.9	253.9	-	-	-	253.9
Interest rate swaps	35.2	133.7	168.9	(45.3)	(186.8)	(232.1)	(63.2)
Purchasing related derivatives and hedge commitment							
Foreign exchange forward contracts	0.1	-	0.1	(0.2)	-	(0.2)	(0.1)
Commitment on fair value hedges	0.2	-	0.2	(0.1)	-	(0.1)	0.1
Total derivatives and hedge commitment	**35.5**	**387.6**	**423.1**	**(45.6)**	**(186.8)**	**(232.4)**	**190.7**
2019 Group ($M)	ST	LT	TOTAL	ST	LT	TOTAL	NET ASSET
Debt-related derivatives							
Cross-currency interest rate swaps	4.6	158.4	163.0	(9.1)	-	(9.1)	153.9
Interest rate swaps	52.4	104.4	156.8	(109.1)	(93.8)	(202.9)	(46.1)
Purchasing related derivatives and hedge commitment							
Foreign exchange forward contracts	0.4	-	0.4	(0.8)	(0.2)	(1.0)	(0.6)
Commitment on fair value hedges	0.8	0.2	1.0	(0.4)	-	(0.4)	0.6
Total derivatives and hedge commitment	**58.2**	**263.0**	**321.2**	**(119.4)**	**(94.0)**	**(213.4)**	**107.8**

Description

Derivatives are used to manage financial risk. The gain or loss on derivatives represents the unrealised gain or loss at balance date. The Group anticipates that the derivatives will be held until maturity, and it is unlikely that settlement at the reported fair values will occur.

Accounting policies

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposures to fluctuations in foreign currency exchange rates and interest rates. All derivatives are classified as fair value through profit and loss except:

i. Those derivatives that are designated into cash flow hedge accounting relationships, where the effective portion of the hedge is included in the Cash Flow Hedge Reserve; and

ii. Those derivatives used to reduce foreign currency exposure on asset purchases, that are designated into fair value hedge accounting relationships. For fair value hedging relationships, gains or losses on hedging instruments are included in profit or loss together with any change in the fair value of the hedged purchase commitment attributable to the foreign currency risk.

The valuation technique and key inputs used to value the derivatives are disclosed in note 7 Debt, financial instruments and risk management.

9. NZPCL debt and investment

Group ($M)	2020	2019
Investment		
Current	-	-
Non-current	98.1	85.7
	98.1	**85.7**
Debt		
Current	-	-
Non-current	100.5	86.7
	100.5	**86.7**
Net investment (debt)	(2.4)	(1.0)
Non-controlling interest net of tax	(1.8)	(0.8)

Description

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, New Zealand Power Cayman 2003-1 Limited (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.

As Transpower has no legal ownership interest in NZPCL, the net liabilities and any movements in net liabilities are recognised as a non-controlling interest. 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.

Accounting policies

The loan and the deposit are recognised at fair value in the Group financial statements based on discounted cash flows. These financial instruments are designated as fair value through profit or loss.

The difference between the asset and liability is due to the yield curves that have been applied to the cash flows. These valuations are considered level two in the IFRS three-level valuation hierarchy.

10. Investments

Group ($M)	2020	2019
Risk Reinsurance Limited investments		
Deposits	37.1	45.0
Corporate bonds	63.5	54.9
	100.6	**99.9**
Transpower investments		
Deposits	-	-
Total investments	**100.6**	**99.9**

Description

Transpower has a captive insurance company called Risk Reinsurance Limited (RRL). RRL invests premiums received from Transpower. RRL reinsures externally and maintains sufficient investments to meet expected claims. RRL does not offer insurance to any external parties.

For RRL cash and bond holdings, the counterparties have maximum limits depending on their ratings. Investments in deposits, floating rate notes and corporate bonds were made in financial instruments issued by organisations with credit ratings of BBB or above.

RRL counterparty exposures are limited to $4 million or less, by individual counterparty, and exposures are monitored on a daily basis.

Accounting policies

If the market for a financial asset is not active, fair value is established by using discounted cash flow analysis based on the relevant yield curve. The yield curve is adjusted to reflect the credit risk of the counterparty to the transaction. Deposits, floating rate notes and corporate bonds are considered level two in the NZ IFRS 13 three-level valuation hierarchy.

RRL investments are classified as fair value through profit or loss. This classification is on the basis that RRL has an active investment programme (held for trading) and as such investments are classified as current assets.

11. Trade receivables and other assets

Group ($M)	2020	2019
Current		
Trade receivables	86.9	99.4
Prepayments	7.9	10.3
Inventory	**2.7**	**3.8**
	97.5	**113.5**
Non-current		
Prepayments	3.2	22.6
Total trade and other receivables	**100.7**	**136.1**
Ageing of trade receivables		
Current	85.0	99.4
Past 31 days	1.9	-
	86.9	**99.4**

Description

The prepayments in 2019 predominantly related to telecommunication lease connection fees.

During COVID-19, Transpower offered deferral payment terms for transmission charges to its customers who themselves are providing financial relief to businesses impacted by the New Zealand Government's Alert Level 4 lockdown. Transpower also provided payment deferral relief to industrial customers directly connected to the National Grid that are closed or have limited operation.

The payment deferral will be offered for up to three months to qualifying customers. The deferred payment will be recovered over the remaining nine months of the payment year. The total payment deferral from customers is $2.8 million at 30 June 2020.

There was no expected credit loss realised during the year (2019: nil).

Accounting policies

Trade receivables are measured initially at fair value and subsequently at amortised cost. Due to the short-term nature of the receivables, no discounting is applied and the fair value is materially similar to amortised cost.

For trade receivables, the Group applies a simplified approach in calculating expected credit loss. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit loss at each reporting date.

12. Trade and other payables

Group ($M)	2020	2019
Current		
Trade creditors and accruals	46.8	86.3
Employee entitlements	13.0	10.3
	59.8	**96.6**
Non-current		
Other non-current payables	0.6	0.6
Total trade and other payables	**60.4**	**97.2**

Description

During COVID-19, Transpower increased the frequency of New Zealand Domestic supplier payments to a weekly basis and changed the payment terms to Pay Now which pays suppliers when all approvals and receipts are complete. These changes provided more frequent cash flow assistance to New Zealand businesses during the pandemic and was also in line with best practice.

Accounting policies

Trade and other payables are measured initially at fair value and subsequently at amortised cost. Due to the short-term nature of the payables, no discounting is applied and the fair value is materially similar to amortised cost.

13. Provisions

Group ($M)	CONTRACTOR PROVISION	DISMANTLING & ENVIRONMENTAL HAZARDS	TOWER AND LINE SAFETY	OTHER	TOTAL
Balance at 1 July 2019	15.4	32.7	12.4	3.0	63.5
Provisions made during the year	2.2	8.8	1.0	5.0	17.0
Provisions used during the year	(13.8)	(4.5)	(3.5)	(1.5)	(23.3)
Provisions reversed during the year	-	-	-	(0.5)	(0.5)
Balance at 30 June 2020	**3.8**	**37.0**	**9.9**	**6.0**	**56.7**
Current portion of provisions	3.8	6.9	5.1	3.8	19.6
Non-current portion of provisions	-	30.1	4.8	2.2	37.1
Balance at 30 June 2020	**3.8**	**37.0**	**9.9**	**6.0**	**56.7**

Description

Contractor provision

Transpower has determined that a future payment to a contractor should be recognised as a provision. Accordingly, the future cash flow has been present-valued and recognised as a provision and also capitalised as property, plant and equipment. The present value is amortised as the interest is incurred and the provision is used each year. The future payment will occur if certain assets are free from defects and have met prescribed service levels.

During COVID-19, to assist with cash flows for service providers, Transpower has early released $0.5 million to service providers on projects where the defect and performance risks are considered to be low.

Dismantling and environmental hazards

Transpower recognises dismantling and environmental hazard costs where it believes a reliably measurable obligation exists. Transpower has estimated these costs based on engineering advice. Actual costs may vary from the figures indicated.

Tower and line safety

Transpower has provided for two work programmes which are to remedy high priority lines underclearance issues and high priority earth potential rise issues on towers.

Other

This may include provisions such as performance incentive scheme, redundancy, onerous contract provision and regulatory provisions, where the amounts can be reliably estimated.

Accounting policies

Provisions are liabilities of uncertain timing or amount. They are measured at the amounts expected to be paid when the liabilities are settled.

14. Equity

Capital

Transpower has 1,200,000,000 issued and fully paid $1 ordinary shares. Transpower's authorised capital is $1,200,000,000 (2019: $1,200,000,000). The shares confer on the holders the right to vote at any annual general meeting of Transpower. All shares rank equally.

The Group manages capital to maintain its strong credit rating and to have sufficient capital available to meet its financing and operating requirements. Surplus equity is returned by way of dividends to shareholders.

Credit rating

Transpower's investment grade credit rating is Standard & Poor's AA- (2019: AA-) and Moody's Aa3 (2019: Aa3).

Net tangible assets per share

Group ($M)	2020	2019
Net assets (equity)	1,623.4	1,640.5
Less intangibles (note 5)	(374.1)	(372.9)
Total net tangible assets	**1,249.3**	**1,267.6**
Net tangible assets per share ($)	1.04	1.06

Net assets (equity) include both Right-of-use assets and Lease liabilities.

Dividends

Dividends declared and provided by Transpower are as follows:

	2020 ($M)	2020 (¢ per share)	2019 ($M)	2019 (¢ per share)
Previous year final dividend paid	99.0	8	99.0	8
Interim dividend paid	66.0	6	66.0	6
	165.0	**14**	**165.0**	**14**
Final dividend declared subsequent to balance date (refer note 20)	99.0	8	99.0	8

Group entities

All subsidiaries are wholly owned, are incorporated in New Zealand (except where specified otherwise) and have a balance date of 30 June 2020.

Transpower has no ownership interest in NZPCL. NZPCL is a special-purpose vehicle registered in the Cayman Islands and is consolidated for financial reporting, indicated by the dotted line in the diagram below. Refer to note 9 NZPCL debt and investment for more detail. Risk Reinsurance Limited is registered and incorporated in the Cayman Islands and was established to provide insurance for the Transpower Group.

As at balance date, the group entities are as follows:

● Party to a cross-border lease over the majority of the South Island HVAC Assets

15. Segment reporting

The Group has two segments - transmission and system operator.

- **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 provides 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).

Major customers

External customers that contribute 10% or more of total Group revenue are:

CUSTOMER	% OF GROUP REVENUE	SEGMENT
Vector Limited	18.8 (2019: 20.5)	Transmission

	TRANSMISSION		SYSTEM OPERATOR		OTHER		ADJUSTMENTS		TOTAL	
Group ($M)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
External revenue	932.1	968.7	42.1	41.1	12.7	12.6	-	7.5	986.9	1,029.9
Capex	355.3	305.4	13.5	10.4	-	-	18.6	13.0	387.4	328.8

The adjustment is:

Group ($M)	2020	2019	EXPLANATION
External revenue	-	7.5	Prior to July 2019, Financial statements include imputed interest in non-operating expenses, net interest expenses (note 4) rather than revenue
Capex	18.6	13.0	Financial statements include capital work on a customer funded transmission line undergrounding project

16. Change in fair value of financial instruments

Group ($M)	2020	2019
Fair Value through profit or loss		
Accounting hedges		
Foreign exchange forward contracts – hedge accounted	0.4	(2.1)
Hedge commitment	**(0.4)**	**2.1**
	-	-
Other		
Foreign debt	(104.9)	(32.0)
Cross-currency interest rate swaps	93.2	34.0
NZD interest rate swaps	74.8	97.6
Investments	1.6	2.0
NZD debt	(0.5)	(30.6)
	64.2	**71.0**
Total fair value gain (loss)	**64.2**	**71.0**
Fair value through other comprehensive income		
Credit spread on debt		
Foreign debt	(1.7)	(7.2)
NZD debt	(9.9)	(4.8)
Gross fair value gain (loss)	**(11.6)**	**(12.0)**
Less income tax credit (expense)	3.2	3.4
	(8.4)	**(8.6)**
Cash flow hedging		
Interest risk	(103.9)	-
Gross fair value gain (loss)	**(103.9)**	**-**
Less income tax credit (expense)	29.1	-
	(74.8)	-
Total other comprehensive income (expenses)	**(83.2)**	**(8.6)**

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.

Credit spreads are an estimate of the additional premium over the relevant yield curve that would be required by market participants to compensate them for the perceived credit risk inherent in the counterparty and transaction. For derivative transactions, the impact of credit spreads is substantially lower than for debt and investment transactions due to the offsetting nature of the cash flows.

Cash flow hedges

During the year, the Group has designated certain interest rate swaps into the cash flow hedge accounting relationships, which align interest rate exposures to the 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 the statement of 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.

Related disclosures

The following table shows the impact of credit spread movements on fair value:

Group ($M)	2020	2019
Current year fair value profit/(loss) movement included above		
Fair value movement in debt due to credit spread movement	(11.7)	(12.0)
Fair value movement in asset due to credit spread movement	(0.2)	(0.7)
Fair value movement in derivatives due to credit spread movement	(17.1)	(9.0)
Statement of financial position balance – decrease in debt due to credit spread	63.1	74.8
Statement of financial position balance – (decrease) in investment due to credit spread	(2.9)	(2.7)
Statement of financial position balance – (increase)/decrease in derivatives due to credit spread	(6.5)	10.6

17. Taxation

Income tax expenses

Group ($M)	2020	2019
Current tax expense		
Current period	50.5	63.8
Adjustment for prior periods	(1.5)	(2.6)
	49.0	**61.2**
Deferred tax expense		
Origination and reversal of temporary differences	33.5	36.9
Adjustment for prior periods	2.2	2.3
	35.7	**39.2**
Total income tax expense (credit)	**84.7**	**100.4**
Reconciliation of effective tax		
Operating surplus before tax	315.8	358.8
Income tax at 28%	88.4	100.5
Tax effect of:		
Net non-deductible expenses and non-assessable items	0.7	0.2
Under/(over) provided in prior periods	0.7	(0.3)
Reinstatement of depreciation on buildings	(5.1)	-
Total income tax expense (credit)	**84.7**	**100.4**

Description

There are no unrecognised deferred tax balances (2019: nil).

For property, plant and equipment, deferred tax typically arises from the accounting book including capitalised interest, differences in depreciation rates between tax and accounting and the capital contribution rules.

In March 2020, the Government re-introduced the deductibility of depreciation on building for tax purpose, for buildings not primarily used for residential accommodation. This amendment applies from 1 April 2020 and the depreciation rate is 2% diminishing value. The impact of this change increases the tax base for these assets, giving rise to a reduced difference between the carrying cost and tax base and results in a reduction in deferred tax liability and reduction in tax expense of $5.1 million.

Accounting policies

Deferred tax arises from differences between the accounting and tax values of assets and liabilities, except where the initial recognition exemption applies.

Deferred tax is shown as a net liability for the Group. This disclosure reflects that the deferred tax balances relate to companies in the Transpower Consolidated Tax Group and are in the same jurisdiction, being New Zealand.

Imputation credits

The imputation credit balance at 30 June 2020 is $66.8 million (2019: $80.4 million). This balance includes the tax payable outstanding at 30 June 2020.

Deferred tax

Group ($M)	BALANCE 1 JULY 2018	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OCI	BALANCE 30 JUNE 2019	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OCI	BALANCE 30 JUNE 2020
Property, plant and equipment temporary differences	490.3	22.1	-	512.4	19.1	-	531.5
Fair value of net debt and derivatives	(56.8)	19.2	(3.4)	(41.0)	17.5	(32.3)	(55.8)
Revenue deferral	(5.6)	(0.6)	-	(6.2)	(0.4)	-	(6.6)
Dismantling provision	(6.3)	(0.2)	-	(6.5)	(1.1)	-	(7.6)
Other	(7.8)	(1.3)	-	(9.1)	0.6	-	(8.5)
Total deferred tax	**413.8**	**39.2**	**(3.4)**	**449.6**	**35.7**	**(32.3)**	**453.0**

18. Related parties

Transactions with key management personnel

The Group did not conduct any business with key management personnel aside from the compensation payments below.

Key management personnel compensation

Key management personnel received the following compensation for their services to the Group:

Group ($M)	2020	2019
Directors' fees	0.5	0.5
Other key management personnel	5.2	4.6
Short-term employee remuneration	**5.7**	**5.1**
Defined contribution schemes	0.2	0.2

There were no termination payments to key management personnel in 2020 (2019: nil). There was no long-term compensation paid to key management personnel (2019: nil).

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	2019
Meridian Energy Limited – revenue	90.8	118.5
Electricity Authority – revenue	42.4	41.8

Meridian Energy Limited (Meridian) is a majority state owned company and is an electricity generator and retailer. Meridian pays Transpower primarily for the transportation of electricity across the national electricity grid.

The Electricity Authority is an independent Crown entity responsible for regulating the New Zealand electricity market. The Electricity Authority pays Transpower a contracted fee for its role as system operator.

Transpower also settles its income and indirect tax obligations with Inland Revenue.

Some Directors of the company may be Directors or officers of other companies or organisations with which Transpower may transact.

All related party transactions are carried out at on an arm's length and independent commercial basis.

19. 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 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. This results in an NPV equivalent reduction in revenue per annum of $18 million for each year of RCP3.

The economic gain (loss) account is considered a contingency rather than a provision because Transpower is able to change the future conduct of its business in a way that avoids the future expenditure.

($M)	HVAC	HVDC	TOTAL
EV balance to be recovered (paid) 1 April 2020 to 31 March 2025	(77.5)	(2.0)	(79.5)

(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.

(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.

20. Subsequent events

On 20 August 2020, the Directors approved the payment of a dividend of $99.0 million. The dividend will be fully imputed and is expected to be paid on 20 September 2020.

On 17 August 2020, Transpower announced it is considering an offer of unsecured unsubordinated fixed rate bonds to New Zealand retail investors and institutional investors.

On 20 August 2020, the Directors approved the extension of the $250 million committed standby facility, due to mature 7 December 2020, by a further two years to 7 December 2022.

Rio Tinto has given notice to Meridian Energy Limited to terminate their electricity supply contract by end of August 2021. Under current regulation, Transpower's revenue is not reduced but the closure will result in an excess of generation in the lower South Island of New Zealand. Transpower has already committed to continue with the Clutha Upper Waitaki capital work to reduce transmission constraints and is considering ways to accelerate this work and manage service performance impacts.

The Directors are not aware of any other matter or circumstance since the end of the financial year that has significantly or may significantly affect the operations of Transpower or the Group.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF TRANSPOWER NEW ZEALAND LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Transpower New Zealand Limited and its subsidiaries (the Group). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 34 to 71, that comprise the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for our opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit we have carried out assignments in the areas of other assurance services, training and remuneration benchmarking, which are compatible with those independence requirements. Other than in our capacity as auditor and these assignments, we have no relationship with, or interests in, Transpower New Zealand Limited or any of its subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of the material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Regulated assets

Why significant	How our audit addressed the key audit matter
The Group's regulated assets (consisting of property, plant and equipment, intangible assets and associated capital work in progress) described in Note 5 represent 86% of total assets at 30 June 2020. Judgements required to be made by management in relation to regulated assets include: - Determining what costs ought to be capitalised; - Determining the appropriate time to commission an asset and commence depreciation; - The period over which regulated assets should be depreciated; and - Whether there are any regulated assets that ought to be impaired and if so the amount of that impairment. Transpower reviews regulated assets for indicators of impairment at each reporting date. As described in Note 5 the recoverable amount for regulated assets is generally their regulatory book value. Regulatory book value is the amount Transpower is able to recover from customers through future revenue under the terms of the regulations per Part 4 of the Commerce Act 1986. Transpower allocates its regulated assets between cash generating units and compares the carrying amount against the regulated book value to identify possible indicators of impairment. Disclosures regarding regulated assets are included in Note 5 to the consolidated financial statements and in relation to the impact of COVID-19 on the Group's assessment of possible indicators of impairment are included in Note 1 to the consolidated financial statements.	In obtaining sufficient appropriate audit evidence we: - Assessed the appropriateness of a sample of capitalised costs against the criteria contained in NZ IAS 16 *Property, Plant and Equipment*. - Reviewed a sample of assets commissioned in the period to consider whether depreciation was charged from the appropriate date. - Reviewed a sample of large capital work-in-progress project balances to determine whether they ought to have been commissioned and depreciated as at 30 June 2020. - Considered how Transpower has assessed the assumed asset useful lives that are the basis on which depreciation has been charged. - Assessed cash generating units identified against the requirements of NZ IAS 36 *Impairment of Assets* and the allocation of regulated assets between cash generating units. - Tested management's identification of differences between the financial statement carrying amounts and regulatory book values at 30 June 2020 and considered the reasons for such differences. - Independently considered the completeness of management's assessment of indicators of impairment with reference to NZ IAS 36 *Impairment of Assets*, particularly in the context of the COVID-19 pandemic. - Assessed whether the Group's disclosures in Notes 1 and 5 of the consolidated financial statements in relation to regulated assets comply with NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 36 *Impairment of Assets* and describe the impact of COVID-19 pandemic on the Group's consolidated financial statements appropriately.

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Debt and derivatives

Why significant	How our audit addressed the key audit matter
Transpower has significant debt and derivative financial instruments. The total debt and derivative portfolio at 30 June 2020 was a net liability position of $3.1b and is detailed in Note 7 to the consolidated financial statements. Disclosures relating to the impact of COVID-19 on the debt and derivative portfolio are included in Note 1 to the consolidated financial statements. During the financial year Transpower entered into derivatives that were designated as hedges of the Group's interest rate exposure. This was a change for Transpower as derivatives had not historically been designated into hedge relationships in accordance with the requirements of NZ IFRS 9 *Financial Instruments*. Debt and derivatives are both recorded at fair value. Movements in fair value of debt and related derivative financial instruments impact profit or loss, or the cash flow hedge reserve where the derivative is in a designated hedge relationship. The valuation of these instruments involves the application of valuation techniques which require the exercise of judgement and the use of estimates as described in Note 7 to the consolidated financial statements.	In obtaining sufficient appropriate audit evidence we: - Obtained counterparty confirmations for all debt and derivatives at 30 June 2020. - Assessed, in conjunction with our valuation specialists, the appropriateness of the valuation models and significant inputs. - Compared observable inputs used against independent sources and externally available market data. - Performed our own independent valuations for a sample of instruments. - Assessed the Group's documentation of hedging relationships against the requirements of NZ IFRS 9 *Financial Instruments*. - Assessed the Group's analysis of the effectiveness of its hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the hedged item. - Assessed whether the Group's disclosures in the consolidated financial statements in relation to the valuation of investments comply with NZ IFRS 7 *Financial Instruments: Disclosure* and NZ IFRS 13 *Fair Value Measurement*. - Evaluated the appropriateness of the disclosures made in Note 1 to the consolidated financial statements in respect of the impact of the COVID-19 pandemic on the fair value of the debt and derivative portfolio.

Other information

The Directors are responsible on behalf of the Group for the other information. The other information comprises the information included on pages 6 to 31, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as

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the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand
20 August 2020

Directory

Board of Directors

Pip Dunphy – *Chair*
Dean Carroll – *Deputy Chair*
Bill Osborne
Sheridan Broadbent
Ilze Gotelli
Kathy Meads
Richard Aitken
Dr Roger Blakeley

General Management Team

Alison Andrew
Chief Executive

Gordon Davidson
Chief Financial Officer

John Clarke
General Manager
Grid Development

Stephen Jay
General Manager
Operations

Brighid Kelly
General Manager People

David Knight
General Counsel &
Company Secretary

Raewyn Moss
General Manager
External Affairs

Cobus Nel
General Manager Information
Services & Technology

Mark Ryall
General Manager Grid
Grid Delivery

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