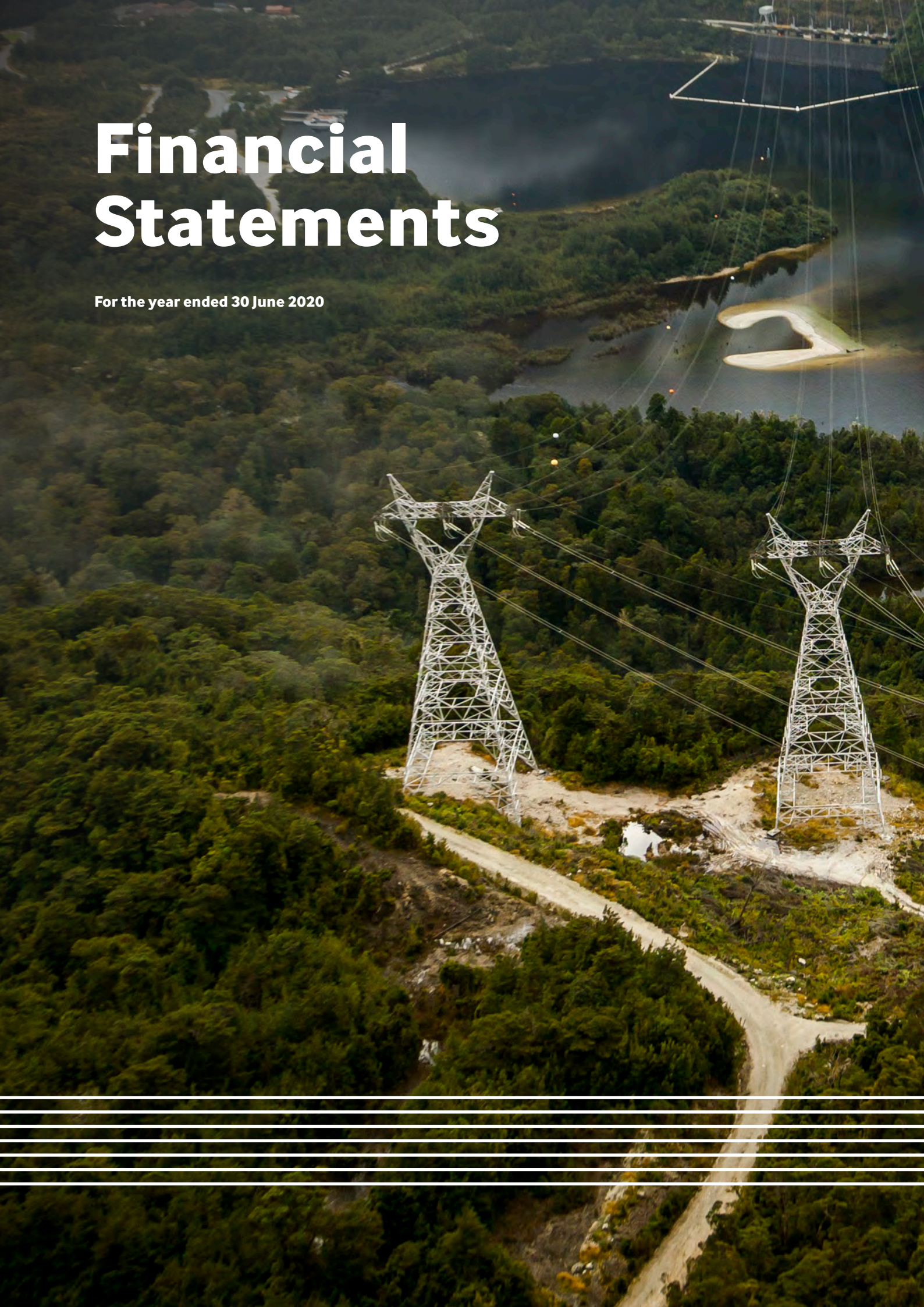


# Financial Statements

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
<b>Earnings before interest, tax, depreciation, amortisation, asset write-offs, impairment and changes in the fair value of financial instruments</b>	<b>1</b>	<b>695.3</b>	<b>732.9</b>
Depreciation, amortisation, asset write-offs and impairment	5, 6	284.5	263.8
Net interest expenses	4, 6	159.2	181.3
<b>Earnings before changes in the fair value of financial instruments and tax</b>		<b>251.6</b>	<b>287.8</b>
Gain (loss) in the fair value of financial instruments	16	64.2	71.0
<b>Earnings before tax</b>		<b>315.8</b>	<b>358.8</b>
Income tax expense	17	84.7	100.4
<b>Net profit</b>		<b>231.1</b>	<b>258.4</b>
<i>Attributable to:</i>			
Non-controlling interest		(1.0)	0.3
Owners of the parent		232.1	258.1
<b>Other comprehensive income (expense)*</b>	<b>16</b>	<b>(83.2)</b>	<b>(8.6)</b>
<i>Attributable to:</i>			
Non-controlling interest		-	-
Owners of the parent		(83.2)	(8.6)
<b>Total comprehensive income (expense)</b>		<b>147.9</b>	<b>249.8</b>
<i>Attributable to:</i>			
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

<b>Earnings before changes in the fair value of financial instruments and tax</b>		<b>251.6</b>	<b>287.8</b>
Income tax expense excluding changes in the fair value of financial instruments		66.7	80.5
<b>Earnings before net changes in the fair value of financial instruments</b>	<b>1</b>	<b>184.9</b>	<b>207.3</b>
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
<b>Net profit</b>		<b>231.1</b>	<b>258.4</b>

\* 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)
<b>Assets Employed</b>			
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
<b>Total assets employed</b>		<b>6,115.9</b>	<b>5,932.4</b>
<b>Funds Employed</b>			
<b>Liabilities</b>			
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
<b>Total liabilities</b>		<b>4,492.5</b>	<b>4,291.9</b>
<b>Equity</b>			
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)
<b>Total equity</b>		<b>1,623.4</b>	<b>1,640.5</b>
<b>Total funds employed</b>		<b>6,115.9</b>	<b>5,932.4</b>

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	NOTES	ORDINARY SHARES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	OWNERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
Group		(\$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)
<b>Total comprehensive income</b>		-	<b>223.7</b>	<b>(74.8)</b>	<b>148.9</b>	<b>(1.0)</b>	<b>147.9</b>
Dividends paid	14	-	(165.0)	-	(165.0)	-	(165.0)
<b>Total equity at 30 June 2020</b>		<b>1,200.0</b>	<b>500.0</b>	<b>(74.8)</b>	<b>1,625.2</b>	<b>(1.8)</b>	<b>1,623.4</b>

2018/19	NOTES	ORDINARY SHARES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	OWNERS OF THE PARENT	NON CONTROLLING INTEREST	TOTAL
Group		(\$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)
<b>Total comprehensive income</b>		-	<b>249.5</b>	-	<b>249.5</b>	<b>0.3</b>	<b>249.8</b>
Dividends paid	14	-	(165.0)	-	(165.0)	-	(165.0)
<b>Total equity at 30 June 2019</b>		<b>1,200.0</b>	<b>441.3</b>	-	<b>1,641.3</b>	<b>(0.8)</b>	<b>1,640.5</b>

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	2019
	Group (\$M)	Group (\$M)
<b>Cash flow from operations</b>		
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)
<b>Net cash inflows from operations</b>	<b>483.5</b>	<b>513.8</b>
<b>Cash flow from investments</b>		
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)
<b>Net cash (outflows) from investments</b>	<b>(422.9)</b>	<b>(267.5)</b>
<b>Cash flow from financing</b>		
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)
<b>Net cash (outflows) from financing</b>	<b>(203.4)</b>	<b>(165.1)</b>
Net increase/(decrease) in cash held	(142.8)	81.2
Opening balance brought forward	156.2	75.0
<b>Closing net cash carried forward</b>	<b>13.4</b>	<b>156.2</b>
<i>Closing net cash carried forward comprises:</i>		
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	2019
	Group (\$M)	Group (\$M)
Net profit	231.1	258.4
<b>Add (deduct) non-cash items:</b>		
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)
<b>Movements in working capital items:</b>		
(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
<b>Net cash flow from operations</b>	<b>483.5</b>	<b>513.8</b>



# 1. Transpower Group information

## Reporting entity and statutory base

Transpower New Zealand Limited (Transpower) is a state-owned enterprise registered in New Zealand under the Companies Act 1993. The financial statements are in New Zealand dollars and 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)
<b>Total assets</b>	<b>106.1</b>

## Liabilities

(\$M)	
Lease liabilities	106.1
Deferred tax liabilities	-
Trade and other payables	-
<b>Total liabilities</b>	<b>106.1</b>

## Total adjustment on equity

(\$M)	
Retained earnings	-
Non-controlling interest	-
<b>Total equity</b>	<b>-</b>

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%
<b>Discounted operating lease commitments as at 1 July 2019</b>	<b>83.9</b>
<b>Less:</b>	
Commitments relating to short-term leases	-
Commitment relating to leases not containing an asset	(20.8)
Commitments relating to leases of low-value assets	-
<b>Add:</b>	
Lease payments relating to extensions deemed reasonably certain	43.0
<b>Lease liabilities as at 1 July 2019</b>	<b>106.1</b>

## 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
	<b>931.8</b>	<b>975.7</b>

### Other revenue

System operator	41.9	41.1
Other	13.2	13.1
	<b>55.1</b>	<b>54.2</b>
<b>Total operating revenue</b>	<b>986.9</b>	<b>1,029.9</b>

### Description

#### Transmission revenue

Transmission revenue consists of charges for the transmission of electricity from the point of generation to the point of supply, being high voltage alternating current (HVAC) interconnection, connection and high voltage direct current (HVDC).

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
<b>Deferred income</b>		
Customer investment contracts	71.2	53.2
Undergrounding and transmission realignment	90.0	73.2
Other	4.8	3.4
<b>Total deferred income</b>	<b>166.0</b>	<b>129.8</b>
Current portion	34.1	16.9
Non-current portion	131.9	112.9
<b>Total deferred income</b>	<b>166.0</b>	<b>129.8</b>

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
<b>Net revenue recognised in the year from</b>		
Amounts included in the contract liability at the beginning of the year	(0.2)	(0.3)
Advance payments applied to current year	(26.4)	-
<b>Closing balance 30 June 2020</b>	<b>71.2</b>	<b>90.0</b>

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
<b>Net revenue recognised in the year from</b>		
Amounts included in the contract liability at the beginning of the year	(0.1)	(0.2)
Advance payments applied to current year	(24.5)	-
<b>Closing balance 30 June 2019</b>	<b>53.2</b>	<b>73.2</b>



### 3. Operating expenses

Group (\$M)	2020	2019
<b>Grid maintenance</b>		
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
	<b>112.3</b>	<b>111.1</b>
<b>IST maintenance and operations</b>		
Support and maintenance	9.0	9.0
Outsourced services	11.2	15.6
Licences	9.2	9.2
Other IST	2.5	7.5
	<b>31.9</b>	<b>41.3</b>
<b>Other operating expenses</b>		
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
	<b>147.4</b>	<b>144.6</b>
<b>Total operating expenses</b>	<b>291.6</b>	<b>297.0</b>

#### Description

Maintenance includes inspection, servicing and repair costs.

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

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

Investigations includes work that the Group conducts prior to the commencement of a capital project, updates to maintenance standards and demand response costs.

Other business support costs include such items as lease expenses relating to short-term leases and low-value assets, legal fees, office equipment and communications.

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

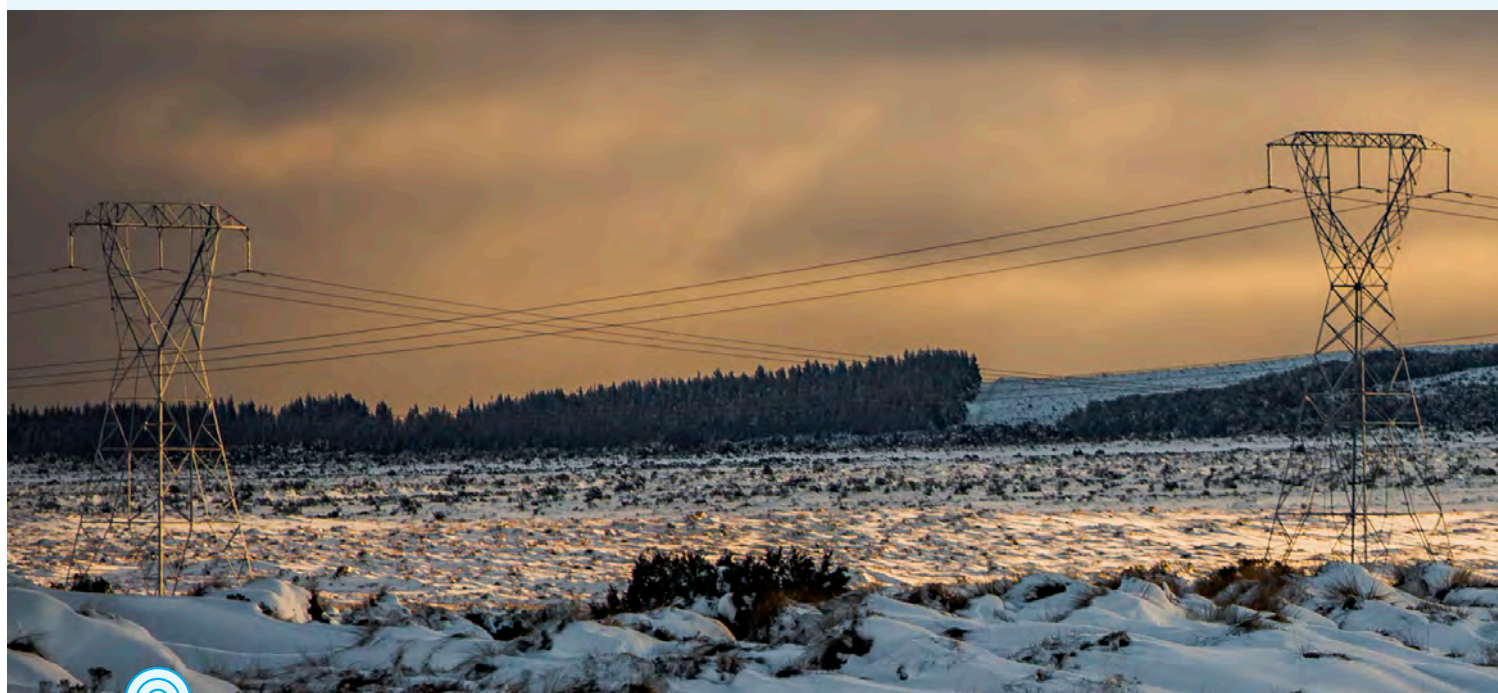
### Fees paid to external auditor

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

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
<b>Interest revenue</b>		
Interest received	6.0	5.9
	<b>6.0</b>	<b>5.9</b>
<b>Interest expenses</b>		
Interest expenses and associated fees	161.5	187.8
Capitalised interest	(8.5)	(8.1)
Imputed interest	12.2	7.5
	<b>165.2</b>	<b>187.2</b>
<b>Total net interest expenses</b>	<b>159.2</b>	<b>181.3</b>

### 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
<b>At 30 June 2020</b>				
Cost	2,768.7	167.3	2,728.5	876.9
Accumulated depreciation/amortisation	(771.6)	(60.3)	(844.0)	(398.7)
<b>Net book value/carrying value</b>	<b>1,997.1</b>	<b>107.0</b>	<b>1,884.5</b>	<b>478.2</b>

### 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)
<b>Closing net book value/carrying value</b>	<b>1,997.1</b>	<b>107.0</b>	<b>1,884.5</b>	<b>478.2</b>

### 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)
<b>Net book value/carrying value</b>	<b>1,981.5</b>	<b>91.8</b>	<b>1,790.3</b>	<b>510.8</b>

### 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)
<b>Closing net book value/carrying value</b>	<b>1,981.5</b>	<b>91.8</b>	<b>1,790.3</b>	<b>510.8</b>

### 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)
	<b>274.4</b>	<b>263.8</b>

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)	-
<b>194.6</b>	<b>70.8</b>	<b>4,732.2</b>	<b>305.0</b>	<b>69.1</b>	<b>374.1</b>	<b>151.7</b>
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)	-
<b>194.6</b>	<b>70.8</b>	<b>4,732.2</b>	<b>305.0</b>	<b>69.1</b>	<b>374.1</b>	<b>151.7</b>
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)	-
<b>175.5</b>	<b>71.9</b>	<b>4,621.8</b>	<b>305.6</b>	<b>67.3</b>	<b>372.9</b>	<b>138.3</b>
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)	-
<b>175.5</b>	<b>71.9</b>	<b>4,621.8</b>	<b>305.6</b>	<b>67.3</b>	<b>372.9</b>	<b>138.3</b>

**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
	<b>151.7</b>	<b>138.3</b>



## 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
	<b>103.7</b>	<b>175.4</b>

## Capital commitments in respect of contracts for intangible assets:

Easements and right to access assets	-	-
Software	-	-
<b>Total capital commitments</b>	<b>103.7</b>	<b>175.4</b>





## 6. Leases

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

### Lease liabilities

#### 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)
<b>Closing balance</b>	<b>99.7</b>
Current	7.0
Non-current	92.7

### Description

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

### Accounting Policies

#### Lease liabilities

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

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

#### Right-of-use assets

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

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any 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
<b>Total amount recognised in profit or loss</b>	<b>16.3</b>

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 (\$M)	DEBT FAIR VALUE NZ (\$M)	DERIVATIVE FAIR VALUE NZ (\$M)	TOTAL DEBT + DERIVATIVES FAIR VALUE NZ (\$M)
<b>Bank Term</b>						
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
<b>Domestic Commercial Paper</b>						
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
<b>Domestic Bonds</b>						
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
<b>Australian Medium Term Notes</b>						
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
<b>Swiss Bonds</b>						
CHF MTN 2027	CHF	16-Dec-27	125.0	200.1	(5.0)	195.1
<b>US Private Placement</b>						
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
				<b>3,311.0</b>	<b>(339.5)</b>	<b>2,971.5</b>
Debt short term				345.3		
Current portion of long-term debt				100.0		
<b>Debt short term</b>				<b>445.3</b>		
<b>Debt long term</b>				<b>2,865.7</b>		
<b>Total debt as per statement of financial position</b>				<b>3,311.0</b>		
<b>Debt face value (as per above)</b>						
New Zealand dollar debt			1,319.6			
Foreign debt after adjusting for related cross-currency interest rate swaps			1,593.5			
			<b>2,913.1</b>			

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)
<b>Total fair value of interest rate swaps</b>		<b>148.8</b>
<b>Total fair value of debt-related derivatives as shown above</b>		<b>(339.5)</b>
<b>Total debt derivatives fair value (assets) / liabilities (refer to note 8 for further derivatives breakdown)</b>		<b>(190.7)</b>

### 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
<b>Total contractual cash flows</b>	<b>585.8</b>	<b>727.4</b>	<b>422.1</b>	<b>643.9</b>	<b>174.7</b>	<b>864.3</b>	<b>3,418.2</b>

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
<b>Total liabilities from financing activities</b>	<b>3,227.4</b>	<b>(23.2)</b>	<b>103.8</b>	<b>11.6</b>	<b>(8.6)</b>	<b>3,311.0</b>

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)
<b>Bank Term</b>						
Bank Term 2021	NZD	17-Jun-21	100	100.1	-	100.1
<b>Domestic Commercial Paper</b>						
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
<b>Domestic Bonds</b>						
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
<b>European Medium Term Notes</b>						
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
<b>US Private Placement</b>						
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
				<b>3,227.4</b>	<b>(242.4)</b>	<b>2,985.0</b>
Debt short term				74.8		
Current portion of long-term debt				722.9		
<b>Debt short term</b>				<b>797.7</b>		
<b>Debt long term</b>				<b>2,429.7</b>		
<b>Total debt as per statement of financial position</b>				<b>3,227.4</b>		
<b>Debt face value (as per above)</b>						
New Zealand dollar debt			1,349.7			
Foreign debt after adjusting for related cross-currency interest rate swaps			1,593.2			
			<b>2,942.9</b>			

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)
<b>Total fair value of interest rate swaps</b>		<b>134.6</b>
<b>Total fair value of debt-related derivatives as shown above</b>		<b>(242.4)</b>
<b>Total debt derivatives fair value (assets) / liabilities (refer to note 8 for further derivatives breakdown)</b>		<b>(107.8)</b>

### 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
<b>Total contractual cash flows</b>	<b>1,137.7</b>	<b>64.8</b>	<b>658.6</b>	<b>399.3</b>	<b>617.9</b>	<b>588.5</b>	<b>3,466.8</b>

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
<b>Total liabilities from financing activities</b>	<b>3,152.9</b>	<b>(0.4)</b>	<b>63.1</b>	<b>12.0</b>	<b>(0.2)</b>	<b>3,227.4</b>

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
<b>Total</b>	<b>310.6</b>	<b>180.9</b>

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
	<b>253.9</b>	<b>153.9</b>

##### 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.

2020 Group (\$M)	ASSET			(LIABILITY)			ASSET (LIABILITY)
	ST	LT	TOTAL	ST	LT	TOTAL	NET ASSET
<b>Debt-related derivatives</b>							
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)
<b>Purchasing related derivatives and hedge commitment</b>							
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
<b>Total derivatives and hedge commitment</b>	<b>35.5</b>	<b>387.6</b>	<b>423.1</b>	<b>(45.6)</b>	<b>(186.8)</b>	<b>(232.4)</b>	<b>190.7</b>
<b>2019</b>							
Group (\$M)	ST	LT	TOTAL	ST	LT	TOTAL	NET ASSET
<b>Debt-related derivatives</b>							
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)
<b>Purchasing related derivatives and hedge commitment</b>							
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
<b>Total derivatives and hedge commitment</b>	<b>58.2</b>	<b>263.0</b>	<b>321.2</b>	<b>(119.4)</b>	<b>(94.0)</b>	<b>(213.4)</b>	<b>107.8</b>

### 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:

- 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
- 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
<b>Investment</b>		
Current	-	-
Non-current	98.1	85.7
	<b>98.1</b>	<b>85.7</b>
<b>Debt</b>		
Current	-	-
Non-current	100.5	86.7
	<b>100.5</b>	<b>86.7</b>
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
<b>Risk Reinsurance Limited investments</b>		
Deposits	37.1	45.0
Corporate bonds	63.5	54.9
	<b>100.6</b>	<b>99.9</b>
<b>Transpower investments</b>		
Deposits	-	-
<b>Total investments</b>	<b>100.6</b>	<b>99.9</b>

### 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.

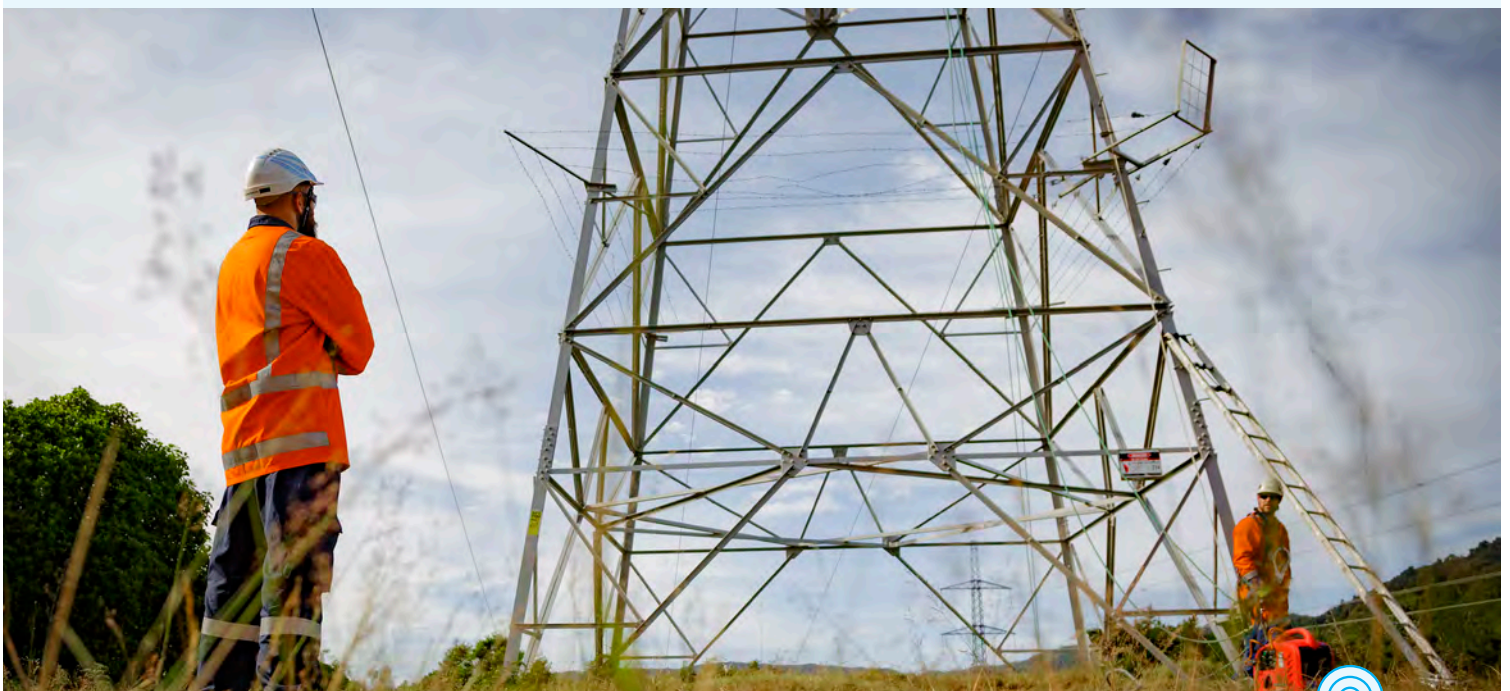
For RRL cash and bond holdings, the counterparties have maximum limits depending on their ratings. Investments in deposits, floating rate notes and corporate bonds were made in financial instruments issued by organisations with credit ratings of BBB or above.

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
<b>Current</b>		
Trade receivables	86.9	99.4
Prepayments	7.9	10.3
<b>Inventory</b>	<b>2.7</b>	<b>3.8</b>
	<b>97.5</b>	<b>113.5</b>
<b>Non-current</b>		
Prepayments	3.2	22.6
<b>Total trade and other receivables</b>	<b>100.7</b>	<b>136.1</b>
<b>Ageing of trade receivables</b>		
Current	85.0	99.4
Past 31 days	1.9	-
	<b>86.9</b>	<b>99.4</b>

## 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
<b>Current</b>		
Trade creditors and accruals	46.8	86.3
Employee entitlements	13.0	10.3
	<b>59.8</b>	<b>96.6</b>
<b>Non-current</b>		
Other non-current payables	0.6	0.6
<b>Total trade and other payables</b>	<b>60.4</b>	<b>97.2</b>

### 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)
<b>Balance at 30 June 2020</b>	<b>3.8</b>	<b>37.0</b>	<b>9.9</b>	<b>6.0</b>	<b>56.7</b>
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
<b>Balance at 30 June 2020</b>	<b>3.8</b>	<b>37.0</b>	<b>9.9</b>	<b>6.0</b>	<b>56.7</b>

### 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)
<b>Total net tangible assets</b>	<b>1,249.3</b>	<b>1,267.6</b>
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	2020	2019	2019
	(\$M)	(¢ per share)	(\$M)	(¢ per share)
Previous year final dividend paid	99.0	8	99.0	8
Interim dividend paid	66.0	6	66.0	6
	<b>165.0</b>	<b>14</b>	<b>165.0</b>	<b>14</b>
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

Group (\$M)	TRANSMISSION		SYSTEM OPERATOR		OTHER		ADJUSTMENTS		TOTAL	
	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
<b>Fair Value through profit or loss</b>		
<b>Accounting hedges</b>		
Foreign exchange forward contracts - hedge accounted	0.4	(2.1)
Hedge commitment	(0.4)	2.1
	-	-
<b>Other</b>		
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)
	<b>64.2</b>	<b>71.0</b>
<b>Total fair value gain (loss)</b>	<b>64.2</b>	<b>71.0</b>
<b>Fair value through other comprehensive income</b>		
<b>Credit spread on debt</b>		
Foreign debt	(1.7)	(7.2)
NZD debt	(9.9)	(4.8)
<b>Gross fair value gain (loss)</b>	<b>(11.6)</b>	<b>(12.0)</b>
Less income tax credit (expense)	3.2	3.4
	<b>(8.4)</b>	<b>(8.6)</b>
<b>Cash flow hedging</b>		
Interest risk	(103.9)	-
<b>Gross fair value gain (loss)</b>	<b>(103.9)</b>	-
Less income tax credit (expense)	29.1	-
	<b>(74.8)</b>	-
<b>Total other comprehensive income (expenses)</b>	<b>(83.2)</b>	<b>(8.6)</b>



## Description

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

The fair value of debt and derivatives is determined by converting currency exposures and discounting cash flows based on the relevant yield curve. The yield curve is adjusted to reflect the credit risk of the counterparty to the transaction or the credit risk of Transpower. These valuations are considered level two in the IFRS three-level valuation hierarchy. There have been no movements between levels during the period.

### 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.

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.

### 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
<b>Current year fair value profit/(loss) movement included above</b>		
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
<b>Current tax expense</b>		
Current period	50.5	63.8
Adjustment for prior periods	(1.5)	(2.6)
	<b>49.0</b>	<b>61.2</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	33.5	36.9
Adjustment for prior periods	2.2	2.3
	<b>35.7</b>	<b>39.2</b>
<b>Total income tax expense (credit)</b>	<b>84.7</b>	<b>100.4</b>
<b>Reconciliation of effective tax</b>		
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)	-
<b>Total income tax expense (credit)</b>	<b>84.7</b>	<b>100.4</b>

## 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)
<b>Total deferred tax</b>	<b>413.8</b>	<b>39.2</b>	<b>(3.4)</b>	<b>449.6</b>	<b>35.7</b>	<b>(32.3)</b>	<b>453.0</b>



## 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
<b>Short-term employee remuneration</b>	<b>5.7</b>	<b>5.1</b>
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.





## 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.



## Regulated assets

Why significant	How our audit addressed the key audit matter
<p>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.</p> <p>Judgements required to be made by management in relation to regulated assets include:</p> <ul style="list-style-type: none"> <li>- Determining what costs ought to be capitalised;</li> <li>- Determining the appropriate time to commission an asset and commence depreciation;</li> <li>- The period over which regulated assets should be depreciated; and</li> <li>- Whether there are any regulated assets that ought to be impaired and if so the amount of that impairment.</li> </ul> <p>Transpower reviews regulated assets for indicators of impairment at each reporting date.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"> <li>- Assessed the appropriateness of a sample of capitalised costs against the criteria contained in NZ IAS 16 <i>Property, Plant and Equipment</i>.</li> <li>- Reviewed a sample of assets commissioned in the period to consider whether depreciation was charged from the appropriate date.</li> <li>- 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.</li> <li>- Considered how Transpower has assessed the assumed asset useful lives that are the basis on which depreciation has been charged.</li> <li>- Assessed cash generating units identified against the requirements of NZ IAS 36 <i>Impairment of Assets</i> and the allocation of regulated assets between cash generating units.</li> <li>- 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.</li> <li>- Independently considered the completeness of management's assessment of indicators of impairment with reference to NZ IAS 36 <i>Impairment of Assets</i>, particularly in the context of the COVID-19 pandemic.</li> <li>- 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 <i>Property, Plant and Equipment</i> and NZ IAS 36 <i>Impairment of Assets</i> and describe the impact of COVID-19 pandemic on the Group's consolidated financial statements appropriately.</li> </ul>



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## Debt and derivatives

Why significant	How our audit addressed the key audit matter
<p>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.</p> <p>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 <i>Financial Instruments</i>.</p> <p>Debt and derivatives are both recorded at fair value.</p> <p>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.</p> <p>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.</p>	<p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"> <li>- Obtained counterparty confirmations for all debt and derivatives at 30 June 2020.</li> <li>- Assessed, in conjunction with our valuation specialists, the appropriateness of the valuation models and significant inputs.</li> <li>- Compared observable inputs used against independent sources and externally available market data.</li> <li>- Performed our own independent valuations for a sample of instruments.</li> <li>- Assessed the Group's documentation of hedging relationships against the requirements of NZ IFRS 9 <i>Financial Instruments</i>.</li> <li>- 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.</li> <li>- Assessed whether the Group's disclosures in the consolidated financial statements in relation to the valuation of investments comply with NZ IFRS 7 <i>Financial Instruments: Disclosure</i> and NZ IFRS 13 <i>Fair Value Measurement</i>.</li> <li>- 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.</li> </ul>

## 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



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.





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.

A handwritten signature in blue ink, appearing to be 'Grant Taylor', with a long horizontal stroke extending to the right.

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

