ANNUAL REPORT 2014/15

Keeping the energy flowing

TRANSPOWER

CONNECTING NEW ZEALAND

WE CONNECT NEW ZEALANDERS TO THEIR POWER SYSTEM THROUGH SAFE, SMART SOLUTIONS FOR TODAY AND TOMORROW.

Transpower is the State-Owned Enterprise that plans, builds, maintains and operates New Zealand's National Grid. Our high voltage electricity transmission network connects generators with distribution companies and major industrial users.

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PROVIDING OUR CUSTOMERS WITH A COST-EFFECTIVE AND RELIABLE SERVICE

// CHAIR AND CHIEF EXECUTIVE REVIEW

Transpower achieved a strong performance during the last 12 months, both financially and operationally.

Reliability on the Grid was the best performance achieved in the last ten years.

NET profit after tax, before net changes in the fair value of financial instruments, increased 5.8 per cent to $194.6 million. Return on capital employed of 6.8 per cent was in line with our target and the prior period. A final dividend of $112.8 million was declared, compared with $91 million last year. Total dividends declared relating to the 2014/15 financial year are $188 million (2013/14: $151 million). Returns at these levels are largely dictated by the regulatory parameters set by the Commerce Commission. Achieving this return requires Transpower to operate in an efficient and prudent manner.

Reliability on the Grid was the best performance achieved in the last ten years. There were 13 unplanned events that resulted in a loss of power supply to consumers greater than 0.05 system minutes, with only one event greater than 1 system minute (against targets of 15 and 3 respectively). The past year has seen a number of extreme weather events across the country, and the grid managed well throughout these events. This was in part due to a number of major investments undertaken in the grid over the last five years that have built resilience and redundancy. There have also been continual improvements in our asset management practices.

Completion of our first regulatory control period (RCP1 - which was a four year period with subsequent regulatory periods being five year periods) is a significant milestone. An important part of this is creating operational and process efficiencies to ensure we provide and maintain a reliable National Grid at an appropriate cost for our customers. Our base capital expenditure programme for RCP1 has delivered commissioned assets of almost $966 million. This was 97 per cent of the regulatory allowance – a significant improvement from 88 per cent of the regulatory allowance at the end of the prior period. Operating expenditure over the regulatory period was below our allowance due to tight cost control.

Our system operations activities also delivered efficiencies to the wholesale market, arising from recent grid investment, which benefit all electricity consumers.

We are disappointed in our safety performance, which was below our target. We had 44 medical treatment and lost time injuries across our staff and service providers. The Total Recordable

Injury Frequency Rate was 13.3, against a target of no more than 8. The safety of our staff and service providers is a key priority. We are focussed on understanding the root causes of our injuries with a view to reducing this number significantly next year. We are critically focused on avoiding serious harm, and have a good record of doing so. We also recognise that culture is the most important driver, and we have placed tough measures on ourselves to reduce minor harm as well. We believe that understanding the influencing factors that may be contributing to these safety incidents is a key factor in helping to reduce the likelihood of high consequence, low probability incidents occurring.

There was also a significant event at our Penrose substation in October which caused a power outage to around 75,000 Vector customers. Vector and Transpower have worked together on a comprehensive review of the incident, in conjunction with an international cable expert, to determine the cause and learnings from the event. We have undertaken a review of all of our critical substations where there may be a similar configuration of assets to that at Penrose. We have five sites with similar criticality to Penrose, but these each have different asset configurations. Risk assessments at these sites have been carried out. We are confident that the substations are in good operational order and have been designed to good electricity industry practice. Our other substations are systematically being assessed in conjunction with the electricity distribution companies. A separate investigation is being undertaken by the Electricity Authority.

We have completed the regulatory reset process for our next five-year regulatory control period (RCP2) starting from 1 April 2015. This reset brings a more challenging operating environment for our transmission business with a lower allowable rate of return, challenging efficiency targets and more comprehensive and complex incentive arrangements.

We have also begun the first round of negotiating new contractual arrangements for our system operator service with the Electricity Authority. This contract holds demanding requirements for long-term planning, efficiency and performance.

To meet these regulatory and financial challenges, a transformational change programme has been implemented to achieve the lift in performance required. The first stage of this programme includes a review of the operating model for our grid divisions, a company-wide cultural change programme designed to lift performance across the business, business improvement initiatives and the enhancement of our risk management framework, with a particular focus on safety and risk assessment. Successfully implementing this transformational change programme will support commercial success during the current regulatory control period (RCP2). It will deliver greater value for New Zealand, put the company in a more mature position for the next regulatory control period (RCP3) and allow us to continue to manage the wholesale electricity market effectively.

Given that many of our investments have lives of more than 50 years, looking at what might affect or change the way we deliver electricity in the future is fundamental for our long-term planning. We need to assess what the future energy landscape might look like to ensure we make appropriate and timely investments in assets or technology. That landscape is continually changing and predicting future demand trends and growth is challenging. Our international peers are having similar challenges all over the world. Advances in technology will impact on how we manage and operate the transmission grid, and manage the wholesale electricity market. It will depend on when and how quickly such technologies are adopted.

ALISON ANDREW
CHIEF EXECUTIVE

MARK VERBIEST
CHAIRMAN

This year, we completed an environmental scan of the long-term future and our long-term transmission outlook, *Transmission Tomorrow*, is being updated. There is a range of possible futures for New Zealand's electricity sector. Smart meters, smart appliances, home automation, electric vehicles, solar photovoltaics and batteries can enable and encourage consumers to participate more in their electricity supply. Depending on uptake, these technologies may displace some existing large-scale generation over the longer term.

New Zealand has a unique electricity system. This is due to its geography and to its very high level of renewable generation, much of which is located far from major load centres. Recently we have seen the announcement of closure of some large thermal plants, some of these much earlier than expected. The location and type of available generation has implications for the management of the transmission grid and reliable supply of electricity to our customers.

There are substantial benefits for New Zealand having a large volume of lower cost renewable generation, and the minimal environment impacts from using water, wind or geothermal generation sources. Earlier this year, we saw the grid reach over 90 per cent renewable generation on the system. The post balance date announcement of further thermal plant closures will see the figure increase. There is a strong indication of being able to achieve the Government's target of 90 per cent renewables by 2025.

A large volume of renewables and the uncertainty around emerging consumer technologies will present challenges for the management and operation of the transmission grid. A strong and resilient transmission grid and a well-run wholesale electricity market have important roles in continuing to support these changes.

Technology will play an important role not only in consumer technologies but also in how the Grid is operated. Transpower's future focus around investment in the Grid will likely be more on operating solutions as opposed to capital options. Continuing to investigate and trial emerging technologies is important. We may be able to defer large investment while maintaining reliable supply, enabling us to deliver a cost effective transmission service.

Despite these uncertainties, we need to plan now for these possible futures to ensure we can continue to deliver a robust transmission service that meets New Zealanders' changing energy needs.

Strong governance is important in meeting our objectives and delivering on our purpose. The composition of our Board has changed during the year. In April, Ian Fraser, Deputy Chair, and Abby Foote retired from the Board after eight and six years' service respectively. The Board and management thank Ian and Abby for their valuable insights and contribution to the success of Transpower over this time. In May, we welcomed Pip Dunphy and Tim Lusk to our Board.

The Board and Chief Executive thank all Transpower employees for their commitment and efforts throughout the year. We would also like to thank our customers and stakeholders who have worked with us and helped us deliver a reliable, secure and efficient transmission service.

Outlook statement

Changes to our regulatory and operating environment will result in our financial performance in 2015/16 being lower than 2014/15.

Revenue was lower for the last quarter of 2014/15 due to the new RCP2 settings. The lower allowable rate of return applies for the full period in 2015/16. Transpower's operating costs in 2015/16 will include investment in operational savings (some of which will be longer term) to achieve the lift in performance required over RCP2. Capital spend will be lower overall in 2015/16 following the completion of our RCP1 commitments in 2014/15 and the implementation of further efficiencies in capital spend over RCP2.

Our focus on transformation and implementing operational efficiencies will maintain our ability to deliver reliable transmission services to our customers at an appropriate price point, while strengthening our financial position in the long term.

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

Strategic themes
Our purpose will be achieved by delivering on seven enduring strategic themes:

Deliver a
SAFE
zero-harm workplace

Deliver excellent customer service and stakeholder engagement on a
COMMERCIAL
platform

RUN
an effective electricity market

PLAN
an enduring grid that delivers smart solutions cost effectively

DELIVER
a resilient, cost-effective transmission service for our customers

Seek continuous business
IMPROVEMENT

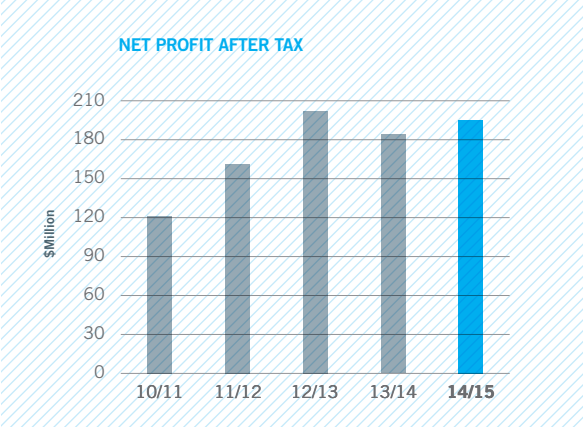
Invest in good
PEOPLE

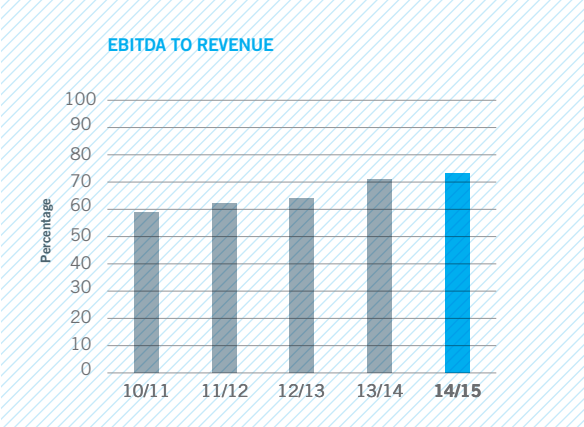
Each year, we will identify, focus and report on specific strategic priorities that contribute to these strategic themes.

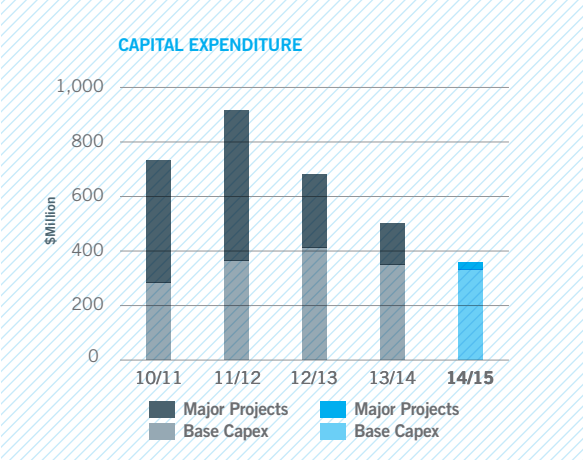
Our values underpin all of our actions and initiatives.
The power of us // We work with care // We're here for New Zealand // We do clever simply

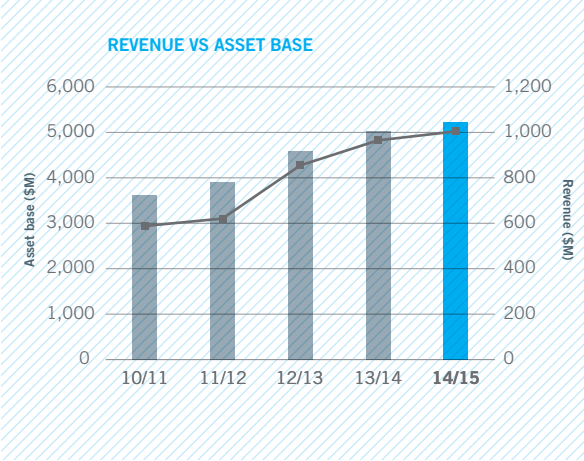
// FINANCIAL REVIEW

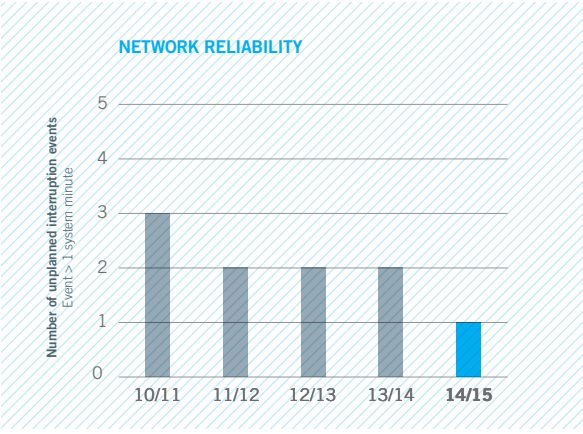
Summary of Key Financials

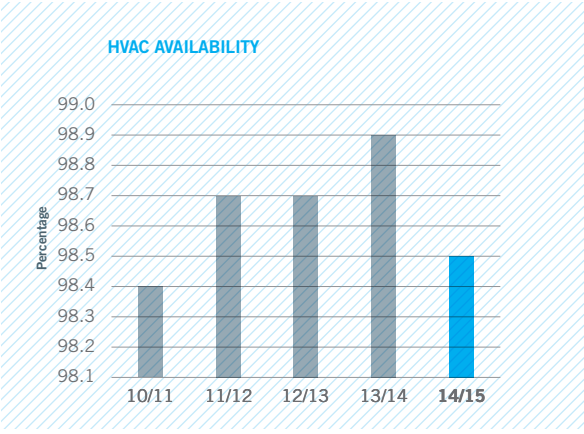












Net profit after tax, before net changes in the fair value of financial instruments, was $194.6 million, an increase of 5.8 per cent on the prior period of $183.9 million. The increase reflects higher transmission revenue following the completion of the major capital build programme and lower operating costs.

Total revenue increased 4.2 per cent to $1,045.5 million (June 2014: $1,003.7 million) as newly commissioned assets were included in the revenue base. While transmission revenue increased $43.7 million to $984.2 million (+4.6 per cent) on the prior period, future growth in transmission revenue is expected to be flat to declining in real terms. This is due to a reduced capital expenditure programme, lower regulated allowable return on assets and the reset of a number of parameters determined by the Commerce Commission for the next five years (from 1 April 2015). The RCP2 regulatory reset of the allowable rate of return resulted in lower transmission revenue in the last quarter of the year ($23 million below budget).

Operating expenses declined by 1.9 per cent from $287.2 million in the prior period to $281.6 million, reflecting tight cost control and initial gains from a number of business improvement and efficiency initiatives being implemented across the company. The key drivers of the reduced operating costs were reductions in business support costs and employee costs.

While operating costs in total reduced, transmission expenses increased slightly (1.9 per cent). The principal contributor to this increase was repairs of some large assets, including repair costs associated with a Marsden transformer which failed in July 2014. Offsetting some of this increase were gains from improved maintenance scheduling and delivery.

Increased revenue and lower operating costs resulted in improved earnings before interest, tax, depreciation, amortisation, impairments, asset write-offs, and changes in the fair value of financial instruments (EBITDAIF) to $763.9 million (June 2014: $716.5 million), an increase of $47.4 million or 6.6 per cent. Return on capital employed of 6.8% was in line with the target and the prior period.

Depreciation, amortisation, impairments and write-offs increased 5.2 per cent to $264.3 million (June 2014: $251.2 million), reflecting a higher asset base.

Gross finance expenses were in line with the prior period. However, a significant reduction in capitalised interest expense, as major projects are now operational, resulted in a $16.4 million (7.8 per cent) increase in finance expenses to $225.8 million (June 2014: $209.4 million).

Net profit after tax, including net changes in the fair value of financial instruments, was $113.3 million (June 2014: $215.8 million). This result is substantially impacted by the change in the fair value of financial instruments. The change in fair value of financial instruments before tax was a loss of $114.5 million, compared with a gain of $45.0 million in the prior period, predominantly the result of movements in market interest rates. Fair value movements are non-cash in nature and do not reflect the underlying operating performance of the business.

Capital expenditure

Capital expenditure for the year was $359.0 million – a 28 per cent reduction on the prior period capital expenditure of $502.0 million, reflecting the completion of major projects. Some major capital costs associated with the Bunnythorpe-Haywards reconductoring programme have been deferred due to a rephasing of the project compared with budget.

Most of the expenditure relates to base capital expenditure on replacement and refurbishment of existing transmission assets. Significant effort by staff and service providers over the last twelve months ensured Transpower delivered 97% of its base capital programme allowed for in RCP1. This compares favourably with the position at 88% of the regulatory allowance at the end of the prior period.

Funding

Transpower continues to access a range of debt capital markets to fund its grid investment programme and refinance maturing debt. In August 2014, Transpower secured long term funding through an offshore bond issue totalling NZ$165 million. In June 2015, it secured NZ$75 million through a domestic bond issue with a maturity of seven years. These bond issues help to maintain the company's prudent and diversified funding profile. The face value of net debt at 30 June 2015 was $3.1 billion.

Dividend payments

The Board has declared a final dividend of $112.8 million (2013/14: $91 million), to be paid to the Crown in September 2015. Total dividends declared relating to the 2014/15 financial year are $188.0 million (2013/14: $151 million). This is in line with the dividend forecast in the 2014/15 Statement of Corporate Intent, and reflects return on capital employed of 6.8%.

// SUCCESSFUL COMPLETION OF REGULATORY CONTROL PERIOD 1

This year saw the completion of our first four-year Regulatory Control Period. It has been challenging for both Transpower and our service providers to complete the substantial number of planned projects, some of which were accelerated for completion in RCP1, providing efficiencies going into our second Regulatory Control Period.

Some of the key deliverables in RCP1 include:

The commissioning of a new asset management information system,

MAXIMO

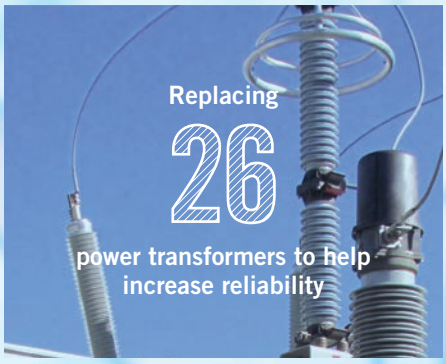
which has helped to improve our asset management processes

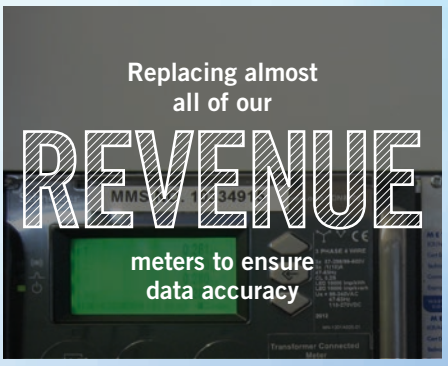
The commissioning of New Zealand's third-largest communications network –

TRANSGO

The base capital expenditure programme has delivered commissioned assets of almost

$1billion





// REGULATORY REVIEW

Second Regulatory Control Period (RCP2)

In 2014/15, Transpower established regulatory settings with the Commerce Commission for RCP2 following a robust challenge and evaluation process. The regulatory settings represent a lower allowable return, and therefore revenue, approved operating expenditure and base capital expenditure. Significant efficiency gains will be required in both capital and operating expenditure to meet the approved allowances. Transpower is prepared for this challenge and is making the necessary changes to ensure it continues to deliver a secure and reliable electricity supply.

RCP2 introduces new, more complex regulatory incentives and reporting requirements. Transpower has a number of new financial incentives in relation to service performance, delivery of certain asset replacements and achievement of opex and capex efficiency targets. One of these incentives is meeting a new set of service measures that Transpower has developed in consultation with customers. These focus on the performance of the network as experienced by customers. Financial incentives linked to performance against these measures will be closely monitored and made publicly available.

Review of input methodologies

The Commerce Commission has initiated a review of input methodologies. Transpower will engage in this process over the next 18 months and has a particular interest in the Commerce Commission bedding in a stable, predictable approach to regulation.

Integrated Transmission Plan

Transpower is preparing its first Integrated Transmission Plan. This will bring together the strategies and plans that supported the RCP2 proposals and updates them for changes in the 18 months since the proposals were made. The Integrated Transmission Plan will be updated annually (in September), providing stakeholders with a comprehensive and up-to-date source of information around transmission investments.

Approval of major capital projects

The Commerce Commission released a final decision on Transpower's request to amend the major capex allowance on the North Island Grid Upgrade Project. The Commerce Commission approval was consistent with Transpower's application. This was for a revised allowance of $876.3 million, being $17.7 million less than the $894 million actual cost of the project (but $52.3 million more than the original allowance of $824 million). The Commission identified $17.7 million of 'avoidable' costs (in line with the costs that Transpower had identified that it should be liable for) but attributes most of the overspend to over-optimistic cost and time forecasting (that Transpower should not be liable for). There is no impact on the RCP2 revenue path as this outcome had already been factored into pricing for the 2015/16 year.

The second Regulatory Control Period (RCP2) introduces new, more complex regulatory incentives and reporting requirements.

The Commerce Commission has also clarified its treatment of foreign exchange and inflation adjustments for major projects. This positively resolves uncertainty regarding the allowance for the Wairakei Ring Project.

Transmission pricing

Transpower's transmission pricing operational review has now been completed. This review provided some options to the Electricity Authority and it recently approved four of Transpower's proposals. The overall objective for the variations is to improve static efficiency in grid use. The changes will affect operational behaviours from September 2015, for charges from April 2017.

In June, the Electricity Authority released a new options paper in its own review of transmission pricing methodology. This presented a base option (with two variants) and invited comments on whether other options should be preferred. Transpower submitted to the Authority's paper in August, including an external economic and technical review of the options as well as its internal analysis and review.

// SAFETY

An improved risk management framework and analysis is being introduced to help identify the root causes of high consequence low probability incidents.

Keeping people safe is a key priority. We work in an industry where mistakes can cause serious injury or harm, and Transpower needs to be vigilant about how it undertakes its work all day, every day, without exception.

IT IS disappointing that Transpower had 44 medical treatment and lost-time injuries this year. The Total Recordable Injury Frequency Rate was 13.3, above the target of no more than 8. There were no fatalities or injuries causing permanent disability. Transpower is working closely with its service providers, who undertake the majority of the work in the field, to help identify and drive further improvements that will make the entire workforce safer. Transpower is also introducing an improved risk management framework and analysis that will help identify the root causes of high consequence low probability incidents, to ensure it has appropriate controls in place.

Positively, the reporting of safety incidents and near misses has improved and this is an essential step to ensuring a safer working environment.

Transpower is pleased to have retained a 'Tertiary' rating in its biennial ACC Workplace Safety Management Practices audit. A 'Tertiary' rating indicates that the business operates a continuous improvement framework for workplace health and safety management.

Transpower had the following safety targets for 2014/15 in its Statement of Corporate Intent:

SAFETY PERFORMANCE TARGET	2014/15 ACTUAL	2014/15 TARGET
NUMBER OF FATALITIES OR INJURIES CAUSING PERMANENT DISABILITY	**0**	0
TOTAL RECORDABLE INJURY FREQUENCY RATE	**13.3**	≤ 8

NOTE: The measures include all people working on Transpower's assets including service providers and their sub-contractors.

// PEOPLE

A highly skilled and engaged workforce is essential to deliver Transpower's purpose. Operating and maintaining the transmission grid and New Zealand's power system requires highly specialist skills. These are in demand worldwide. Transpower is focused on developing new people into the industry as well as recognising and building the talent it has within the organisation.

TRANSPOWER'S Grid Skills team provides an important resource for the entire industry. Grid Skills is registered as a private training establishment with the New Zealand Qualifications Authority (NZQA). Learners who complete their field training are able to acquire unit standards and work towards recognised qualifications. This year, in its "statement of confidence on educational performance," NZQA confirmed it was "Highly Confident" in Grid Skills in both educational performance and capability in self-assessment.

Transpower runs a dynamic and supportive graduate programme, enabling graduates to enter the energy industry and get a well-rounded start in engineering through experiential learning, coaching and mentoring. Since its inception in 2001, Transpower has had over 100 graduates complete the programme.

Encouraging younger generations to enter the engineering discipline is one way Transpower is encouraging a diverse and inclusive workplace culture – one with diversity of thought, ethnicity, gender and age. Research shows organisations with diverse workplaces generally have higher performance and business effectiveness than their counterparts. Transpower recently carried out analysis to understand its current diversity and inclusion opportunities and challenges, with a view to developing and embedding a diversity strategy in the next financial year.

This year, Transpower held its first Women in Leadership Alliance Programme for current and aspiring female leaders within the business. This programme comprised a two-day leadership development workshop as well as follow-up peer group support and networking activities to connect and provide ongoing development to participants.

Transpower is committed to creating a rewarding workplace for all employees. Measuring engagement helps the company focus on putting in place the right initiatives to create a positive work environment, where people enjoy working and are willing to 'go the extra mile'. Transpower's engagement level, as recorded in June via an 'engagement pulse-check' survey, was 63% which puts it slightly ahead of the New Zealand norm (60%).

During the year Transpower introduced a new approach to performance management. This is designed to better align performance and delivery with strategic priorities. Staff and managers agree two individual focus areas which are agreed and reviewed quarterly. The approach provides greater clarity on business direction and the flexibility to check and adjust deliverables against the changing business.

In Wellington, the company will relocate from its existing buildings at 93 and 96 The Terrace to redeveloped premises at 22 Boulcott Street at the end of 2017. This will address the constraints of the existing Wellington premises, which house around 600 permanent staff and the 24/7 control room for the National Grid across two buildings. Moving premises provides Transpower with an opportunity to consolidate accommodation spaces, support its transformation and cultural change programme and leverage greater efficiencies for the business. Expenditure for relocation was allocated in the RCP2 proposal, which was accepted by the Commerce Commission in late 2014.

Measuring engagement helps the company focus on creating a positive work environment and increasing performance.

OPERATING AN EFFICIENT GRID

// OPERATIONAL REVIEW

Innovating and finding new ways of operating and maintaining the grid is a key focus.

As part of Transpower's transformational change programme, a new model of how the company needs to operate to deliver its strategic objectives is being implemented across the three grid divisions.

THIS NEW way of operating will support a more effective and efficient operating grid service by providing an environment with better role clarity, improved processes, and robust planning and delivery to meet performance targets.

Customers

Transpower's business model is defined by the level of service it provides to customers. Transpower has reviewed its services, their definition and how to improve their delivery. For some connected customers, this may mean commitments to improved levels of service. For others, it may be a reminder that the legacy level of service they presently receive may need refinement in light of Transpower's regulatory obligations. This engagement with customers has started.

During the year, Transpower has worked with a number of property developers looking to construct new housing subdivisions under or around existing transmission lines. Transpower supports the undergrounding or relocation of overhead transmission lines provided the beneficiary meets the costs of doing so. Transpower cannot recover these costs through transmission charges. To recover the costs of any transmission investment, Transpower must prove an overall benefit to all electricity consumers. Replacing an existing, serviceable overhead line with a new underground line would fail this test. Transpower has reached agreement with a number of developers who have met the cost of undergrounding as part of their subdivision projects.

Planning the Grid

Identifying future transmission issues and potential solutions is critical to delivering Transpower's transmission service. Transpower works closely with its customers to undertake this work. The Transmission Planning Report, published in July 2015, provides a comprehensive view on future investment by both the transmission and distribution networks.

The cable fire at Penrose substation in October 2014 underlined the importance of ensuring the integrity of Transpower's existing sites and facilities. Transpower has started a review with all of its customers on shared transmission and distribution facilities to ensure any possible issues are identified and risk mitigation measures put in place. Actions arising are likely to be included in future versions of the Transmission Planning Report.

Forward works planning is critical to ensuring initiatives and projects are efficient. Transpower has improved its information about planned future work and has made this available to its service providers and engineering consultants. Better visibility over a longer timeframe will mean these providers are better able to plan their own operations and resourcing and therefore deliver Transpower's work more efficiently and effectively.

Demand response continues to add value to Transpower's planning for an enduring grid. In 2014/15, it ran a programme to contract

commercial buildings to provide demand response. Only 24 buildings participated, well below the target of 100, which highlighted the challenge of attracting and engaging a largely uninformed audience. Despite this, the results and price points established with the smaller group contracted were promising.

In November 2014, Transpower developed a demand response operating protocol that has provided assurance to the Electricity Authority as to the role of demand response as a transmission alternative. Transpower's development of demand response to date has demonstrated that it is an economic mechanism for deferring transmission investment. The company will continue to investigate new market sectors throughout RCP2 and build demand response capacity where Transpower is likely to need it first.

Work continues on ensuring transmission line buffer corridors are provided for in local authority regional and district plans, as required under the National Policy Statement on Electricity Transmission (NPSET). The objective is to protect the national grid from inappropriate under-build and ensure access to maintain and operate existing transmission lines for the long-term benefit of New Zealanders. Existing buildings under transmission lines make it very challenging for Transpower to maintain its lines and more costly to complete maintenance and to replace the conductors. This is a long-term, multi-year project and 28 out of 75 Councils now have operative plans with buffer corridor provisions.

Transpower is participating in fast tracking planning processes in Auckland and Christchurch to ensure buffer corridor provisions are recognised and to provide for its substation facilities. These processes are challenging given their pace but are critical to ensure the assets are recognised and provided for in line with NPSET. In Auckland Transpower is also involved in a number of Special Housing Area developments where its lines could be impacted by inappropriate development. Early involvement with developers can help alleviate issues.

In July 2014, Transpower became the first company in the New Zealand electricity industry to be accredited with PAS 55, a certification recognised worldwide as an indicator of good-practice asset management. Transpower is committed to excellent and effective asset management, and it has maintained its accreditation year on year. PAS 55 is now ISO 55 000. The positive gains from managing assets well will contribute strongly to the efficiencies required through RCP2 and beyond.

Developing the Grid

With the major capital build programme now complete, development of the grid moves away from large, greenfield projects to smaller refurbishment and maintenance projects. Innovating to find new ways of operating and maintaining the grid will be critical.

In December, Transpower completed a new 220 kV substation at Paraparaumu, north of Wellington, which connects to its existing 220 kV Bunnythorpe to Haywards transmission line. This project arose when the New Zealand Transport Agency (NZTA) approached Transpower about establishing a site clear of transmission towers for the new Transmission Gully motorway. Rather than relocate the existing transmission lines, which would have been costly and challenging in the geography north of Wellington, construction of a new substation at Paraparaumu was a better, more innovative solution which achieved clear benefits for all the parties involved. This solution enabled the removal of 23 km of older 110 kV line, removing 47 double circuit transmission towers and more than 100 single circuit towers.

By thinking differently, Transpower was able to provide a solution that resulted in a better outcome for its customers, a better cost

Work continues on ensuring transmission line buffer corridors are provided for in local authority regional and district plans to protect the country's critical assets.

solution, and added benefits to the local community – NZTA achieved a route for Transmission Gully with no transmission towers at lower cost; Electra, the local lines company, has an increase in capacity that will be sufficient to meet future growth for many years and the local community receives a more secure supply of electricity and reduced visual impact from a transmission line being removed. The project was completed six weeks ahead of its need date and under budget.

Enhancing the capacity of the Clyde/Roxburgh and Aviemore/Waitaki lines has been completed.

This year, Transpower completed the Wairakei Ring Project, which enables new, primarily renewable generation resources, to be transported from the central North Island. The final stage of the project which involved removing 110 towers and 42 km of line was completed in April.

Work continues on components of the Clutha Upper Waitaki Lines Project to increase capacity out of the lower South Island. Duplexing (two conductors or wires) has been completed between Clyde and Roxburgh, and Aviemore and Waitaki. The Waitaki to Livingstone section will be undertaken from March 2016. The other three components of the Clutha Upper Waitaki Lines Project are currently on hold, and the status of these components is dependent on regional demand changes.

Transpower started the $161 million, 120 km Bunnythorpe-Haywards project to replace the conductor, which is reaching the end of its life due to coastal corrosion. The existing transmission line structures are in good condition. Replacing just the conductor will therefore ensure the reliability of this line for the next 30 to 40 years. Some minor tower strengthening, insulator replacement, foundation refurbishment and earthworks to maintain ground clearance are also required. Project completion is expected in 2020.

Transpower's programme to rationalise some lower-voltage lines and substation assets continues with divestments of some non-core grid assets to three local lines companies, effective 1 April. The divestments that have occurred this year include the Wairoa, Gisborne and Tokomaru Bay substations to Eastland Networks, the Kensington substation to Northpower and the Addington and Middleton substations to Orion. This is part of a programme that demonstrates efficiencies in lower voltage assets being operated and maintained by local distribution networks rather than the national transmission owner.

As Transpower ends its major capital programme, it's been pleasing that its expertise in delivering these projects has been recognised by its peers, as it has received a number of awards during the year. The Association of Consulting Engineers New Zealand awarded the HVDC Pole 3 the top gold award and the Haywards and the Synchronous Condenser Refurbishment project received a merit award. Transpower also won Energy Project of the Year for the HVDC Pole 3 Project at the Deloitte Energy Excellence Awards in August 2014 and was nominated in 2015 as one of three finalists for the Energy Project of the Year for the North Auckland and Northland Project.

Operating and maintaining the Grid

RELIABILITY PERFORMANCE TARGET	2014/15 ACTUAL	2014/15 TARGET
HIGH VOLTAGE ALTERNATING CURRENT (HVAC) CIRCUIT AVAILABILITY (%)	**98.5**	98.8
HIGH VOLTAGE DIRECT CURRENT (HVDC) CIRCUIT AVAILABILITY (%)	**97.7**	97.0
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 0.05 SYSTEM MINUTES[1]	**13**	15
NUMWBER OF LOSS OF SUPPLY EVENTS GREATER THAN 1 SYSTEM MINUTE[1]	**1**	3

Note: These statistics do not include the Penrose event due to ongoing investigations into the cause of the event.

1 One system minute is based on a system peak of 6,414 MW for the purposes of this calculation. One system minute is equivalent to the loss of total national electricity supply for one minute at peak load – equivalent to turning off a city the size of Hamilton for about 40 minutes.

Reliability on the grid remained strong this year. During the year, there were 13 unplanned events that resulted in loss of supply to consumers greater than 0.05 system minutes, of which one event was greater than 1 system minute.

The event greater than 1 system minute occurred in July and resulted from an unforeseen outage at the Whirinaki substation of more than 11 hours to replace the switchboard – equivalent to about 5 system minutes. We appreciate the cooperation and collaboration from Pan Pac during this outage.

The HVAC circuit availability was below target as a result of a number of longer-duration planned outages due to projects to complete RCP1 as well as a small number of lengthy unplanned outages caused by weather events and asset repairs. HVDC circuit availability was above target at 97.7%.

Prior to the end of RCP1, Transpower completed a significant amount of maintenance and refurbishment work. This work required cooperation across the entire sector, as an average of 27 transmission outages occurred each week over the last six months of the financial year.

A significant component of Transpower's operations and maintenance programme is the delivery of its work in partnership with service providers. As part of Transpower's drive to work smarter, the company renegotiated contract terms and pricing with the four companies that provide services and maintenance on the grid and its project works. Improvements negotiated provide greater clarity for all parties around resourcing, pricing and performance expectations.

During the year, Transpower's mobile substation has been deployed in the North Island for a number of outages including at National Park, Ohakune, and Mataroa. The mobile substation was developed and constructed to help minimise the length of outages when undertaking routine maintenance work and during major refurbishment projects, as well as to provide cover during emergencies or other events. It has realised substantial efficiencies and cost savings during maintenance work, as greater volumes of work can be undertaken in one outage with minimal disruption to the local community. The recent Mataroa outage showed a net saving of around $780,000 through use of the mobile substation to supply the site while work was carried out, compared with the alternative of using temporary generation.

Tower painting is a critical component of Transpower's maintenance programme, with work valued at approximately $36 million planned for next year and a total of $200 million over RCP2. During the year, Transpower made improvements in the way it plans and undertakes this work including: launching new, purpose-designed protective clothing to be used when removing tower paint (abrasive blasting); and training and sharing information between the relevant service providers. Pleasingly there have been significant improvements in productivity and safety performance.

Landowners

Operating and maintaining the grid requires good relationships and understanding with the 25,000 landowners who host Transpower's transmission assets.

Since 2012, Transpower has been improving the way it engages with landowners to help improve how, when and what is communicated to landowners about assets and work on their properties. Satisfaction rates among landowners have increased to around 91 per cent, based on a 2014 quantitative survey of around 500 landowners. It is pleasing that 65% reported that they were very satisfied – the highest possible rating and a significant increase on the previous year.

This year, Transpower undertook an in-depth qualitative survey of twenty landowners who recently experienced major work on their properties, which confirmed the company's understanding of the key value drivers which underpin landowner satisfaction. Importantly, the responses to this survey mirrored the level of satisfaction that the quantitative surveys show, with 75% of the landowners satisfied.

Operating the wholesale markets

A Strategic Plan for Transpower's system operations function was published in March and was well received by the industry and Electricity Authority. This document builds on the Relationship Charter signed with the Authority in July 2014 and details how Transpower is going to deliver the system operation service in line with the company's strategic framework and the Authority's statutory objective.

Negotiations are underway with the Electricity Authority for Transpower's provision of system operations activities, the System Operator Service Provider Agreement. The revised agreement will provide industry stakeholders with greater clarity about the services being provided as well as benefits for consumers through strong incentives for long term planning, efficiency and performance. Transpower expects the new agreement to be finalised in the next few months for the 2016/17 year. In the meantime the current agreement continues to apply.

There were no material breaches by the System Operator of the Electricity Industry Participant Code during the year despite a high workload associated with an increase in the outages required to enable successful delivery of RCP1 by Transpower's grid activities. The System Operator received a good performance rating for the system operator services contracted to the Electricity Authority. Transpower also surveyed customers of the system operator function and all respondents rated the service good or better.

While major grid investments are complete, Transpower continues to identify and deliver benefits from the enhanced grid assets in the way it manages the power system and dispatches the wholesale market as system operator. For example, Transpower expects to realise a range of cost and efficiency benefits from the Reserves and Frequency Management programme being undertaken with the Electricity Authority. This programme aims to fully utilise the capability of the new HVDC Pole 3 investment, and reduce the costs associated with providing reserves and frequency keeping. Following a successful trial, Transpower has retained a new mode of control on the HVDC which is expected to reduce frequency keeping costs by an estimated $25 million per annum.

emsTradepoint, owner and operator of New Zealand's independent physical gas market, successfully implemented a number of initiatives this year including listing weekly and monthly strip products to complement the existing daily product. The ability for participants to contract more volumes over an extended delivery period using the weekly product has directly contributed to an increase in trading volumes of more than 400 per cent between February and March 2015. The success of emsTradepoint has been substantial over the last year, consistently seeing month-on-month growth. It was recognised by the Deloitte Energy Excellence Awards as Innovation of the Year for the industry. It was made a wholly owned subsidiary of Transpower in July 2015.

// COMMUNITY AND ENVIRONMENT

Communities

During the year, Transpower made donations and study grants of $1,103,000 (2014: $1,195,000). It sponsors university research projects and tertiary scholarships that are relevant to its transmission activities.

The majority of this commitment to communities is managed through the CommunityCare Fund. Transpower's CommunityCare Fund awarded grants totalling $878,266 to 45 community-based projects nationwide in two funding rounds last year (July 2014 and January 2015). Projects funded range from supporting St John Ambulances and enabling children's playgrounds to rewiring a Scout den. Since its inception in 2007, the CommunityCare Fund has donated nearly $7 million back to communities in which Transpower undertakes its works.

Transpower has now completed its three-year Greenline partnership with the Kapiti District Council, which has seen $225,000 invested over the period in two community environmental projects in the district – the Wharemauku Stream wetland project and the Waikanae River Corridor Restoration Project. The Waikanae project has involved restoring the riparian margins of the Waikanae River to help create an ecological corridor on the river linking Kapiti Island with the Tararua Ranges. Transpower volunteers assisted in the third and final planting season of the Waikanae project where 800 plants were planted and protected.

Many Transpower employees also contributed to an organisation of their choice through their company-provided annual volunteer day.

Environment

Transpower's total greenhouse gas emissions for the 2014/15 period declined again for the third consecutive year. Sulphur hexafluoride (SF_6) emissions remain the single largest source of total company emissions due to SF_6 being an essential component in electricity circuit breakers. In the 2014/15 financial year, Transpower's release of SF_6 was just 0.35 per cent of the inventory of gas in assets, against a target of 0.8 per cent, and represents the company's best performance to date. Transpower's SF_6 inventory has increased in recent years with the construction of major new gas-insulated switchgear facilities at Hobson Street and Wairau Road, as well as the conversion of switchgear at a number of substation sites from outdoor to indoor switchgear.

Transpower's CommunityCare Fund helped 45 communities nationwide, with $878,266 worth of projects.

Not only have emissions reduced in terms of the percentage of inventory, but the absolute weight of SF_6 gas lost to the atmosphere is also at an all-time low of just 160 kg. Transpower's environmental performance in managing a steady reduction in SF_6 emissions over time has been recognised by its energy sector peers with a finalist nomination in the 2015 Deloitte Energy Excellence Awards for Environmental Initiatives.

// PERFORMANCE AGAINST TARGETS

The targets for safety, operational and financial performance indicators, as detailed in the 2014/15 Statement of Corporate Intent, are compared below with the actual results achieved for the year ended 30 June 2015 and the previous four years.

FOR THE YEAR ENDED 30 JUNE	2014/15 TARGET	2014/15 ACTUAL	2013/14 ACTUAL	2012/13 ACTUAL	2011/12 ACTUAL	2010/11 ACTUAL
SAFETY						
ACC WORKPLACE SAFETY AUDIT STATUS	TERTIARY	**TERTIARY**	TERTIARY	TERTIARY	TERTIARY	TERTIARY
NUMBER OF FATALITIES OR INJURIES CAUSING PERMANENT DISABILITY	0	**0**	1	1	0	1
TOTAL RECORDABLE INJURY FREQUENCY RATE	< 8	**13.3**	N/A	N/A	N/A	N/A
OPERATIONAL PERFORMANCE						
HVAC AVAILABILITY %	98.8	**98.5**	98.9	98.7	98.7	98.4
HVDC AVAILABILITY %	97.0	**97.7**	80.8	90.3	83.6	84.9
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 0.05 SYSTEM MINUTES[1]	15	**13**	17	12	19	18
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 1.0 SYSTEM MINUTE[1]	3	**1**	2	2	2	3
MATERIAL BREACHES OF SYSTEM OPERATOR PERFORMANCE OBLIGATIONS REPORTED TO THE ELECTRICITY AUTHORITY	0	**0**	0	0	0	0
FINANCIAL PERFORMANCE						
EBITDAF MARGIN (%)	70.2	**73.0**	71.1	67.6	63.0	61.6
FREE FUNDS FROM OPERATIONS INTEREST COVERAGE (TIMES)	3.0	**3.2**	3.0	2.9	2.9	3.6
RETURN ON CAPITAL EMPLOYED (%)	6.8	**6.8**	6.8	8.0	7.5	6.5
RETURN ON EQUITY (%)	11.8	**12.2**	11.4	12.1	9.9	8.0
AVERAGE TOTAL TRANSMISSION COSTS (CENTS/KWH)	2.59	**2.51**	2.44	2.21	1.83	1.69
ESTIMATED ECONOMIC VALUE ADDED ($M)	43	**47**	62	158	2	(39)

1 One system minute is based on a system peak of 6,414 MW for the purposes of this calculation. One system minute is equivalent to the loss of total national electricity supply for one minute at peak load – equivalent to turning off a city the size of Hamilton for about 40 minutes.

A comprehensive review of the targets in the Statement of Corporate Intent has been undertaken to ensure they are relevant and provide stakeholders with confidence in the management of safety, the assets and financial resources.

RCP2 brings new requirements relating to service and asset performance measures. There are a number of network performance measures which have links to Transpower's revenue.

Transpower is measuring and reporting performance against the following set of targets in 2015/16.

FOR THE YEAR ENDED 30 JUNE	2014/15 ACTUAL	2015/16 SCI TARGET	2016/17 SCI TARGET	2017/18 SCI TARGET
SAFETY PERFORMANCE				
NUMBER OF FATALITIES OR INJURIES CAUSING PERMANENT DISABILITY	**0**	0	0	0
TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)	**13.3**	≤ 8	≤ 7	≤ 6
OPERATIONAL PERFORMANCE				
GRID INTERRUPTIONS[1]:				
▪ ACHIEVE TARGETS FOR OCCURRENCE	✓	✓	✓	✓
▪ ACHIEVE TARGETS FOR DURATION	✓	✓	✓	✓
GRID AVAILABILITY[1]:				
▪ ACHIEVE TARGETS FOR HVDC AND KEY HVAC CIRCUITS AVAILABILITY	✗	✓	✓	✓
MARKET SYSTEM UNPLANNED UNAVAILABILITY	**0.02%**	≤ 0.1%	≤ 0.09%	≤ 0.08%
MAJOR PRICING EVENTS FROM PROVISION OF INCORRECT INFORMATION TO MARKET[2]	**0**	0	0	0
FINANCIAL PERFORMANCE				
FREE FUNDS FROM OPERATIONS INTEREST COVERAGE (TIMES)	**3.2**	3.0	3.1	3.1
FREE FUNDS FROM OPERATIONS / DEBT	**15.3%**	14.1%	14.6%	14.7%
DEBT / (NET DEBT + EQUITY)	**71%**	70%	70%	70%
RETURN ON EQUITY	**12.2%**	11.2%	11.7%	11.0%
RETURN ON CAPITAL EMPLOYED	**6.8%**	6.4%	6.5%	6.3%

CATEGORY	TARGET OR ACTION
Environmental	Hold SF_6 emissions at or below 0.8% of installed nameplate capacity
	Publish carbon emissions report
	Improve our Resource Management Act compliance management systems
Community	Deliver two CommunityCare funding rounds
	Deliver tikanga ā-iwi (cultural capability) programme within Transpower

1 Transpower has defined five segments of customers and set transmission service targets against these, so that customers know the level of service they should expect. These targets cover the number of interruptions they experience (occurrence), the time it takes to restore power (duration) and the availability of grid assets. These targets are linked to revenue. Transpower has achieved these targets when it records an increase in revenue. More information on these targets is available in the Annual Regulatory Report: www.transpower.co.nz/resources/annual-regulatory-report-201314

2 A breach of the Electricity Industry Participation Code by the System Operator which causes a net financial impact to participants of more than $1 million.

// GENERAL MANAGEMENT TEAM

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01 ALISON ANDREW
CHIEF EXECUTIVE

ALISON was appointed in February 2014. She has held a number of senior executive roles across various industry sectors, most recently as Global Head of Chemicals for Orica Plc. She has also been a Director for Genesis Energy. Prior to these roles, she held a number of senior roles at Fonterra Cooperative Group and across the Fletcher Challenge Group in Energy, Forests and Paper. She has a MBA from Warwick University, and a BE (Hons) Chemicals and Materials Engineering from Auckland University.

02 ALEX BALL
CHIEF FINANCIAL OFFICER

ALEX was appointed in October 2014. He is a chartered accountant and has held senior finance positions within New Zealand and internationally, including with Ernst & Young in Singapore, Australia and London. He has previously been a CFO with TelstraClear and Vector and has held a number of directorships including Chairman of Liquigas Ltd. He also gained a BEng (Hons) Mechanical Engineering from Imperial College, London.

Responsibilities: Management of the company's financial performance and position, including management of its funding base, enterprise-wide insurance programmes, risk management framework and property portfolio, and the relationships with the Commerce Commission and Electricity Authority.

03 JOHN CLARKE
GENERAL MANAGER SYSTEM OPERATIONS

JOHN was appointed in May 2014. From 2008 to May 2014 he was General Manager Grid Development after spending 10 years in senior roles within System Operations. His earlier career in the New Zealand electricity sector has included roles in distribution and electrical engineering consulting. He holds a BE in Electrical Engineering.

Responsibilities: System operations – real-time coordination of supply and demand for the New Zealand power system and other security-related functions.

04 STEPHEN JAY
GENERAL MANAGER GRID DEVELOPMENT

STEPHEN was appointed in October 2014. Stephen was previously General Manager with Mitton ElectroNet – an engineering consultancy business. He has had a long and varied career within the electricity industry, including time with CEGB, National Power, Nuclear Electric, Midlands Electricity Plc, Parsons Brinckerhoff Power and Meridian Energy. He is a Registered/Chartered Electrical Engineer and has a BEng (Hons) in Electromechanical engineering, an MBA, and an industrial based engineering PhD.

Responsibilities: Developing the Grid – the long term strategic plan and engineering of the transmission grid, developing grid upgrade plans, managing the regulatory approval processes and working with customers to develop their connection points.

05 JENNIFER KERR
GENERAL MANAGER PEOPLE

JENNIFER was appointed in July 2014. Jennifer previously led the human resources and health and safety function as Group Manager HR for Fonterra.

She has also operated her own successful consultancy business, and prior to that she was the Group Manager of Human Resources for Mobil Oil for all of Europe, based in London. Jennifer has held a number of board directorships as well as trusteeships for a number of superannuation funds. She holds a BA and a Diploma of Social Science from the University of Waikato.

Responsibilities: Human resources management, organisational culture and workforce development, corporate and government relations and communications.

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06 DAVID KNIGHT
GENERAL COUNSEL AND COMPANY SECRETARY

DAVID was appointed in August 2007. Prior to joining Transpower, David was General Counsel at Telecom NZ. David holds an Honours degree in law from the University of Auckland, and a Masters degree in law from Harvard Law School, which he attended as a Fulbright Scholar. He is a chartered member of the Institute of Directors and holds a number of current directorships.

Responsibilities: General Counsel and Company Secretary, Board secretariat.

07 RAEWYN MOSS
GENERAL MANAGER CUSTOMERS, STAKEHOLDERS AND ENVIRONMENT

RAEWYN was appointed in July 2015. Raewyn has a background in environmental, regulatory and relationship management and has worked in consultancy, within the industry and for a regulator. She has worked in the electricity sector for 15 years at Transpower and prior to that at Meridian. She holds a BSc from Victoria University and a Diploma in Business from Henley Management College.

Responsibilities: Customer and landowner relations, stakeholder engagement, environmental and property management, iwi and community relations.

08 COBUS NEL
GENERAL MANAGER INFORMATION SERVICES AND TECHNOLOGY

COBUS was appointed in November 2014 after joining Transpower in 2011. Cobus was previously the Network Solutions Manager at Alcatel-Lucent and the Technical Lead for Transpower's Telecommunications and Networking Programme. Cobus has experience in defence, enterprise, telecommunications and utilities organisations. He has a Masters in Project Management and Engineering (Electronics) from the University of Pretoria.

Responsibilities: Maintenance and development of Transpower's information services and technology.

09 ROY NOBLE
GENERAL MANAGER TRANSFORMATION

ROY was appointed in May 2015 for an eighteen month to three year period. Roy joined Transpower in 1998 and most recently held senior management positions including Asset Engineering Manager (Lines), North Island Grid Upgrade Alliance Operations Manager and in 2014, Acting General Manager – Grid Development. He holds an NZCE in Civil Engineering.

Responsibilities: Leading the effort to ensure Transpower adapts and changes to efficiently meet the current and future needs of New Zealand.

10 KEVIN SMALL
GENERAL MANAGER GRID PROJECTS

KEVIN was appointed in April 2013 from the position of Investigations and Planning Manager in System Operations. Kevin joined Transpower in 1994 and has a wide background in transmission. He has led a number of IT and transmission projects. He holds an NZCE in electrical engineering.

Responsibilities: Building grid projects – programme and project management, commissioning, procurement, supplier and contract management.

11 JIM TOCHER
GENERAL MANAGER GRID PERFORMANCE

JIM was appointed in July 2014 from the position of General Manager Information Services and Technology, which he held from 2007. Jim joined Transpower in 2003 from Ericsson Synergy, where he was Chief Executive. He has extensive international experience as a strategic consultant in the IT and telecommunications sector, having worked on assignments in Europe, North and South America and Asia-Pacific. He holds a BE in Civil Engineering and an MBA.

Responsibilities: Maintaining the performance and operation of grid assets such as substations and transmission lines, and property management related to assets.

// BOARD OF DIRECTORS

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01 MARK VERBIEST
CHAIRMAN

MARK is a professional company Director and strategic advisor. Mark has previously been a partner of law firm, Simpson Grierson, and was a senior executive at Telecom Corporation of New Zealand for over 7 years. He is currently the Chairman of Spark New Zealand and Willis Bond Capital Partners. Mark is a Director of Freightways, MyCare and ANZ Bank New Zealand. Mark is also a consultant to Simpson Grierson and New Zealand Treasury.

02 DON HUSE

DON is currently Chairman of OTPP New Zealand Forest Investments and Crown Irrigation Investments and a Director of Precinct Properties New Zealand. He has previously served as a director of Sydney Airport Corporation and TransAlta New Zealand and its predecessor entities. Don was Chief Executive of Auckland International Airport from 2003 until he retired in 2008, Chief Financial Officer of Sydney Airport Corporation from 1998 to 2003 and Chief Executive of Wellington International Airport from 1991 to 1998. His earlier career included Chief Executive and senior financial management roles with the Cable Price Downer and Steel and Tube groups.

03 PIP DUNPHY

PIP has worked as a non-executive director for the last eight years. Recent governance roles include a diverse range of industries and companies. Current appointments include Abano Healthcare, Academic Colleges Group, Fonterra Shareholders Fund and NZ Superannuation Fund.

Prior work experience and knowledge include the areas of capital markets, banking, finance and investment management.

Pip was appointed to the Board in May 2015.

04 JAN EVANS-FREEMAN

JAN is the Pro Vice-Chancellor of the College of Engineering at the University of Canterbury, and specialises in engineering and technology. Before moving to New Zealand in 2009, Jan was the Head of Engineering at Sheffield Hallam University in the UK. She is currently a Director of the Wireless Research Institute, Electric Power Engineering Centre and the University of Canterbury Quake Centre. She is a member of the Institute of Professional Engineers of New Zealand Governing Board. Jan's research has concentrated around looking at defects in semiconductors for engineering applications, and the development of novel materials for light-emitting devices. She led many significant research projects in Europe on these topics before coming to New Zealand.

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05 MIKE POHIO

MIKE was Chief Executive of Tainui Group Holdings until 2015. Prior to that, he was container terminal manager at the Port of Tauranga. Mike has also worked for Fonterra and its Hamilton-based predecessor, the New Zealand Dairy Group. Mike's roles for Fonterra and its antecedents have included Group Financial Controller, General Manager of Glencoal Energy, Regional General Manager for Anchor Products and Manager of Merger Benefits. Mike is Chairman of BNZ Partners, Waikato Region, Pro Chancellor of University of Waikato Council, Director of Precinct Properties New Zealand and Bay Radio Therapy Services G.P. He has tribal linkages to Te Arawa (Ngati Pikiao) and Ngai Tahu.

06 KEITH TEMPEST

KEITH is now a professional company Director having worked for 24 years in the electricity industry, the last 8 years as Chief Executive of Trustpower. Keith was involved in most aspects of the electricity industry reforms of the 1990s including the establishment and governance of the wholesale electricity market, the corporatisation of the electric power boards and the establishment and design of the current market rules. Keith is a Director of Crown Fibre Holdings, Port of Tauranga, NZ Bus and Bay Events.

07 TIM LUSK

TIM holds a degree in Power System Engineering and has over 45 years' experience in the New Zealand electricity, telecommunications and construction industries.

He has worked in the public and private sector including executive positions in McConnell Dowell International, Power NZ, Transpower New Zealand, Telecom Corporation of New Zealand and Meridian Energy.

Tim is Chair of Enable Networks and a Director of the Environmental Protection Authority. Previous directorships include Meridian Energy and Unison Networks.

Tim was appointed to the Board in May 2015.

CONTENTS

// CORPORATE GOVERNANCE

Transpower is a limited liability company and a State-Owned Enterprise (SOE) with its shares held on behalf of the Crown by the Minister of Finance and the Minister for State Owned Enterprises.

The following sets out the ways in which Transpower's Board fulfils its corporate governance responsibilities.

Board composition and performance

The shareholding Ministers appoint Transpower's Directors. Directors are independent, non-executive and are generally appointed for terms of up to three years, although they may be reappointed for subsequent terms. There should be a balance of skills, knowledge, experience and perspectives among the Directors.

Transpower provides new Directors with a detailed induction, including site visits to key assets.

New Directors also receive an information pack containing key information about Transpower's business and meet with the Chief Executive and the Executive Team. At least annually, the Chairman holds strategic workshops to update the Board on current issues. New Directors are also encouraged to attend new Director workshops organised by The Treasury.

The Board is accountable to the shareholding Ministers for the performance of Transpower. The Treasury monitors and advises the shareholding Ministers on the Board's performance. Each Director's performance is evaluated by the Chairman, and the Board also evaluates its overall performance.

The Board delegates responsibility for the day-to-day management of Transpower to the Chief Executive, who, in turn, may delegate authority to the general managers of internal business divisions. The Delegated Authority Policy describes the limits of delegated authority and prescribes those matters in respect of which the Board reserves its decision-making authority.

A Director may obtain independent professional advice at Transpower's cost relating to the affairs of Transpower or to their other responsibilities as a Director. Before obtaining any advice, Directors must discuss the matter with the Chairman. Advice relating to the affairs of Transpower is then made available to the Board.

Governance requirements and best practice

The Board has adopted a Charter, which sets out the power and authority of the Board, its responsibilities and other requirements including induction and continuous education.

The Board has confirmed that its corporate governance policies, practices and procedures are in accordance with the *Corporate Governance in New Zealand Principles & Guidelines, the New Zealand Corporate Governance Forum Guidelines* and the *NZX's Corporate Governance Best Practice Code* in the material respects in which they are appropriate for a SOE. A summary of our compliance with these principles may be found on the Transpower website.

Board committees

Transpower's Board has established four standing committees – an Audit and Finance Committee, a Risk Committee, a People and Performance Committee and a specialist System Operator Committee – each of which operates in accordance with formal criteria adopted by the Board.

A minimum of two Directors are required to sit on each committee, although typically three or more do so. Each committee is chaired by a Director who is not the Chairman of the Board. The agenda, papers and minutes of each committee are provided to all Directors.

Audit and Finance Committee

The Board requires the Audit and Finance Committee to meet at least four times a year, unless otherwise agreed by the Board, and to consider, review, monitor and approve:

- annual external audit plans and external audits and review reports
- compliance and statutory reporting/disclosure in relation to finance, taxation, accounting and regulations
- major financial transactions
- treasury activity
- governance and operational activities of Risk Reinsurance Limited (RRL).

Risk Committee

The Board requires the Risk Committee to meet at least four times a year, unless otherwise agreed by the Board, and to consider, review, monitor and approve:

- risk management framework and practices
- health and safety performance and compliance
- annual internal audit plans and internal audits and review reports.

People and Performance Committee

The Board requires the People and Performance Committee to meet at least four times a year, unless otherwise agreed by the Board, to assist the Board in overseeing HR and remuneration management within Transpower including the appointment and succession planning for the Chief Executive and their direct reports.

System Operator Committee

The Board expects the System Operator Committee to meet as required to consider, assess and review the System Operator's capability and strategic direction and to monitor the relationship with the System Operator's regulator, the Electricity Authority. The System Operator Committee did not meet in the year ending 30 June 2015.

Ethical standards

Transpower has adopted a Code of Ethics and Conduct which sets out the ethical and behavioural standards by which Directors and employees are expected to conduct themselves. All employees are required to sign an acknowledgement that they have read, understood and will comply with the requirements of the Code of Ethics and Conduct.

In addition, Transpower's Directors' Interests Policy governs the disclosure of Directors' individual interests and how conflicts of interest are to be resolved and managed. The Directors' Fees and Expenses Policy governs the payment of fees and the reimbursement of expenses to Directors.

Transpower's Compliance Policy sets out the process for reporting breaches of Transpower policies and outlines how any known or suspected breaches will be dealt with. Transpower reviews all policies regularly and reports to the Board on compliance.

Annual meetings

In line with shareholder expectations for more SOE disclosure, accountability and visibility, Transpower is holding its seventh Annual Public Meeting in Auckland in November. The objective is to give all Transpower stakeholders the opportunity to learn more about its business performance, future growth and how it is discharging its corporate social responsibility. Transpower will hold its Annual General Meeting for its shareholders on 19 November 2015, where shareholders and/or their proxies meet with the Board to examine Transpower's performance and review its strategic direction.

Reporting and disclosure

The Board submits to Transpower's shareholding Ministers its Statement of Corporate Intent, business plan, interim report, and annual report. Transpower sends financial information monthly to The Treasury and consults when required. Transpower also consults with shareholding Ministers on substantial business and operational matters and those outside the scope of Transpower's core business. Transpower makes announcements on various matters that have a material effect on its commercial value on both The Treasury's and its own website, pursuant to the SOE Continuous Disclosure regime.

In addition to the shareholding Ministers, Transpower's stakeholders include other Ministers of the Crown and their ministries, The Treasury, regulators, customers, Iwi groups, industry and business groups, landowners and landowner groups, contractors and suppliers, and the wider public. Transpower invests considerable effort in maintaining productive relationships with its stakeholders. This includes the provision of timely and appropriate information and opportunities for feedback.

Debt listings and waivers

Transpower has debt listed on the NZX Debt Market quoted under the ticker codes TRP010, TRP020 and TRP030 (together, Bonds). As a listed issuer, Transpower is subject to certain requirements and obligations under the NZSX/NZDX Listing Rules, including a continuous disclosure obligation. Transpower has obtained the following waivers within the last 12 months:

- Waivers from rule 5.2.3, which requires at least 25 per cent of the tranche of Bonds quoted on the NZX Debt Market to be held by at least 500 bondholders who are members of the public. Accordingly, the Bonds may not be widely held and there may be reduced liquidity in the Bonds. The waiver in respect of the TRP030 bonds is for a period of one year from 1 July 2015. In addition to disclosing the waiver and their implications and conditions in its interim and annual reports, Transpower is to notify NZX Regulation if there is any material reduction in the total number of Members of the Public holding Bonds and/or the percentage of total bonds held by Members of the Public holding at least a Minimum Holding.
- A waiver from rule 3.2.1(d), to allow a meeting of Bond holders to be called under the trust deed in respect of the Bonds on a requisition in writing signed by holders of not less than 5% of the nominal value of the Bonds then outstanding (as required by the Financial Markets Conduct Act 2013).

Audit

In accordance with Section 19 of the State-Owned Enterprises Act 1986, the Auditor-General is required to express an audit opinion on these financial statements. Pursuant to Section 32 of the Public Audit Act 2001, the Auditor-General has appointed Marcus Henry of Ernst & Young to undertake the audit on her behalf.

Risk management

Transpower recognises that managing risk is an essential and critical component of its business. The Board actively considers the strategic risks faced by Transpower and ensures Transpower has in place a framework within which major business risks can be identified, assessed, managed and reported on. Transpower maintains a register of key risks and the risk management actions to be undertaken in respect of those risks. Transpower's Risk Management Policy is approved by the Board and reviewed annually by the Risk Committee.

Remuneration

The shareholding Ministers determine the remuneration for Directors, and this is paid in accordance with Transpower's Directors' Fees and Expenses Policy. Employees' salaries are determined in accordance with Transpower's Remuneration Policy, which is approved by the Board.

The performance and remuneration of the Chief Executive and her direct reports is approved annually by the Board.

// DIRECTORS' REPORT

Directors' report to the shareholders

for the year ended 30 June 2015

The directors are pleased to present their report of Transpower New Zealand Limited (Transpower) and its subsidiaries (the Transpower Group) for the year ended 30 June 2015.

ACTIVITIES

The principal activity of the Transpower Group is the provision of high voltage electricity transmission services and the management of the assets that comprise New Zealand's national electricity grid.

RESULTS FOR THE YEAR

	GROUP	
	2015	**2014**
	$M	$M
Operating revenue	1,045.5	1,003.7
Operating expenses	281.6	287.2
Earnings before interest, tax, depreciation, amortisation, impairment, asset write-offs, and changes in the fair value of financial instruments	763.9	716.5
Depreciation, amortisation, impairment and asset write-offs	264.3	251.2
Finance expenses	225.8	209.4
Earnings before changes in the fair value of financial instruments and tax	273.8	255.9
Income tax expense (credit) excluding changes in the fair value of financial instruments	79.2	72.0
Earnings before net changes in the fair value of financial instruments	194.6	183.9
(Gain) loss in the fair value of financial instruments	114.5	(45.0)
Income tax expense (credit) on changes in the fair value of financial instruments	(33.2)	13.1
Net profit (loss)	113.3	215.8

KEY BALANCES

Non current assets, including held for sale assets (note 13)	5,100.9	5,034.0
External debt balances at face value		
New Zealand dollar debt	1,375.0	1,400.0
Foreign debt after adjusting for related foreign exchange derivatives	1,721.4	1,899.9
	3,096.4	3,299.9

DIVIDENDS

Transpower paid an interim dividend of $75.2 million on 20 March 2015. The directors declared a final dividend of $112.8 million on 28 August 2015.

AUDITORS

In accordance with Section 19 of the State-Owned Enterprises Act 1986, the Auditor-General is required to express an audit opinion on these financial statements. Pursuant to Section 32 of the Public Audit Act 2001, the Auditor-General has appointed Marcus Henry of Ernst & Young to undertake the audit on her behalf.

INFORMATION ON TRANSPOWER DIRECTORS

Meetings of the board of directors

The members of the board of directors at 30 June 2015 are listed below, together with the number of board meetings held and attended during the period each director was eligible to attend such meetings.

DIRECTOR	DATE COMMENCED IN OFFICE	MEETINGS HELD	MEETINGS ATTENDED
Mark Verbiest (chairman)	1 August 2010	9	9
Ian Fraser (deputy chairman – resigned April 2015)	1 May 2007	7	7
Don Huse (deputy chairman – effective May 2015)	1 May 2011	9	9
Abby Foote (resigned April 2015)	1 May 2009	7	7
Michael Pohio	1 July 2009	9	9
Keith Tempest	1 May 2011	9	8
Jan Evans-Freeman	1 November 2012	9	9
Tim Lusk	1 May 2015	2	1
Pip Dunphy	1 May 2015	2	2

Meetings of the risk committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Ian Fraser (chair – resigned April 2015)	3	3
Pip Dunphy (commenced May 2015 and chair effective May 2015)	1	1
Keith Tempest	3	2
Tim Lusk (commenced May 2015)	1	–
Jan Evans-Freeman	3	3

The risk committee considers any matters relating to internal audit, risk management framework and practices, and health and safety performance and compliance.

Meetings of the audit and finance committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Don Huse (chairman)	4	4
Mark Verbiest	4	4
Abby Foote (resigned April 2015)	3	3
Michael Pohio (commenced May 2015)	1	1
Pip Dunphy (commenced May 2015)	1	1

The audit and finance committee considers any matters relating to the external audit of the Transpower Group. It also considers compliance and reporting in relation to finance, taxation, regulations, treasury, and the governance and operation of Risk Reinsurance Limited.

Meetings of the people and performance committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Michael Pohio (chairman)	4	4
Mark Verbiest	4	4
Keith Tempest	4	4
Jan Evans-Freeman	4	4
Tim Lusk (commenced May 2015)	1	1

The people and performance committee deals with and makes recommendations to the board in relation to human resource matters.

Meetings of the system operation committee

The system operation committee monitors compliance with the system operator's statutory and contractual requirements and its ability to meet the needs of the electricity industry and the regulator. The system operation committee meets as required by the board and did not meet in the year ending 30 June 2015.

Information on directors of subsidiary companies as at 30 June 2015

TB and T Limited
Christopher Sutherland
David Knight

Risk Reinsurance Limited
David Knight
John Clarke

Halfway Bush Finance Limited
Christopher Sutherland
David Knight

Howard Cattermole resigned from TB and T Limited, Halfway Bush Finance Limited and Risk Reinsurance Limited effective 1 September 2014.
David Knight was appointed to TB and T Limited and Halfway Bush Finance Limited effective 18 September 2014 and to Risk Reinsurance Limited effective 24 November 2014.
Garth Dibley resigned from Risk Reinsurance Limited effective 23 July 2014.
Abby Foote resigned from Risk Reinsurance Limited effective 1 May 2015.
John Clarke was appointed to Risk Reinsurance Limited effective 12 November 2014.

On 1 July 2015, Transpower incorporated a new subsidiary, emsTradepoint Limited.

Directors' remuneration

Remuneration and benefits payable to directors for services as a director are determined in conjunction with the shareholding ministers as follows:

PAYMENTS TO DIRECTORS OF TRANSPOWER NEW ZEALAND LIMITED	DATE COMMENCED IN OFFICE	DATE CEASED IN OFFICE	2015 $000	2014 $000
Mark Verbiest (chairman)	1 August 2010		112	111
Ian Fraser (deputy chairman)	1 May 2007	30 April 2015	59	70
Don Huse (deputy chairman)	1 May 2011		59	58
Abby Foote	1 May 2009	30 April 2015	47	54
Michael Pohio	1 July 2009		56	56
Keith Tempest	1 May 2011		60	58
Jan Evans-Freeman	1 November 2012		54	52
Alistair Scott	1 July 2011	30 April 2014	–	44
Tim Lusk	1 May 2015		9	–
Pip Dunphy	1 May 2015		9	–
			465	503

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

Transpower employees did not receive any specific remuneration for their services as directors.

Directors' interests

The following directors have made general disclosures of interest with certain external organisations on the basis of their being a chairman, director, board member, trustee, council member, member, employee or consultant of those organisations; or holding bonds or shares of those organisations. The disclosures of interest cover the period up to the date the financial statements are signed.

DIRECTOR	POSITION	ORGANISATION
Mark Verbiest	Chairman	Spark New Zealand Limited
	Chairman	Willis Bond Capital Partners Limited
	Director	ANZ Bank New Zealand Limited
	Director	Freightways Limited
	Director*	MyCare Limited
	Consultant	New Zealand Treasury
	Consultant	Simpson Grierson
	Member*	New Zealand Treasury Commercial Operations Advisory Board
Ian Fraser**	Director	BGS Trustee Limited
	Director	New Zealand Social Infrastructure Fund Limited
	Consultant	Beca Group Limited
Abby Foote**	Director	BNZ Life Insurance Limited
	Director	New Zealand Local Government Funding Agency
	Director	Z Energy Limited
Michael Pohio	Chairman	BNZ Partners - Waikato Region
	CEO**	Tainui Group Holdings Limited
	Pro Chancellor*	University of Waikato Council
	Director	Bay Radio Therapy Services G.P. Limited
Keith Tempest	Director	Bay Events Limited
	Director	Crown Fibre Holdings Limited
	Director	NZ Bus Limited
	Director	Port of Tauranga Limited
Don Huse	Chairman	Crown Irrigation Investments Limited
	Chairman	OTPP New Zealand Forest Investments Limited
	Director	Precinct Properties New Zealand Limited
Jan Evans-Freeman	Pro Vice-Chancellor	College of Engineering, University of Canterbury
	Director	Electric Power Engineering Centre
	Director	University of Canterbury Quake Centre
	Director	Wireless Research Institute
	Member	IPENZ Governing Board
Tim Lusk	Director	Environmental Protection Agency
	Chairman	Enable Networks Limited
Pip Dunphy	Director	Abano Healthcare Limited
	Director	Academic Colleges Group Limited
	Director	Fonterra Shareholders Fund
	Director	New Zealand Superannuation Fund
	Trustee	Ngahere Trust
	Consultant	NEXT

** Appointed a chairman, deputy chairman, director, trustee, employee, consultant, or acquired bonds or shares during the year*

*** Ceased to be a chairman, deputy chairman, director, trustee, employee, consultant, bondholder or shareholder during the year*

Directors' shares

No directors hold any interest in shares of Transpower.

Directors' loans

There were no loans by the Transpower Group to directors.

Directors' insurance

The Transpower Group has arranged policies of directors' and officers' liability insurance, which, together with the indemnity provided by Transpower's constitution and separate deeds of indemnity between Transpower and individual directors, ensure that generally, directors will incur no monetary loss as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines that may be imposed in respect of breaches of the law.

Directors' use of information

There were no notices from directors of the Transpower Group requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

Remuneration of employees

The number of individuals employed by the Transpower Group who received total remuneration exceeding $100,000 were in the following bands:

REMUNERATION BAND ($000)	CURRENT AND FORMER EMPLOYEES	REMUNERATION BAND ($000)	CURRENT AND FORMER EMPLOYEES
980–989	1	240–249	5
530–539*	1	230–239*	9
490–499	1	220–229	10
470–479	1	210–219*	7
410–419	1	200–209*	11
390–399	2	190–199*	11
350–359	1	180–189*	13
330–339	2	170–179*	15
320–329	2	160–169	17
310–319	4	150–159	27
300–309*	4	140–149	55
290–299*	2	130–139*	73
280–289	2	120–129*	69
270–279	2	110–119	59
260–269	3	100–109*	67
250–259	5	Total	482

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

* The asterisks indicate those remuneration bands that include one or more former employees who received a severance or redundancy payment, without which they would not have been in that band.

Study grants and donations

During the year, the Transpower Group made donations and study grants of $1,103,000 (2014: $1,195,000). Donations principally comprise sponsorship of university research projects, tertiary scholarships and the CommunityCare Fund.

The board of directors of Transpower New Zealand Limited authorised the financial statements for issue on 28 August 2015.

For and on behalf of the board

MARK VERBIEST	DON HUSE
CHAIRMAN	DIRECTOR
28 August 2015	28 August 2015

2014/15

FINANCIAL STATEMENTS

CONTENTS

Statement of comprehensive income

for the year ended 30 June 2015

	NOTES	GROUP 2015 $M	GROUP 2014 $M
Operating revenue			
Transmission revenue	2	984.2	940.5
Other revenue	2	52.8	53.0
Finance revenue	5	8.5	10.2
		1,045.5	1,003.7
Operating expenses			
Transmission expenses	4	130.2	127.8
Employee benefits	4	65.1	70.0
Other operating expenses	4	86.3	89.4
		281.6	287.2
Earnings before interest, tax, depreciation, amortisation, impairment, asset write-offs and changes in the fair value of financial Instruments		763.9	716.5
Depreciation	13	201.4	190.8
Amortisation	13	33.5	26.9
Impairment	13	–	–
Asset write-offs		29.4	33.5
Finance expenses	5	225.8	209.4
Earnings before changes in the fair value of financial instruments and tax		273.8	255.9
(Gain) loss in the fair value of financial instruments	6	114.5	(45.0)
Earnings before tax		159.3	300.9
Income tax expense (credit)	7	46.0	85.1
Net profit (loss) and total comprehensive income		113.3	215.8
Total net profit (loss) and total comprehensive income for the period is attributable to:			
Non controlling interest	18	(0.9)	1.8
Owners of the parent		114.2	214.0
		113.3	215.8

Reconciliation of net profit (loss) specifying the net impact of fair value movements			
Earnings before changes in the fair value of financial instruments and tax		273.8	255.9
Income tax expense (credit) excluding changes in the fair value of financial instruments		79.2	72.0
Earnings before net changes in the fair value of financial instruments	26	194.6	183.9
(Gain) loss in the fair value of financial instruments		114.5	(45.0)
Income tax expense (credit) on changes in the fair value of financial instruments		(33.2)	13.1
Net profit (loss)		113.3	215.8

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

Statement of changes in equity

for the year ended 30 June 2015

		GROUP				
	NOTES	ORDINARY SHARES $M	RETAINED EARNINGS $M	OWNERS OF THE PARENT $M	NON CONTROLLING INTEREST $M	TOTAL $M
2014/15						
Equity at 1 July 2014		1,200.0	229.5	1,429.5	(0.5)	1,429.0
Profit for the period		–	114.2	114.2	(0.9)	113.3
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	114.2	114.2	(0.9)	113.3
Transactions with owners	18					
Final dividend 2013/14		–	(91.0)	(91.0)	–	(91.0)
Interim dividend 2014/15		–	(75.2)	(75.2)	–	(75.2)
Total equity at 30 June 2015		1,200.0	177.5	1,377.5	(1.4)	1,376.1
2013/14						
Equity at 1 July 2013		1,200.0	212.5	1,412.5	(2.3)	1,410.2
Profit for the period		–	214.0	214.0	1.8	215.8
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	214.0	214.0	1.8	215.8
Transactions with owners	18					
Final dividend 2012/13		–	(137.0)	(137.0)	–	(137.0)
Interim dividend 2013/14		–	(60.0)	(60.0)	–	(60.0)
Total equity at 30 June 2014		1,200.0	229.5	1,429.5	(0.5)	1,429.0

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

Statement of financial position

as at 30 June 2015

	NOTES	GROUP 2015 $M	2014 $M
ASSETS EMPLOYED			
Current assets			
Cash and cash equivalents		33.9	203.0
Trade and other receivables	8	101.1	138.7
Other investments	12	75.1	59.5
Derivatives and hedge commitment in gain	11	17.9	63.1
NZPCL investment	10	62.2	–
Other financial assets		–	0.7
Non current assets held for sale	13	1.2	44.1
Inventories		2.3	5.8
		293.7	514.9
Non current assets			
Trade and other receivables	8	26.1	27.7
NZPCL investment	10	70.0	104.0
Derivatives and hedge commitment in gain	11	237.8	31.9
Property, plant and equipment	13	4,630.7	4,451.3
Capital work in progress	13	77.7	165.3
Intangibles	13	391.3	373.3
		5,433.6	5,153.5
Total assets employed		5,727.3	5,668.4
FUNDS EMPLOYED			
Current liabilities			
Trade and other payables	14	126.0	97.0
Current tax liability		4.4	9.6
Current debt	16	276.9	499.4
Derivatives and hedge commitment in loss	11	78.0	74.6
NZPCL debt	10	62.3	–
Deferred income	3	73.8	65.5
Provisions	15	5.4	3.5
		626.8	749.6
Non current liabilities			
Non current payables		0.9	0.9
Finance lease liabilities		0.5	0.6
Derivatives and hedge commitment in loss	11	245.9	345.6
NZPCL debt	10	72.0	104.7
Non current debt	16	3,091.4	2,756.4
Deferred tax	17	298.3	268.3
Provisions	15	15.4	13.3
		3,724.4	3,489.8
Total liabilities		4,351.2	4,239.4

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

Statement of financial position continued

as at 30 June 2015

		GROUP	
		2015	2014
	NOTES	$M	$M
EQUITY			
Capital	18	1,200.0	1,200.0
Accumulated surplus		177.5	229.5
Non controlling interest	10	(1.4)	(0.5)
Total equity		1,376.1	1,429.0
Total funds employed		5,727.3	5,668.4

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 28 August 2015.

For, and on behalf of, the board

MARK VERBIEST	**DON HUSE**
CHAIRMAN	DIRECTOR
28 August 2015	28 August 2015

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

Cash flow statement

for the year ended 30 June 2015

	GROUP 2015 $M	GROUP 2014 $M
CASH FLOW FROM OPERATIONS		
Cash was provided from:		
Receipts from customers	1,048.6	969.3
Interest received	8.5	10.2
Cash was applied to:		
Payments to suppliers and employees	(260.9)	(284.6)
Tax payments	(21.3)	(16.7)
Interest paid	(235.5)	(234.9)
Net cash inflows (outflows) from operations	539.4	443.3
CASH FLOW FROM INVESTMENTS		
Cash was provided from:		
Sale of property, plant and equipment	32.3	46.6
Short term investments	61.7	45.6
Other investments	–	4.7
Cash was applied to:		
Purchase of property, plant and equipment	(347.2)	(471.3)
Short term investments	(77.3)	(28.1)
Other investments	–	–
Net cash inflows (outflows) from investments	(330.5)	(402.5)
CASH FLOW FROM FINANCING		
Cash was provided from:		
Increase in loans	708.2	650.0
Cash was applied to:		
Dividends paid	(166.2)	(197.0)
Interest rate swap terminations	(50.9)	–
Repayment of loans	(869.1)	(291.8)
Net cash inflows (outflows) from financing	(378.0)	161.2
Net increase (decrease) in cash held	(169.1)	202.0
Opening balance brought forward	203.0	1.0
Closing net cash carried forward	33.9	203.0
Closing net cash carried forward comprises:		
Cash and cash equivalents – asset	33.9	203.0
Cash and cash equivalents – liability	–	–

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

Cash flow statement reconciliation

for the year ended 30 June 2015

RECONCILIATION OF "NET PROFIT (LOSS)" WITH "NET CASH FLOW FROM OPERATIONS"

	GROUP	
	2015	2014
	$M	$M
Net profit (loss)	113.3	215.8
Add (deduct) non-cash items:		
Change in fair value of financial instruments	114.5	(45.0)
Depreciation and amortisation	234.9	217.7
Deferred tax	30.0	60.4
Impairment	–	–
Movements in working capital items:		
(Increase) / decrease in trade and other receivables	3.3	(23.2)
(Increase) / decrease in prepayments	0.2	(1.7)
(Decrease) / increase in trade and other payables, interest payable and deferred income	25.5	(0.4)
(Decrease) / increase in taxation payable	(5.2)	8.2
(Decrease) / increase in provisions	3.2	3.5
Add (deduct) items classified as investing activities:		
Property, plant and equipment write-offs and loss on sale	29.4	33.5
Capitalised interest	(9.7)	(25.5)
Net cash flow from operations	539.4	443.3

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

Notes to the financial statements

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity and statutory base

Transpower New Zealand Limited (Transpower) is a State-Owned Enterprise registered in New Zealand under the Companies Act 1993. The financial statements are in New Zealand dollars and are of Transpower and its subsidiaries (together the Group).

Nature of operations

The Group is the owner and operator of New Zealand's national electricity grid. The Group is a for-profit entity in accordance with NZ IAS 1 "Presentation of Financial Statements".

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.

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

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, investment property, financial assets and financial liabilities as identified in specific accounting policies below.

Specific accounting policies

a) Basis of consolidation

The Group financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2015. Subsidiaries are those entities controlled, directly or indirectly, by Transpower.

All significant intercompany accounts and transactions are eliminated on consolidation.

The partial termination of the 2003 cross border lease transaction has resulted in the Group disclosing a non controlling interest (NCI) relating to New Zealand Power Cayman 2003-1 Limited (NZPCL). For the purpose of the consolidation, NCI is measured at the NCI's share of net assets.

Notes to the financial statements continued

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES continued

b) Revenue

The Group recognises revenue as it provides services or delivers products to customers.

Agreements between Transpower and its customers regarding the construction of network assets is recognised over the contract period or asset life with revenue shown on a yield to maturity basis grossed up for an imputed interest expense.

Agreements between Transpower and third parties to underground and/or realign certain transmission line assets is recognised differently depending 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 recognised over the life of the related transmission assets grossed up for an imputed interest expense. If revenue is received from non government parties then it is recognised immediately.

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 a collection agent. Similarly, Transpower acts as a collection agent relating to its running of its natural gas market operation.

c) Goods and services tax (GST)

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.

d) Accounts receivable

Accounts receivable are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment. Impairment of receivables is calculated on an individual customer basis and recognised in cases where, based on objective evidence, the debt will not be paid when due by the customer.

e) Inventories

Stocks of materials are recorded at the lower of cost and net realisable value after due consideration for excess and obsolete items. Cost is determined on a weighted average basis.

f) Investments

Regular way financial asset purchases

All regular way financial asset purchases are accounted for on settlement date and not trade date.

Fair value through profit or loss

Risk Reinsurance Limited's (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). All other investments (excluding Fonterra shares (section j), property loans (section h) and derivatives (section g)) are designated as fair value through profit or loss on the basis of preventing an "accounting mismatch".

Fair values of quoted investments are based on prices current at balance date. If the market for a financial asset is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments, discounted cash flow analysis and option pricing models.

g) Other financial assets at fair value through profit or loss

Other assets at fair value through profit or loss are derivatives. Derivatives are classified as held for trading unless they are designated as hedging instruments in a hedging relationship. Realised and unrealised gains and losses arising from changes in the fair values are included in the profit or loss in the period in which they arise.

h) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. These assets are carried at amortised cost using the effective interest rate method.

Notes to the financial statements continued

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES continued

i) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.

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

j) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale by management or not classified in any of the other categories. These investments are carried at fair value with any unrealised gains and losses arising from changes in fair value recognised directly in other comprehensive income. On sale or on impairment, the accumulated fair value adjustments are included in profit or loss. Transpower has classified Fonterra shares, which are held as part of a land portfolio, in this category. At 30 June 2015, Transpower no longer holds any Fonterra shares (June 2014: $0.4 million).

k) Property, plant and equipment

Property, plant and equipment is recognised at cost less accumulated depreciation. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for their intended use.

l) Capital work in progress and capitalised borrowing costs

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. The finance costs capitalised are based on the Group's weighted average cost of borrowing. Assets are transferred from capital work in progress to property, plant and equipment, or intangible assets as they become operational and available for use.

Any liquidated damages received relating to capital projects reduce capital work in progress.

m) 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.

The estimated useful lives are as follows:

Transmission lines	40-70 years
Freehold buildings	30-55 years
Substation assets	8-55 years
HVDC assets	18-30 years
Communication assets	5-25 years
Administration assets	4-15 years

n) 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.

Non current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and is expected to be completed within one year from the date of classification.

Notes to the financial statements continued

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES continued

o) *Leased assets*

The Group is a lessee of certain property, plant and equipment under both finance and operating leases. The Group is also a lessor of certain property, plant and equipment under operating leases.

Finance leases effectively transfer all of the risks and benefits incidental to ownership to the lessee, being the Group. Leased assets are depreciated over their useful lives. A corresponding liability is also established at the inception of each lease, and each lease payment is allocated between the liability and finance costs.

Under operating leases, substantially all the risks and benefits of ownership remain with the lessor. Operating lease payments/receipts are recognised in profit or loss in accordance with the pattern of benefits derived/received.

p) *Intangibles*

The cost of acquiring an 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, as the contracts do not have a maturity date and the Group expects to use the easements indefinitely. Therefore, easements are not amortised. Their value is assessed annually for impairment, and their carrying value is written down if found impaired. The Group capitalises the direct costs associated with putting the easements in place. These costs include registration and associated valuation and legal costs and also any injurious affection payments. Where Transpower buys land and then establishes an easement, a valuation is obtained for the easement. This valuation is used as deemed easement cost and capitalised, with a corresponding reduction in the land valuation. Easements are included within the regulatory asset base and Transpower receives a regulatory return on their net book values.

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

For intangibles with a finite life, where the periods of expected benefit or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

q) *Impairment of assets*

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are largely independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the financial statements continued

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES continued

r) Debt

Debt is designated as fair value through profit or loss on the basis of preventing an "accounting mismatch". The Group's debt and derivatives are managed as one integrated portfolio; therefore, measuring derivatives and net debt on different bases would create a recognition inconsistency or accounting mismatch.

Fair values of quoted debt are based on prices current at balance date. If the market for a financial liability is not active, fair value is established by using valuation techniques including recent arm's length transactions, reference to similar instruments and discounted cash flow analysis.

The effect on fair values of credit risk (i.e. the premium over the basis interest rate risk for credit to reflect the credit rating of the relevant counterparty or Transpower) is based on quoted market yields.

s) Employee benefits

Provision is made for benefits accruing to employees when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated cash flows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution plans are expensed when incurred.

t) Taxation

Current and deferred tax for the period is recognised as an expense or income in profit or loss. However when items are credited or debited directly to other comprehensive income, the related deferred tax or current tax is also recognised directly in other comprehensive income.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax carrying amounts.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit.

u) Foreign currency transactions

Transactions denominated in a foreign currency that are not hedged are converted at the New Zealand exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange differences arising on the translation or settlement of accounts payable and receivable in foreign currencies are recognised in profit or loss.

Certain purchase commitments denominated in a foreign currency are hedged against foreign currency risk and designated as hedge items in fair value hedges under NZ IAS 39. The cumulative change in the fair value of the purchase commitments attributable to the hedged foreign currency risk is recorded as an asset or liability using forward rate based measurement with the corresponding gains or losses recognised in profit or loss. The gains or losses in the associated derivative are also recognised in profit or loss.

Notes to the financial statements continued

for the year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES continued

v) Translation of foreign Group entities

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 which has a functional currency of US dollars. Its presentational currency is New Zealand dollars.

w) Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposures to fluctuations in foreign currency exchange rates and interest rates. The Group has designated certain derivatives as hedges, which are used to reduce foreign currency exposure on purchases. These hedges are designated as fair value hedges. 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.

For an instrument to qualify as a designated and effective hedging instrument, at the inception of the derivative transaction, the relationship between hedging instruments and hedged items must be documented, as must the Group's risk management objective and strategy for undertaking the hedge. Documentation is maintained upon the effectiveness of the hedge, i.e. whether the hedges are highly effective in offsetting foreign currency movement changes in the fair values of hedged items.

x) Cash flow statement

For the purposes of the cash flow statement, cash is considered to be cash held in bank accounts (net of bank overdrafts) plus highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value. Investments with an original maturity of less than three months are classified as cash.

New standards not yet adopted

Transpower has elected not to early adopt the following standards (or revisions to standards), considered to be relevant to the financial statements, but not effective.

NZ IFRS 9 Financial instruments, effective from 1 July 2018

There is no material impact on the Group's financial statements. Hedge accounting may have a material impact upon the Group financial statements in the event that Transpower chooses to adopt hedge accounting.

NZ IFRS 15 Revenue from contracts with customers, effective from 1 July 2017

Management have not yet assessed whether this standard will cause any material measurement, recognition or disclosure changes for Transpower.

New standards adopted during the period

There were no new or revised standards adopted during the period that had a material impact on the financial statements.

Notes to the financial statements continued

for the year ended 30 June 2015

2. OPERATING REVENUE

	GROUP 2015 $M	GROUP 2014 $M
Transmission revenue		
HVAC interconnection	681.9	652.9
HVAC connection	129.4	136.5
EV (rebate) charge - HVAC	(29.2)	(56.3)
HVDC	128.7	129.7
EV (rebate) charge - HVDC	17.0	28.4
Customer investment contracts	41.7	35.4
Other transmission	14.7	13.9
	984.2	940.5
Other revenue		
System operator	40.5	38.0
Rental income	3.6	6.5
Risk Reinsurance investment income	3.5	3.6
Other	5.2	4.9
	52.8	53.0

Revenue subject to the telecommunications development levy

Included in the above numbers is revenue subject to the telecommunications development levy. The revenue was $2.1 million in the year to June 2015 (June 2014: $4.2 million)

Transmission revenue

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

Customer investment contracts are contracts entered into with customers to build grid connection assets.

Other revenue

System operator

System operator income relates to payments received for the provision of real time services to ensure the short term security of the New Zealand electricity system.

Rental income

This includes rental income on various transmission land and buildings and also communications equipment. Assets are not held with the primary purpose of earning rental income.

Risk Reinsurance investment income

Transpower has a captive insurance company called Risk Reinsurance Limited (RRL). RRL makes investments from premiums received from Transpower. RRL re-insures externally and maintains sufficient investments to meet expected claims.

Notes to the financial statements continued

for the year ended 30 June 2015

3. DEFERRED INCOME

	GROUP 2015 $M	GROUP 2014 $M
Customer investment contracts	15.4	15.7
Transmission realignment	55.0	46.5
Other	3.4	3.3
Total deferred income	73.8	65.5

Customer investment contracts

Customer investment contracts are contracts entered into with customers to build grid connection assets. Where the customer pays upfront to construct the asset, the revenue is recognised over the contract period. Related imputed interest expense is based on the rate of return in the year the payment was received.

Transmission realignments

Revenue arising from agreements between Transpower and third parties to underground and/or realign certain transmission line assets is recognised differently depending 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 recognised over the life of the related transmission assets grossed up for an imputed interest expense. If revenue is received from non government parties then it is recognised immediately.

4. OPERATING EXPENSES

	GROUP 2015 $M	GROUP 2014 $M
Transmission expenses		
HVAC substations maintenance	41.3	37.7
HVDC substations and cables maintenance	8.0	9.0
HVAC lines maintenance	40.3	38.1
HVDC lines maintenance	1.7	1.7
Communications network maintenance	10.2	12.1
Transmission related rates	4.1	4.1
HVDC share of reserves	2.5	1.9
Investigations	10.2	11.6
Other direct transmission expenses	11.9	11.6
	130.2	127.8
Employee benefits		
Short term benefits	59.7	61.0
Defined contribution schemes	3.3	3.7
Other	2.1	5.3
	65.1	70.0
Other operating expenses		
Information technology costs	25.9	21.8
Industry levies	9.6	10.1
Other business support costs	26.9	30.7
Operating lease and rental costs	17.0	18.8
Fees paid to external auditor	0.5	0.6
Insurance	6.4	7.4
	86.3	89.4
Total operating expenses	281.6	287.2

Notes to the financial statements continued

for the year ended 30 June 2015

4. OPERATING EXPENSES continued

Maintenance includes inspection, servicing and repair costs.

Other direct transmission expenses include maintenance support, system modelling costs and training for service providers and third parties.

HVDC share of reserves: The wholesale electricity market provides reserves to cover for the loss of the largest operating generation unit in each trading period. These reserves are charged to generators. At times, particularly when it is operating with only one pole, the HVDC link faces reserve charges. These are charged to the Group (as grid asset owner). Under Transpower's regulatory arrangements, these costs are generally recoverable from customers.

Investigations include work that the Group conducts prior to the commencement of a capital project.

Information technology costs include such items as software licences, maintenance, application support and project investigations.

Other business support costs include such items as legal fees, office equipment, communications, vehicles, travel, consultants, donations and study grants.

Operating lease and rental costs comprises predominantly the leases of the Group's administrative buildings and various items of communication equipment.

Fees paid to external auditor

	GROUP	
	2015	2014
	$000	$000
Audit of financial statements		
Audit and reviews of financial statements (1)	413	469
Other services		
Review work (2)	30	36
Financial model assurance	15	40
Regulatory audit work (3)	20	22
Training	18	17
Trust deed requirements (4)	13	13
Accounting advice	2	–
Remuneration benchmarking report	2	–
	100	128
Total fees paid to external auditor	513	597

(1) This includes an annual audit and a six monthly review. In 2014, the fee also included reviews on financial statements for quarters 1 and 3.

(2) Review work is the six monthly reviews of financial performance measures and a review of the System Operator's financial model.

(3) Regulatory audit work relates to an annual audit on financial statements for Transpower's transmission business

(4) Trust deed requirements includes fees payable to review directors certificates in relation to debt held against two trust deeds.

5. NET FINANCE EXPENSES

	GROUP	
	2015	2014
	$M	$M
Finance revenue		
Interest received	8.5	10.2
	8.5	10.2
Finance expenses		
Interest paid and associated fees	231.4	231.8
Capitalised interest	(9.7)	(25.5)
Imputed interest	4.1	3.1
	225.8	209.4
Total net finance expenses	217.3	199.2

Notes to the financial statements continued

for the year ended 30 June 2015

5. NET FINANCE EXPENSES continued

Interest paid and associated fees

All interest paid is on debt and derivatives designated as fair value through profit or loss.

Capitalised interest

Interest is capitalised based on Transpower's weighted average cost of borrowing which for 2015 was 7.2% (2014: 7.2%).

Imputed interest

Imputed interest arises on customer investment contracts, transmission realignments and certain other prepaid transactions. Refer to Note 3 Deferred income for more information.

6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	GROUP	
	2015 $M	2014 $M
Accounting hedges		
Foreign exchange forward contracts - hedge accounted	(4.3)	(7.0)
Hedge commitment	4.3	7.0
	–	–
Other		
Foreign debt	275.9	(155.6)
Cross currency interest rate swaps	(293.0)	164.8
Foreign interest rate swaps	0.8	8.1
Basis swaps	–	(1.0)
Bond FRAs	–	(3.4)
NZD interest rate swaps	67.6	(72.9)
Investments	(1.5)	0.3
NZD debt	64.7	13.8
FX swaps	–	1.1
Available for sale assets	–	(0.2)
	114.5	(45.0)
Total fair value (gain) loss	114.5	(45.0)

The above fair value movements are as a result of the Group recognising financial instruments through profit or loss or as fair value hedges.

The Group experiences fair value movements principally through movements in underlying interest rates and exchange rates. The Group generally seeks to fix interest rates to provide certainty of interest rate costs. This means that, prima facie, a decrease in market interest rates will result in the Group sustaining fair value losses and conversely an increase in market interest rates will result in fair value gains.

Credit spread impact

Corporate debt and derivatives normally have a credit spread built into the pricing that is applied by the market, over and above the swap curve. This spread represents the additional risk of a corporate debt obligation compared with a liquid net settled swap transaction. Note 16 Debt, financial instruments and risk management (c) iv. Credit risk includes discussion of the credit spread impact on fair value.

Foreign purchases

The Group hedges against foreign currency fluctuations on certain foreign purchases through the use of foreign exchange forward contracts. The "hedge commitment" represents the non derivative fair value movement, attributable to foreign exchange movements, on the commitment to buy the goods, i.e. before the goods or an invoice are received.

Debt and investments

Refer to Note 16 Debt, financial instruments and risk management for information on the use of debt, investments and derivatives.

Notes to the financial statements continued

for the year ended 30 June 2015

7. INCOME TAX EXPENSE

	GROUP 2015 $M	GROUP 2014 $M
Current tax expense		
Current period	15.3	24.6
Adjustment for prior periods	0.7	0.1
	16.0	24.7
Deferred tax expense		
Origination and reversal of temporary differences	30.5	60.4
Adjustment for prior periods	(0.5)	–
	30.0	60.4
Total income tax expense (credit)	46.0	85.1
Reconciliation of effective tax		
Operating surplus before tax	159.3	300.9
Income tax at 28c	44.6	84.3
Tax effect of:		
Non deductible expenses	1.2	1.0
Tax exempt income	–	(0.3)
Under/(over) provided in prior periods	0.2	0.1
Total income tax expense (credit)	46.0	85.1

8. TRADE AND OTHER RECEIVABLES

	GROUP 2015 $M	GROUP 2014 $M
Current		
Trade and other receivables	92.9	96.2
Collateral posted by Transpower	–	35.7
Prepayments	8.2	6.8
	101.1	138.7
Non current		
Prepayments	26.1	27.7
Total trade and other receivables	127.2	166.4

There was no impairment of receivables during the year (2014: none).

The prepayments predominantly relate to telecommunication lease connection fees.

The collateral posted by Transpower relates to collateral support agreements. Collateral is received or paid depending on the market value of derivatives held with certain counterparties.

Notes to the financial statements continued

for the year ended 30 June 2015

9. FINANCIAL INSTRUMENT CATEGORISATION	DESIGNATED FAIR VALUE THROUGH PROFIT OR LOSS (ACCOUNTING MISMATCH)	FAIR VALUE THROUGH PROFIT OR LOSS (CLASSIFIED AS HELD FOR TRADING)	HEDGE ACCOUNTING (FAIR VALUE METHOD)	AVAILABLE FOR SALE	LOANS AND RECEIVABLES	OTHER LIABILITIES
Current assets						
Cash and cash equivalents					✔	
Trade and other receivables					✔	
Investments RRL		✔				
Investments other	✔					
NZPCL loan asset	✔					
Hedge commitments			✔			
Non current assets						
Other financial assets (Fonterra shares)				✔		
Other financial assets (loans)					✔	
NZPCL loan asset	✔					
Current liabilities						
Trade and other payables						✔
Current debt	✔					
Current portion of non current debt	✔					
NZPCL loan debt	✔					
Non current liabilities						
Bonds	✔					
Term borrowing	✔					
Euro medium term notes	✔					
Australian medium term notes	✔					
US private placement	✔					
Other	✔					
NZPCL loan debt	✔					
Derivatives						
Interest rate swaps		✔				
Basis swaps		✔				
FX swaps		✔				
Bond FRA's		✔				
Cross currency interest rate swaps		✔				
Foreign exchange forward contracts – not hedge accounted		✔				
Foreign exchange forward contracts – hedge accounted			✔			

Notes to the financial statements continued

for the year ended 30 June 2015

10. NZPCL DEBT AND INVESTMENT

	GROUP 2015 $M	GROUP 2014 $M
Investment		
Current	62.2	–
Non current	70.0	104.0
	132.2	104.0
Debt		
Current	62.3	–
Non current	72.0	104.7
	134.3	104.7
Net investment (debt)	(2.1)	(0.7)
Non controlling interest net of tax	(1.4)	(0.5)

NZPCL debt and investment

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.

The loan and the deposit are recognised at fair value in the Group financial statements based on discounted cash flows. The difference between the asset and liability is due to the yield curves that have been applied to the cash flows.

Non controlling interest

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.

11. DERIVATIVES AND HEDGE COMMITMENT

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

	GROUP ST ASSET $M	LT ASSET $M	ST (LIABILITY) $M	LT (LIABILITY) $M	TOTAL ASSET (LIABILITY) $M
2015					
Debt related derivatives					
Cross currency interest rate swaps	–	188.9	–	(9.6)	179.3
Interest rate swaps	16.9	48.1	(77.0)	(235.5)	(247.5)
	16.9	237.0	(77.0)	(245.1)	(68.2)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	0.7	0.8	(0.3)	–	1.2
Commitment on fair value hedges	0.3	–	(0.7)	(0.8)	(1.2)
Total derivatives and hedge commitment	17.9	237.8	(78.0)	(245.9)	(68.2)

Notes to the financial statements continued

for the year ended 30 June 2015

11. DERIVATIVES AND HEDGE COMMITMENT continued

	GROUP				
	ST ASSET	LT ASSET	ST (LIABILITY)	LT (LIABILITY)	TOTAL ASSET (LIABILITY)
	$M	$M	$M	$M	$M
2014					
Debt related derivatives					
Cross currency interest rate swaps	45.9	–	–	(147.0)	(101.1)
Interest rate swaps	10.1	31.9	(70.8)	(198.6)	(227.4)
Bond FRA's	4.0	–	(0.7)	–	3.3
	60.0	31.9	(71.5)	(345.6)	(325.2)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	–	–	(3.1)	–	(3.1)
Commitment on fair value hedges	3.1	–	–	–	3.1
Total derivatives and hedge commitment	63.1	31.9	(74.6)	(345.6)	(325.2)

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.

Debt and purchasing related derivatives

The nature of the debt and purchasing related derivatives is discussed in Note 16 Debt, financial instruments and risk management.

Commitment on fair value hedges

The Group hedges against foreign currency fluctuations on certain foreign purchases through the use of foreign exchange forward contracts. The hedge commitment represents the non derivative fair value movement, attributable to foreign exchange movements, on the commitment to buy the goods, i.e. before the goods or an invoice are received.

The fair value of the derivative is shown separately (in the same note).

12. OTHER INVESTMENTS

	GROUP	
	2015	2014
	$M	$M
Risk Reinsurance investments		
– Deposits	33.4	18.7
– Floating rate notes	1.5	0.5
– Corporate bonds	33.3	34.2
– Equities	6.9	6.1
	75.1	59.5

Risk Reinsurance Investments

Investments in deposits, floating rate notes and corporate bonds were made in financial instruments issued by organisations with credit ratings of BBB or above. The investments were made in accordance with the policy as stated in Note 16 Debt, financial instruments and risk management (c) i.

Equity investments are held in the S&P/NZX15 index and can comprise up to 10% of the total investment portfolio.

Notes to the financial statements continued

for the year ended 30 June 2015

13. NON CURRENT ASSETS

This note includes property, plant and equipment, intangible assets and non current assets held for sale.

GROUP	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES
	$M	$M	$M	$M
At 30 June 2015				
Cost	2,351.6	144.6	2,264.2	858.3
Accumulated depreciation / amortisation	(455.4)	(41.6)	(535.0)	(216.8)
Net book value / carrying value	1,896.2	103.0	1,729.2	641.5
30 June 2015 reconciliation				
Opening net book value / carrying value (1 July 2014)	1,850.9	112.2	1,628.3	630.9
Additions / transfers	127.0	(5.8)	199.8	46.4
Disposals / transfers	(24.0)	–	(28.9)	–
Depreciation / amortisation	(57.7)	(3.4)	(70.0)	(35.8)
Closing net book value / carrying value	1,896.2	103.0	1,729.2	641.5
Non current assets held for sale balances				
Property held for sale balance	1.2	–	–	–
Total non current assets held for sale	1.2	–	–	–
Total non current assets, including held for sale assets	1,897.4	103.0	1,729.2	641.5
At 30 June 2014				
Cost	2,254.1	150.4	2,103.3	811.9
Accumulated depreciation / amortisation	(403.2)	(38.2)	(475.0)	(181.0)
Net book value / carrying value	1,850.9	112.2	1,628.3	630.9
30 June 2014 reconciliation				
Opening net book value / carrying value (1 July 2013)	1,586.2	103.7	1,485.2	558.2
Additions / transfers	352.2	12.8	239.7	116.5
Disposals / transfers	(33.2)	(0.2)	(26.7)	(13.0)
Depreciation / amortisation	(54.3)	(4.1)	(69.9)	(30.8)
Closing net book value / carrying value	1,850.9	112.2	1,628.3	630.9
Non current assets held for sale				
Property held for sale balance	5.2	–	–	–
Low voltage assets balance	11.7	–	21.5	–
Total non current assets held for sale	16.9	–	21.5	–
Total non current assets, including held for sale assets	1,867.8	112.2	1,649.8	630.9

Notes to the financial statements continued

for the year ended 30 June 2015

COMMUNICATIONS	ADMINISTRATION ASSETS	TOTAL PROPERTY, PLANT AND EQUIPMENT	EASEMENTS AND RIGHT TO ACCESS	SOFTWARE	TOTAL INTANGIBLE ASSETS	CAPITAL WORK IN PROGRESS
$M	$M	$M	$M	$M	$M	$M
341.6	168.8	6,129.1	290.6	247.3	537.9	77.7
(149.4)	(100.2)	(1,498.4)	(2.4)	(144.2)	(146.6)	–
192.2	68.6	4,630.7	288.2	103.1	391.3	77.7
177.7	51.3	4,451.3	281.4	91.9	373.3	165.3
38.6	31.1	437.1	8.6	44.1	52.7	359.5
(1.1)	(2.3)	(56.3)	(1.2)	–	(1.2)	(447.1)
(23.0)	(11.5)	(201.4)	(0.6)	(32.9)	(33.5)	–
192.2	68.6	4,630.7	288.2	103.1	391.3	77.7
–	–	1.2	–	–	–	–
–	–	1.2	–	–	–	–
192.2	68.6	4,631.9	288.2	103.1	391.3	77.7
305.2	141.9	5,766.8	283.2	203.2	486.4	165.3
(127.5)	(90.6)	(1,315.5)	(1.8)	(111.3)	(113.1)	–
177.7	51.3	4,451.3	281.4	91.9	373.3	165.3
144.6	48.7	3,926.6	267.2	80.0	347.2	497.3
54.4	15.3	790.9	14.8	38.3	53.1	501.9
(0.2)	(2.1)	(75.4)	–	(0.1)	(0.1)	(833.9)
(21.1)	(10.6)	(190.8)	(0.6)	(26.3)	(26.9)	–
177.7	51.3	4,451.3	281.4	91.9	373.3	165.3
–	–	5.2	–	–	–	–
4.0	1.1	38.3	0.6	–	0.6	–
4.0	1.1	43.5	0.6	–	0.6	–
181.7	52.4	4,494.8	282.0	91.9	373.9	165.3

Notes to the financial statements continued

for the year ended 30 June 2015

13. NON CURRENT ASSETS continued

Capital work in progress can be split into the following classes:

	GROUP 2015 $M	GROUP 2014 $M
HVAC transmission lines	19.5	44.9
HVDC transmission lines	0.2	0.6
HVAC substations	37.9	71.9
HVDC substations and submarine cables	1.7	16.5
Communications	15.3	13.5
Administration assets	0.3	8.2
Software intangible assets	1.5	8.3
Other intangible assets	1.3	1.4
	77.7	165.3
During the year the following borrowing costs were capitalised:		
HVAC transmission lines	2.3	13.9
HVDC transmission lines	–	–
HVAC substations	4.2	7.7
HVDC substations and submarine cables	0.9	1.3
Communications	1.2	1.5
Administration assets	0.4	0.4
Software intangible assets	0.6	0.7
Other intangible assets	0.1	–
	9.7	25.5

These costs were capitalised at the weighted average cost of debt of 7.2% (2014: 7.2%).

Property, plant and equipment

Administration assets include computer hardware, plant, equipment, furniture and motor vehicles. Land and buildings are contained within the above classes and have a net book value of $246.0 million (2014: $236.5 million).

Intangible assets

Easements

Easements are deemed to have an indefinite useful life because:

i) There is no "expiry" date to the easement agreements
ii) Transpower is expected to use the easements indefinitely, based on past experience.

Easements also include injurious affection payments and related costs such as resource consents.

There was no impairment on easements during the year (2014: none). The costs of easements are expected to be fully recovered from transmission customers as they form part of Transpower's regulatory asset base.

Right to access assets

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, 90 years.

Software

The amortisation of software occurs over 5-8 years.

Notes to the financial statements continued

for the year ended 30 June 2015

14. TRADE AND OTHER PAYABLES

	GROUP 2015 $M	GROUP 2014 $M
Trade creditors and accruals	115.5	84.1
Employee entitlements	10.4	12.8
Current portion finance leases	0.1	0.1
Total trade and other payables	126.0	97.0

15. PROVISIONS

	EMPLOYEE BENEFITS $M	REDUNDANCY $M	DISMANTLING $M	CONTRACTOR PROVISION $M	TOTAL $M
Balance at 1 July 2014	0.5	1.4	3.3	11.6	16.8
Provisions made during the period	1.0	2.2	4.1	0.8	8.1
Provisions used during the period	(0.5)	(2.2)	(1.4)	–	(4.1)
Provisions reversed during the period	–	–	–	–	–
Balance at 30 June 2015	1.0	1.4	6.0	12.4	20.8
Current portion of provisions	1.0	1.4	3.0	–	5.4
Non current portion of provisions	–	–	3.0	12.4	15.4
Balance at 30 June 2015	1.0	1.4	6.0	12.4	20.8

Employee benefits

The Group, for accounting purposes, has a constructive obligation with regard to certain employee benefits. This provision is expected to be used within one year.

Dismantling

In September 2007, Transpower removed from service the HVDC Pole 1 (Pole 1) due to the low probability, high consequence risks posed by continuing operation of the ageing technology.

Transpower recognises site restoration and rehabilitation liabilities where it believes an obligation exists. Pole 1 contained mercury and Transpower has estimated the decommissioning cost based on engineering advice. In 2015, Transpower increased the Pole 1 dismantling provision by $4.1 million for the removal and disposal of the Pole 1 buildings. Dismantling and disposal of Pole 1 and the Pole 1 buildings is planned to be completed by June 2017. Actual decommissioning costs may vary from the figures indicated.

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 discounted and recognised as a provision and also capitalised. The future payment will occur if certain assets are free from defects and have met prescribed service levels.

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following items are described in the financial statements in the following notes:

ITEM	NOTE
NZPCL debt and investment	10
Derivative balances split between short term and long term assets and liabilities	11
Debt security and guarantees	22

(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 at balance date, Transpower effectively has borrowings denominated in NZD, predominantly at fixed interest rates.

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The Group also uses derivatives 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 which is denominated in both NZD and foreign currencies, an investment portfolio held by a captive insurance company and from purchases of goods and services denominated in a foreign currency.

The financial risks are those that are financing related risks; being liquidity, interest rate, currency, and credit; and those that are operating related risks, being currency, commodity, customer credit, insurance and regulatory.

Financial risk management is carried out by a central treasury function that operates under policies approved by the Board of directors.

(b) Fair value and classifications

Transpower values the majority of financial instruments at fair value in the 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.

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses observable market prices and discounted cash flow techniques to calculate the fair value of its investments, debt and derivative instruments. The interest rate used for discounting is based on the applicable market swap curve, for example, for USD debt, the USD swap curve for similar rated entities would be used as the basis for discounting the expected cash flows. Debt, investment and derivative valuations are adjusted for credit spread. This is the level 2 category as described by NZ IFRS 13.

Transpower has certain debt issues listed on the New Zealand debt market (NZDX). The volume of trades is considered insufficient to use quoted market prices for valuation purposes.

For RRL investments in equities, quoted market prices are used. This is the level 1 category as described by NZ IFRS 13.

(c) Financial risks - financing related

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 in future periods, committed funding facilities maturing in any 12 month period are not to exceed NZD750 million. No more than 50 per cent of debt can mature within the next three years, and at least 30 per cent of debt must mature after five years.

Term debt

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

	CURRENCY	FOREIGN CURRENCY EQUIVALENT	NZD
		$M	$M
Domestic medium term note programme	NZD	–	Unlimited
Australian medium term note programme	AUD	750	855
European commercial paper programme	USD	500	739
Domestic commercial paper programme	NZD	–	500
Revolving cash advance facility	NZD	–	100

The Group uses these facilities to issue debt securities into different markets. The Group can issue in various currencies up to the equivalent value shown in the table above.

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

In addition to the above, 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:

- a three-year standby facility for NZD250 million, maturing 7 December 2015, undrawn since inception
- a two-year standby facility for NZD250 million, maturing 7 December 2016, undrawn since inception.

Investments and RRL Investments

The Group from time to time invests surplus cash arising from its core operations and from active liquidity management in wholesale bank deposits and securities for periods of up to one year.

In addition to these investments, Transpower has a captive insurance company called Risk Reinsurance Limited (RRL). RRL makes investments from premiums received from Transpower. RRL re-insures 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. The limits by Standard and Poor's (or Moody's / Fitch equivalent) are as follows;

- NZD 10 million (face value), if the counterparty is a AAA- or higher
- NZD 5 million (face value), if the counterparty is rated AA- or higher
- NZD 4 million (face value), if the counterparty is rated A- or higher
- NZD 2 million (face value), if the counterparty is rated BBB or higher, or, if there is no long term rating but a short term rating of A1 or better.

The above limits exclude RRL's cash holdings on deposit with banks that are Transpower approved counterparties.

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.

Movements in interest rates will also impact on the fair values of the debt and derivatives portfolio. Prima facie, a market increase in interest rates will cause a decline in the net debt and derivative portfolio. Conversely a market decrease in interest rates will cause an increase in the net debt and derivative portfolio.

The Group's policy sets minimum and maximum hedging parameters expressed as a percentage of forecast debt. This policy ensures that the Group's costs of funds will be reasonably predictable from year to year. Interest rate swaps and options are used to change the interest rate structure on existing and forecast debt and cross currency interest rate swaps entered into.

iii. Currency risk - debt

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 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.

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

The following table details 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 across multiple repayment dates. The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows. At 30 June 2015, BKBM was 3.26% (2014: 3.64%).

GROUP 2015	DEBT				RECEIVE DERIVATIVE		
	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE M	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE RECEIVE VALUE M	NOTIONAL DERIVATIVE RECEIVE CURRENCY	DERIVATIVE RECEIVE INTEREST RATE
Bonds							
Bonds 2015	3-Dec-15	175.0	NZD	BKBM + 110bp			
Bonds 2017	15-Feb-17	50.0	NZD	6.60%	(50.0)	NZD	6.60%
Bonds 2018	30-Nov-18	125.0	NZD	5.14%			
Bonds 2018	30-Nov-18	200.0	NZD	5.14%	(200.0)	NZD	5.14%
Bonds 2019	6-Sep-19	200.0	NZD	4.65%	(200.0)	NZD	4.65%
Bonds 2019	12-Nov-19	50.0	NZD	7.19%	(50.0)	NZD	7.19%
Bonds 2020	10-Jun-20	150.0	NZD	6.95%	(150.0)	NZD	6.95%
FRN CPI linked	15-May-20	100.0	NZD	4.50%	(100.0)	NZD	4.50%
Bonds 2022	30-Jun-22	75.0	NZD	4.30%	(75.0)	NZD	4.30%
Bonds 2023	15-Mar-23	50.0	NZD	5.45%	(50.0)	NZD	5.45%
Bonds 2028	15-Mar-28	100.0	NZD	5.89%	(100.0)	NZD	5.89%
Term borrowing							
BOTM facility	17-May-16	100.0	NZD	BKBM + 50bp			
EMTN							
CAD EMTN	20-Mar-17	250.0	CAD	3.00%	(250.0)	CAD	3.00%
HKD EMTN	24-Mar-20	400.0	HKD	4.00%	(400.0)	HKD	4.00%
AUD EMTN 2021	6-Aug-21	150.0	AUD	4.25%	(150.0)	AUD	4.25%
AUD EMTN 2023	28-Aug-23	300.0	AUD	5.75%	(300.0)	AUD	5.75%
USPP							
USPP 2016	27-Sep-16	25.0	USD	5.59%	(25.0)	USD	5.59%
USPP 2019	27-Sep-19	75.0	USD	5.74%	(75.0)	USD	5.74%
USPP 2021	13-Oct-21	232.0	USD	3.43%	(232.0)	USD	3.43%
USPP 2022	15-Dec-22	150.0	USD	3.60%	(150.0)	USD	3.60%
USPP 2023	13-Oct-23	78.0	USD	3.58%	(78.0)	USD	3.58%
USPP 2026	13-Oct-26	70.0	USD	3.83%	(70.0)	USD	3.83%

Debt short term	
Current portion of long term debt	
Debt short term as per statement of financial position	
Debt long term as per statement of financial position	
Total	
Debt face value (as per above)	
New Zealand dollar debt	1,375.0
Foreign debt after adjusting for related foreign exchange derivatives	1,721.4
	3,096.4

A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period. 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 i.e. IRS in the money are assets and out of the money are liabilities.

Value of interest rate swaps maturing by time banding (net settled) – liabilities	
Within one year	757.0
One to two years	302.5
Two to three years	100.0
Three to four years	520.0
Four to five years	2,925.0
Greater than five years	800.0
Net cash outflows on IRS – liabilities	
Value of interest rate swaps maturing by time banding (net settled) – assets	
One to two years	302.5
Two to three years	100.0
Three to four years	645.0
Greater than five years	520.0
Net cash outflows on IRS – assets	
Total effective net cash flows	
Total debt derivatives fair value (also, refer to note 11 for further derivatives breakdown)	
Other financial liabilities	
Trade and other payables	
Finance lease liabilities	

Notes to the financial statements continued

for the year ended 30 June 2015

PAY DERIVATIVE		FAIR VALUE			EFFECTIVE NET NZD CASH FLOWS - (INFLOWS) / OUTFLOWS						
NOTIONAL DERIVATIVE PAY VALUE NZD $M	EFFECTIVE NZD INTEREST RATE AFTER APPLYING FINANCIAL DERIVATIVES	DEBT FAIR VALUE $M	DERIVATIVE FAIR VALUE $M	TOTAL FAIR VALUE $M	WITHIN ONE YEAR $M	ONE TO TWO YEARS $M	TWO TO THREE YEARS $M	THREE TO FOUR YEARS $M	FOUR TO FIVE YEARS $M	GREATER THAN FIVE YEARS $M	TOTAL $M
		176.3	–	176.3	178.9	–	–	–	–	–	178.9
50.0	BKBM + 100bp	53.7	(2.9)	50.8	2.1	51.5	–	–	–	–	53.6
		131.0	–	131.0	6.4	6.4	6.4	128.2	–	–	147.4
200.0	BKBM + 83bp	209.5	(6.9)	202.6	8.0	7.8	8.2	204.5	–	–	228.5
200.0	BKBM + 126.5bp	208.5	(2.6)	205.9	8.8	8.6	9.1	9.8	202.6	–	238.9
50.0	BKBM + 77.25bp	56.9	(6.3)	50.6	2.0	1.9	2.0	2.2	51.2	–	59.3
150.0	BKBM + 21bp	169.5	(22.5)	147.0	5.0	5.0	5.2	5.8	156.2	–	177.2
100.0	BKBM + 107bp	97.7	4.7	102.4	4.2	4.1	4.4	4.7	105.1	–	122.5
75.0	BKBM + 62.1bp	74.1	(0.1)	74.0	2.1	2.7	3.7	3.2	3.5	82.4	97.6
50.0	BKBM + 130.25bp	53.5	(2.0)	51.5	2.2	2.2	2.3	2.5	2.7	57.7	69.6
100.0	BKBM + 154.95bp	106.6	(4.4)	102.2	4.7	4.6	4.9	5.2	5.6	147.3	172.3
		100.6	–	100.6	104.0	–	–	–	–	–	104.0
307.6	BKBM + 174.1bp	306.0	8.2	314.2	14.8	318.7	–	–	–	–	333.5
73.1	BKBM + 120bp	81.4	(7.5)	73.9	3.1	3.1	3.3	3.6	76.0	–	89.1
165.4	BKBM + 88.1bp	176.7	(13.1)	163.6	6.8	6.6	6.9	7.4	8.1	175.9	211.7
341.5	BKBM + 152.24bp	382.5	(43.6)	338.9	16.1	15.7	16.4	17.6	18.9	406.9	491.6
41.1	BKBM + 22.3bp	39.7	1.3	41.0	1.3	41.5	–	–	–	–	42.8
123.4	BKBM + 20.5bp	128.9	(8.1)	120.8	4.0	4.1	4.3	4.8	124.6	–	141.8
284.4	BKBM + 197bp	359.2	(58.7)	300.5	14.8	14.3	14.9	15.9	16.8	310.9	387.6
203.5	BKBM + 153.6bp	230.8	(21.2)	209.6	9.4	9.4	9.8	10.6	11.3	233.4	283.9
95.6	BKBM + 193.25bp	119.6	(19.4)	100.2	5.0	4.8	5.0	5.3	5.6	116.7	142.4
85.8	BKBM + 205bp	105.6	(17.3)	88.3	4.5	4.4	4.6	4.9	5.1	122.4	145.9
		3,368.3	(222.4)	3,145.9	408.2	517.4	111.4	436.2	793.3	1,653.6	3,920.1
		-									
		276.9									
		276.9									
		3,091.4									
		3,368.3	(222.4)	3,145.9							
757.0			4.3		4.3	–	–	–	–	–	4.3
302.5			15.1		9.3	6.3	–	–	–	–	15.6
100.0			1.2		0.5	0.5	0.2	–	–	–	1.2
520.0			44.8		12.8	15.6	14.6	4.5	–	–	47.5
2,925.0			163.9		40.2	46.2	39.4	30.8	19.4	–	176.0
800.0			78.2		10.5	12.3	13.0	12.3	10.3	34.7	93.1
					77.6	80.9	67.2	47.6	29.7	34.7	337.7
302.5			(1.1)		(0.5)	(0.6)	–	–	–	–	(1.1)
100.0			(0.6)		(0.3)	(0.3)	(0.1)	–	–	–	(0.7)
645.0			(7.4)		(2.4)	(3.3)	(2.0)	(0.2)	–	–	(7.9)
520.0			(7.8)		(3.0)	(3.7)	(3.4)	(2.1)	(0.1)	5.5	(6.8)
					(6.2)	(7.9)	(5.5)	(2.3)	(0.1)	5.5	(16.5)
					479.6	590.4	173.1	481.5	822.9	1,693.8	4,241.3
			68.2								
					126.0	0.1	0.1	–	0.2	0.5	126.9
					0.1	0.1	0.1	0.1	0.1	0.1	0.6

Notes to the financial statements continued

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16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

The following table details 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 across multiple repayment dates. The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows. At 30 June 2014, BKBM was 3.64% (2013: 2.66%).

GROUP 2014	DEBT				RECEIVE DERIVATIVE		
	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE M	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE RECEIVE VALUE M	NOTIONAL DERIVATIVE RECEIVE CURRENCY	DERIVATIVE RECEIVE INTEREST RATE
Bonds							
Bonds 2015	3-Dec-15	175.0	NZD	BKBM + 110bp			
Bonds 2017	15-Feb-17	50.0	NZD	6.60%	(50.0)	NZD	6.60%
Bonds 2018	30-Nov-18	125.0	NZD	5.14%			
Bonds 2018	30-Nov-18	200.0	NZD	5.14%	(200.0)	NZD	5.14%
Bonds 2019	6-Sep-19	200.0	NZD	4.65%	(200.0)	NZD	4.65%
Bonds 2019	12-Nov-19	50.0	NZD	7.19%	(50.0)	NZD	7.19%
Bonds 2020	10-Jun-20	150.0	NZD	6.95%	(150.0)	NZD	6.95%
FRN CPI linked	15-May-20	100.0	NZD	4.48%	(100.0)	NZD	4.48%
Bonds 2023	15-Mar-23	50.0	NZD	5.45%	(50.0)	NZD	5.45%
Bonds 2028	15-Mar-28	100.0	NZD	5.89%	(100.0)	NZD	5.89%
Term borrowing							
BOTM facility	5-Sep-14	100.0	NZD	BKBM + 35bp			
BOTM facility	17-May-16	100.0	NZD	BKBM + 50bp			
EMTN							
CHF EMTN	6-Aug-14	300.0	CHF	3.39%	(300.0)	CHF	3.39%
CAD EMTN	20-Mar-17	250.0	CAD	3.00%	(250.0)	CAD	3.00%
HKD EMTN	24-Mar-20	400.0	HKD	4.00%	(400.0)	HKD	4.00%
AUD EMTN	28-Aug-23	300.0	AUD	5.75%	(300.0)	AUD	5.75%
USPP							
USPP 2016	27-Sep-16	25.0	USD	5.59%	(25.0)	USD	5.59%
USPP 2019	27-Sep-19	75.0	USD	5.74%	(75.0)	USD	5.74%
USPP 2021	13-Oct-21	232.0	USD	3.43%	(232.0)	USD	3.43%
USPP 2022	15-Dec-22	150.0	USD	3.60%	(150.0)	USD	3.60%
USPP 2023	13-Oct-23	78.0	USD	3.58%	(78.0)	USD	3.58%
USPP 2026	13-Oct-26	70.0	USD	3.83%	(70.0)	USD	3.83%

Debt short term	
Current portion of long term debt	
Debt short term as per statement of financial position	
Debt long term as per statement of financial position	
Total	
Debt face value (as per above)	
New Zealand dollar debt	1,400.0
Foreign debt after adjusting for related foreign exchange derivatives	1,899.9
	3,299.9

A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period. 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 i.e. IRS in the money are assets and out of the money are liabilities.

Value of bond FRA's – liabilities	
Within one year	
Value of interest rate swaps maturing by time banding (net settled) - liabilities	
Within one year	1,165.5
One to two years	1,078.0
Two to three years	2,276.0
Three to four years	100.0
Four to five years	1,715.0
Greater than five years	1,845.0
Net cash outflows on IRS – liabilities	
Value of bond FRA's – assets	
Within one year	
Value of interest rate swaps maturing by time banding (net settled) - assets	
Three to four years	100.0
Greater than five years	300.0
Net cash outflows on IRS – assets	
Total effective net cash flows	
Total debt derivatives fair value (also, refer to note 11 for further derivatives breakdown)	
Other financial liabilities	
Trade and other payables	
Finance lease liabilities	

Notes to the financial statements continued

for the year ended 30 June 2015

PAY DERIVATIVE		FAIR VALUE			EFFECTIVE NET NZD CASH FLOWS - (INFLOWS) / OUTFLOWS						
NOTIONAL DERIVATIVE PAY VALUE NZD $M	EFFECTIVE NZD INTEREST RATE AFTER APPLYING FINANCIAL DERIVATIVES	DEBT FAIR VALUE $M	DERIVATIVE FAIR VALUE $M	TOTAL FAIR VALUE $M	WITHIN ONE YEAR $M	ONE TO TWO YEARS $M	TWO TO THREE YEARS $M	THREE TO FOUR YEARS $M	FOUR TO FIVE YEARS $M	GREATER THAN FIVE YEARS $M	TOTAL $M
		177.1		177.1	8.6	179.8	–	–	–	–	188.4
50.0	BKBM + 100bp	53.2	(2.5)	50.7	2.4	2.7	52.1	–	–	–	57.2
		124.3		124.3	6.5	6.4	6.4	6.4	128.2	–	153.9
200.0	BKBM + 83bp	198.8	1.8	200.6	9.2	10.7	11.0	11.4	205.9	–	248.2
200.0	BKBM + 126.5bp	194.5	8.8	203.3	10.2	11.5	11.9	12.3	12.5	203.2	261.6
50.0	BKBM + 77.25bp	54.1	(4.4)	49.7	2.3	2.6	2.7	2.8	2.9	51.4	64.7
150.0	BKBM + 21bp	159.8	(16.1)	143.7	6.1	7.1	7.4	7.6	7.8	157.8	193.8
100.0	BKBM + 107bp	95.4	5.3	100.7	4.8	5.5	5.8	5.9	6.0	106.2	134.2
50.0	BKBM + 130.25bp	48.4	1.7	50.1	2.6	2.9	3.0	3.1	3.2	62.2	77.0
100.0	BKBM + 154.95bp	95.5	5.0	100.5	5.4	6.0	6.3	6.4	6.6	160.9	191.6
		100.2		100.2	100.9	–	–	–	–	–	100.9
		100.5		100.5	4.2	104.9	–	–	–	–	109.1
343.9	BKBM + 46.47bp	399.2	(54.4)	344.8	346.2	–	–	–	–	–	346.2
307.6	BKBM + 174.1bp	277.6	38.5	316.1	17.3	19.1	322.4	–	–	–	358.8
73.1	BKBM + 120bp	61.8	12.0	73.8	3.7	4.2	4.3	4.4	4.5	76.6	97.7
341.5	BKBM + 152.24bp	351.7	0.6	352.3	18.2	20.6	21.2	21.7	22.2	439.3	543.2
										–	
41.1	BKBM + 22.3bp	31.9	8.9	40.8	1.7	1.9	41.6	–	–	–	45.2
123.4	BKBM + 20.5bp	102.3	16.7	119.0	5.1	5.8	6.1	6.3	6.4	125.0	154.7
284.4	BKBM + 197bp	278.1	23.2	301.3	16.0	18.2	18.9	19.4	19.8	334.9	427.2
203.5	BKBM + 153.6bp	178.4	29.0	207.4	11.0	12.3	12.7	13.0	13.3	251.4	313.7
95.6	BKBM + 193.25bp	92.1	8.3	100.4	5.3	6.1	6.3	6.5	6.6	126.3	157.1
85.8	BKBM + 205bp	80.9	9.7	90.6	4.9	5.6	5.8	5.9	6.0	133.3	161.5
		3,255.8	92.1	3,347.9	592.6	433.9	545.9	133.1	451.9	2,228.5	4,385.9
		–									
		499.4									
		499.4									
		2,756.4									
		3,255.8	92.1	3,347.9							
200.0			0.7		0.7	–	–	–	–	–	0.7
1,165.5			16.1		16.4	–	–	–	–	–	16.4
1,078.0			20.2		14.6	6.3	–	–	–	–	20.9
2,276.0			62.7		15.6	33.1	18.5	–	–	–	67.2
100.0			2.9		0.2	1.1	1.3	0.7	–	–	3.3
1,715.0			68.1		6.2	18.2	22.4	22.7	7.2	–	76.7
1,845.0			70.0		1.8	9.2	9.1	9.1	9.3	55.8	94.3
					54.8	67.9	51.3	32.5	16.5	55.8	278.8
600.0			(4.0)		(4.0)	–	–	–	–	–	(4.0)
100.0			(2.5)		(0.2)	(0.8)	(1.1)	(0.6)	–	–	(2.7)
300.0			(1.1)		(1.8)	0.2	(0.4)	(0.9)	(1.3)	3.0	(1.2)
					(2.0)	(0.6)	(1.5)	(1.5)	(1.3)	3.0	(3.9)
					642.1	501.2	595.7	164.1	467.1	2,287.3	4,657.5
			325.2								
					97.0	–	0.1	0.1	0.1	0.6	97.9
					0.1	0.1	0.1	0.1	0.1	0.2	0.7

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

iv. *Credit risk*

Credit risk is the risk of adverse impact on the Group through the failure of a counterparty bank or financial institution to meet its financial obligations. Financial instruments that subject the Group to credit risk include bank balances, receivables, investments, interest rate swaps, cross currency interest rate swaps, basis swaps, interest rate options, forward rate agreements and foreign exchange forward contracts.

The Group's policy is to 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 the lesser of 20 per cent of Group shareholders' funds or 15 per cent of the shareholders' funds of the counterparty 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 and Poor's credit rating of A or above (or Fitch/Moody's equivalent).

The exception to these minimum credit ratings is for RRL investments, which are discussed in (c) i. above. Credit exposures against these limits are monitored on a daily basis.

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. Transpower posts collateral where the financial instruments, subject to the CSA, are out of the money and above a certain threshold. Similarly, when the instruments, subject to the CSA, are in the money and above a certain threshold, Transpower receives collateral. Any collateral that is posted by other parties is included in Note 14 Trade and other payables (2015: none; 2014: none). Collateral posted by Transpower is included in Note 8 Trade and other receivables (2015: none; 2014: $35.7 million).

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 agreement (ISDA). 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	
	2015	**2014**
	$M	$M
Cross currency interest rate swaps	183.5	17.4
Interest rate swaps	–	–
Bond FRA's	–	3.4
CP FX swaps	–	–
Foreign exchange forward contracts	1.3	–
Total	184.8	20.8

Credit spreads

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 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.

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

	GROUP	
	2015	**2014**
	$M	$M
Statement of financial position balance – (increase)/decrease in debt	137.8	122.4
Statement of financial position balance – (increase)/decrease in investment	0.9	0.1
Fair value profit / (loss) movement – life to date	136.9	122.3
Fair value profit / (loss) movement – current year	14.6	(49.1)

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

v. Sensitivity analysis

Currency risk - debt

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

Fair value risk

The Group's net debt is designated as "fair value through profit or loss". As such, the Group is subject to fair value gains or losses. The extent of the gains or losses is based on the Group's cash flow profile compared to the corresponding movement in the yield curve and market perceptions on credit risk. For debt, derivatives and investments the relevant yield curve is effectively adjusted for the credit risk (or spread).

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			
	2015	**2015**	**2014**	**2014**
Yield curve interest rate change:	+100bp	-100bp	+100bp	-100bp
	$M	$M	$M	$M
Yield curve impact on pre-tax profit / (loss) / equity	141.5	(148.6)	66.6	(69.5)

(d) Financial risks - operating related

i. Currency risk - foreign purchases

Currency risk is the risk of the adverse impact of exchange rate movements, which determine the NZD cost of foreign denominated purchases. It is the Group's policy to hedge all committed foreign currency denominated payments greater than NZD1 million (NZD equivalent) by using foreign exchange forward contracts to fix or offset the NZD cost. For committed payments between NZD 100,000 and NZD 1 million the Group has discretion on whether or not to hedge.

The notional gross contract amounts of foreign exchange forward contracts outstanding at balance date, by maturity banding, are:

	GROUP	
	2015	**2014**
	$M	$M
Within one year	11.1	28.7
One to two years	1.4	0.2
Two to five years	12.0	–
Greater than five years	1.4	–
Total foreign exchange forward contracts	25.9	28.9

ii. 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.

iii. Customer credit risk

Transpower's customers comprise predominantly electricity generators, electricity 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. No collateral is held at 30 June 2015 (2014: none).

Notes to the financial statements continued

for the year ended 30 June 2015

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Significant receivables at balance date were:

	GROUP	
	2015	2014
	$M	$M
Vector Limited	19.4	19.6
Meridian Energy Limited	12.1	11.2

The above entities have receivables balances greater than 10% of the total trade receivables of $92.9 million (June 2014: $96.2 million).

iv. Insurance risk

Transpower Group insures its substation assets with external insurers up to a limit of $750 million under a material damage policy. Transmission lines are not insured with external insurers because the premium cost exceeds the probability of significant loss. Submarine cables are separately insured with external insurers to a limit of $90 million.

Transpower operates a captive insurance company through its subsidiary Risk Reinsurance Ltd (RRL). Under the material damage policy RRL is liable for the first $10 million of insurance cost for substation assets and up to $23.75 million for submarine cables. The remainder of the insurance liabilities up to the limits described above are re-insured by RRL with external insurers.

RRL maintains an investment portfolio to meet any insurance claims.

v. Regulatory risk

Transpower is a natural monopoly and is regulated by the Commerce Commission. The Commerce Commission determines what rate of return applies to Transpower's assets. It also determines the level of operating expenditure and capital expenditure that can be recovered from customers.

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 Transpower overspends against its operating expenditure and capital expenditure thresholds and cannot recover these costs.

17. DEFERRED TAX

	GROUP				
	BALANCE 1 JULY 2013	RECOGNISED IN PROFIT OR LOSS	BALANCE 30 JUNE 2014	RECOGNISED IN PROFIT OR LOSS	BALANCE 30 JUNE 2015
	$M	$M	$M	$M	$M
Property, plant and equipment temporary differences	310.0	40.2	350.2	48.9	399.1
Fair value of net debt and derivatives	(88.9)	13.6	(75.3)	(14.7)	(90.0)
Revenue deferral	(3.8)	0.8	(3.0)	(2.1)	(5.1)
Dismantling provision	(1.9)	0.6	(1.3)	(0.4)	(1.7)
Impairment	(4.8)	4.5	(0.3)	0.3	–
Other	(2.7)	0.7	(2.0)	(2.0)	(4.0)
Total deferred tax	207.9	60.4	268.3	30.0	298.3

There are no unrecognised deferred tax balances (2014: none).

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 relate to the same jurisdiction, being New Zealand.

Property, plant and equipment temporary differences relate to the difference between tax and accounting book values.

Fair value of net debt and derivatives relates to deferred tax on the differences between tax and accounting values.

Revenue deferral relates to deferred tax on customer investment contracts and transmission line realignment. Note 3 Deferred income contains information on these transactions.

Dismantling provision relates to the HVDC Pole 1, refer to Note 15 Provisions for background.

Notes to the financial statements continued

for the year ended 30 June 2015

17. DEFERRED TAX continued

Dividend withholding payments

There were no dividend withholding payments during the year (2014: none).

18. EQUITY

Capital

Transpower has 1,200,000,000 issued and fully paid $1 ordinary shares. Transpower's authorised capital is $1,200,000,000 (2014: $1,200,000,000). The shares confer on the holders the right to vote at any annual general meeting of Transpower. The shares have no par value and rank equally.

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

Net tangible assets per share

	GROUP	
	2015	**2014**
	$M	$M
Net assets (equity)	1,376.1	1,429.0
Less intangibles (note 13)	(391.3)	(373.3)
Total net tangible assets	984.8	1,055.7
Net tangible assets per share ($)	0.82	0.88

Dividends

Dividends declared and provided by Transpower are as follows:

	2015	**2015**	**2014**	**2014**
	$M	CENTS PER SHARE	$M	CENTS PER SHARE
Previous year final dividend paid	91.0	8	137.0	11
Interim dividend paid	75.2	6	60.0	5
	166.2	14	197.0	16
Final dividend declared subsequent to balance date, refer note 27.	112.8	9	91.0	8

Imputation credits

	GROUP
	2015
	$M
Balance at 1 July 2014	182.3
Net tax payments/transfers made/refunds received	21.3
Imputation credits attached to dividends paid to shareholders	(64.6)
Balance at 30 June 2015	139.0
Terminal tax accrued at 30 June 2015 (to pay July 2015)	4.4
	143.4

Non-controlling interest

The Group recognises a non-controlling interest in NZPCL. Refer to Note 10 NZPCL debt and investment for more information.

Notes to the financial statements continued

for the year ended 30 June 2015

19. SEGMENT REPORTING

In 2015, the Group has one reportable segment, transmission. The transmission segment activities include the transmission of electricity from the point of generation to the point of connection. This segment has external revenue derived from New Zealand customers and its assets are based in New Zealand.

The Group has no other reportable segments. The balance of the financial information (that is not the transmission segment) is reported as Other in the table below.

The material portion of the Other balance is made up of the following discrete activities:

1 **System operator** – the provision of real time services to ensure the short term security of the New Zealand electricity system.

2 **RRL** – established in 2001 to provide insurance services to the Group.

Segment results are determined based on information provided to the Chief Operating Decision Maker. They are calculated using the ACAM method (avoidable cost allocation methodology).

Major customers

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

CUSTOMER	% OF GROUP REVENUE	SEGMENT
Vector Limited	19.0 (2014: 18.6)	Transmission
Meridian Energy Limited	10.6 (2014: 12.6)	Transmission

	TRANSMISSION		OTHER		ADJUSTMENTS		TOTAL	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$M	$M	$M	$M	$M	$M	$M	$M
External revenue	980.4	938.0	52.8	53.0	3.8	2.5	1,037.0	993.5
Operating expenses								
Grid maintenance	103.0	102.0	–	–	(11.7)	(15.5)	91.3	86.5
IST maintenance	39.0	40.0	5.8	4.8	(8.7)	(10.9)	36.1	33.9
Other	103.0	126.0	26.5	27.0	24.7	13.8	154.2	166.8
Total operating expenses	245.0	268.0	32.3	31.8	4.3	(12.6)	281.6	287.2
Capex	347.0	487.0	12.0	15.0	–	–	359.0	502.0

The adjustments are primarily made up of:

	2015	2014	**EXPLANATION**
	$M	$M	
External revenue	4.1	3.1	Financial statements includes imputed interest in non operating expenses: "net finance expenses" (note 5)
Grid maintenance	(1.5)	(2.3)	Financial statements includes communication system maintenance in IST maintenance
Grid maintenance	(3.3)	(3.0)	Financial statements includes Grid skills cost of sales in other operating expenses
Grid maintenance	(6.9)	(6.4)	Financial statements includes maintenance support costs in other operating expenses
Grid maintenance	–	(4.1)	Financial statements includes rates in other operating expenses (in 2014, they are excluded from management report)
IST maintenance	(11.3)	(13.3)	Financial statements includes IST leases in other operating expenses
IST maintenance	1.5	2.3	The management report includes communication system maintenance as grid maintenance
Total operating expenses	(11.9)	(12.6)	The management report excludes intercompany insurance premiums paid by the transmission segment to RRL
Total operating expenses	9.6	–	In 2015, the management report excludes industry levies because they are a regulatory pass through
Total operating expenses	4.1	–	In 2015, the management report excludes rates because they are a regulatory pass through
Total operating expenses	2.5	–	In 2015, the management report excludes HVDC reserves because they are a regulatory pass through

Notes to the financial statements continued

for the year ended 30 June 2015

20. OPERATING LEASE COMMITMENTS

	GROUP 2015 $M	GROUP 2014 $M
Commitments in respect of non-cancellable operating leases payable:		
Within one year	16.0	16.3
One to two years	14.6	16.6
Two to five years	43.3	37.1
Later than five years	143.0	118.3
Total operating lease commitments	216.9	188.3

The lease commitments primarily relate to the leasing of fibre optic cables for Transpower's communications network. The increase in lease commitments primarily relates to a lease on a building for Transpower's new Wellington office. The lease commences in 2017.

21. CAPITAL COMMITMENTS

	GROUP 2015 $M	GROUP 2014 $M
Capital commitments in respect of contracts for property, plant and equipment:		
Within one year	80.4	132.8
One to two years	–	0.1
Two to three years	–	–
Three to four years	–	–
Four to five years	–	–
Greater than five years	–	–
	80.4	132.9
Capital commitments in respect of contracts for intangible assets:		
Easements and right to access assets	0.5	1.1
Software	–	0.4
	0.5	1.5
Total capital commitments	80.9	134.4

22. CONTINGENCIES

(i) Regulation and capital projects

Transpower is allowed to recover from transmission customers the project costs approved by the regulator for major grid upgrades. Since 2010, major grid upgrades have been approved by the Commerce Commission ("the Commission"). Prior to that date major grid upgrades were approved by the Electricity Commission. If expenditure on a major grid upgrade project exceeds the amount initially approved, Transpower must apply to the Commission for approval to recover the additional expenditure.

NIGU Project

The North Island Grid Upgrade project (NIGU) which involved the construction of a new double circuit 400kV capable transmission line between Whakamaru and Auckland was commissioned in October 2012. The current maximum cost approved by the regulator for NIGU is $824 million. The final cost of the project exceeds this amount by approximately $70 million. Transpower has made an application to the Commission to permit recovery of $876 million, $18 million less than the cost.

On the 23rd April the Commission made a draft decision that amended the outputs of the project and permitted recovery of $876 million. On the 6th August 2015 the Commission confirmed its draft decision. Therefore, the contingent liability no longer exists post balance date.

Notes to the financial statements continued

for the year ended 30 June 2015

22. CONTINGENCIES continued

(ii) 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.

(iii) Economic gain (loss) account

Transpower operates its revenue setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass onto or claim from customers the economic value of the net balance of any historical gains or losses incurred prior to 30 June 2012 over the regulatory periods until June 2020. Historical balances are those that pre-date the input methodologies developed by the Commission. In addition to the historical balances, further economic gains or losses arising from the beginning of Regulatory Control period one, which commenced on 1 July 2012 are required to be passed on or claimed from customers in the following pricing year.

The provisional balances and expected cash flows from the EV accounts for HVAC and HVDC customers at 30 June 2015 are set out below. The provisional 2015 numbers do not take into account the EV balances to be recovered (paid) in the period 1 April 2016 to 31 March 2017. These figures will not be finalised until October 2015. The 2014 balances have been restated from the 2014 financial statements for imputed interest and also to align with the financial year (ending June) rather than the pricing year (ending March).

	HVAC	HVDC	TOTAL
	$M	$M	$M
30 June 2015 provisional balance			
Pre input methodology EV balances to be recovered (paid) 1 July 2015 to 31 March 2020	(35.9)	71.6	35.7
Post input methodology EV balances to be recovered (paid) 1 July 2015 to 31 March 2016	(11.0)	3.0	(8.0)
Total to be recovered (paid)	(46.9)	74.6	27.7
30 June 2014 balance			
Pre input methodology EV balances to be recovered (paid) 1 July 2014 to 31 March 2020	(41.7)	83.2	41.5
Post input methodology EV balances to be recovered (paid) 1 July 2014 to 31 March 2015	(9.6)	(6.4)	(16.0)
Post input methodology EV balances to be recovered (paid) 1 April 2015 to 31 March 2016	(12.6)	3.3	(9.3)
Total to be recovered (paid)	(63.9)	80.1	16.2

(iv) Various other lawsuits, claims and investigations

Various other lawsuits, claims and investigations have been brought or are pending against the Group. The directors of Transpower cannot reasonably estimate the adverse effect (if any) on the Group if any of the foregoing claims are ultimately resolved against the Group's interests.

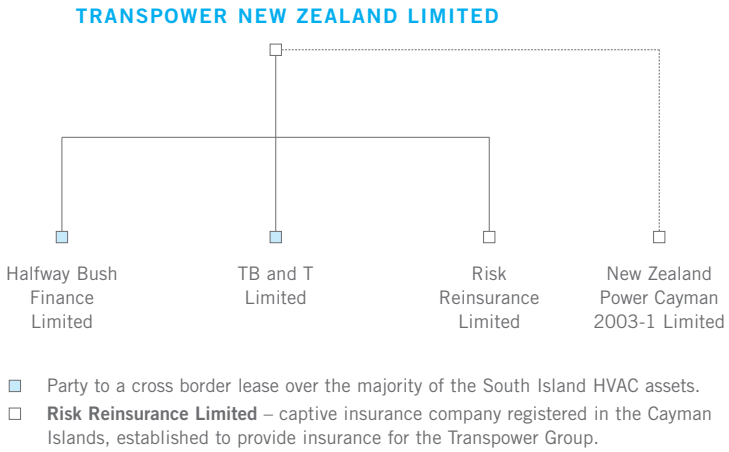
Notes to the financial statements continued

for the year ended 30 June 2015

23. GROUP ENTITIES

All subsidiaries are wholly owned, are incorporated in New Zealand (except where specified otherwise) and have a balance date of 30 June 2015. 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 10 NZPCL debt and investment for more detail. Risk Reinsurance Limited is registered and incorporated in the Cayman Islands.

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.
- **Risk Reinsurance Limited** – captive insurance company registered in the Cayman Islands, established to provide insurance for the Transpower Group.

On 1 July 2015, Transpower incorporated a new subsidiary, emsTradepoint Limited (emsTP). emsTP is 100% owned by Transpower and was previously operating as a department of Transpower. emsTP facilitates the buying and selling of natural gas in New Zealand.

24. RELATED PARTIES

Transactions with key management personnel

The Group did not conduct any business with key personnel.

Key management personnel compensation

Key personnel received the following compensation for their services to the Group.

	GROUP	
	2015	**2014**
	$M	$M
Directors' fees	0.5	0.5
Other key management personnel	4.8	6.4
Defined contribution schemes	0.2	0.2

Included in the above are termination payments to key management personnel of $0.4 million in 2015 (2014: $0.6 million). There was no long term compensation paid to key management personnel.

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	
	2015	**2014**
	$M	$M
Meridian Energy Limited – revenue	109.6	124.8
Electricity Authority – revenue	41.8	38.0

Notes to the financial statements continued

for the year ended 30 June 2015

24. RELATED PARTIES continued

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

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

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

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.

25. SIGNIFICANT JUDGEMENTS / ESTIMATES

Non current assets

Transpower has exercised judgement, with assistance from independent engineers, in determining the useful life of property, plant and equipment and finite life intangible assets. Transpower has also used judgement to determine the appropriate component level of asset at which to depreciate and whether or not an item is capital in nature.

Fair values of debt, derivatives and deposits

A key estimate has been made in regard to the fair values of debt, derivatives and deposits. Fair values are determined upon discounting cash flows based upon the relevant yield curve. The yield curve is adjusted to reflect the credit spread of the counterparty to the transaction or Transpower. These valuations are considered level two in the NZ IFRS three level valuation hierarchy.

26. ALTERNATIVE PROFIT MEASURE

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.

Changes in financial instrument values are driven by external interest rate movements and changes in Transpower's or its counterparties' creditworthiness. Transpower is not in the business of trading financial instruments and generally holds the financial instruments until maturity. The fair value movements are non-cash in nature.

Transpower has consistently reported an alternative profit on this basis since the adoption of IFRS.

27. SUBSEQUENT EVENTS

The directors approved the payment of a final dividend on 28 August 2015 of $112.8 million. The dividend will be fully imputed.

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

Chartered Accountants

To the readers of Transpower New Zealand Limited Group's Financial Statements
for the year ended 30 June 2015

The Auditor-General is the auditor of Transpower New Zealand Limited and its New Zealand domiciled subsidiaries. The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the group, consisting of Transpower New Zealand Limited and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

Opinion

We have audited the financial statements of the Group on pages 34 to 72, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2015; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 28 August 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

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

Independent Auditor's Report continued

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand (being in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Markets Conduct Act 2013.

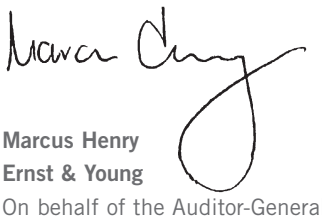
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the area of other assurance services, training and remuneration benchmarking, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.



Marcus Henry
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

BOARD OF DIRECTORS

CHAIRMAN
MARK VERBIEST

DEPUTY CHAIRMAN
DON HUSE

DIRECTORS
MIKE POHIO
KEITH TEMPEST
JAN EVANS-FREEMAN
PIP DUNPHY
TIM LUSK

GENERAL MANAGEMENT TEAM

CHIEF EXECUTIVE
ALISON ANDREW

CHIEF FINANCIAL OFFICER
ALEX BALL

GENERAL MANAGER SYSTEM OPERATIONS
JOHN CLARKE

GENERAL MANAGER GRID DEVELOPMENT
STEPHEN JAY

GENERAL MANAGER PEOPLE
JENNIFER KERR

GENERAL COUNSEL AND COMPANY SECRETARY
DAVID KNIGHT

GENERAL MANAGER CUSTOMERS, STAKEHOLDERS AND ENVIRONMENT
RAEWYN MOSS

GENERAL MANAGER INFORMATION SERVICES AND TECHNOLOGY
COBUS NEL

GENERAL MANAGER TRANSFORMATION
ROY NOBLE

GENERAL MANAGER GRID PROJECTS
KEVIN SMALL

GENERAL MANAGER GRID PERFORMANCE
JIM TOCHER

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