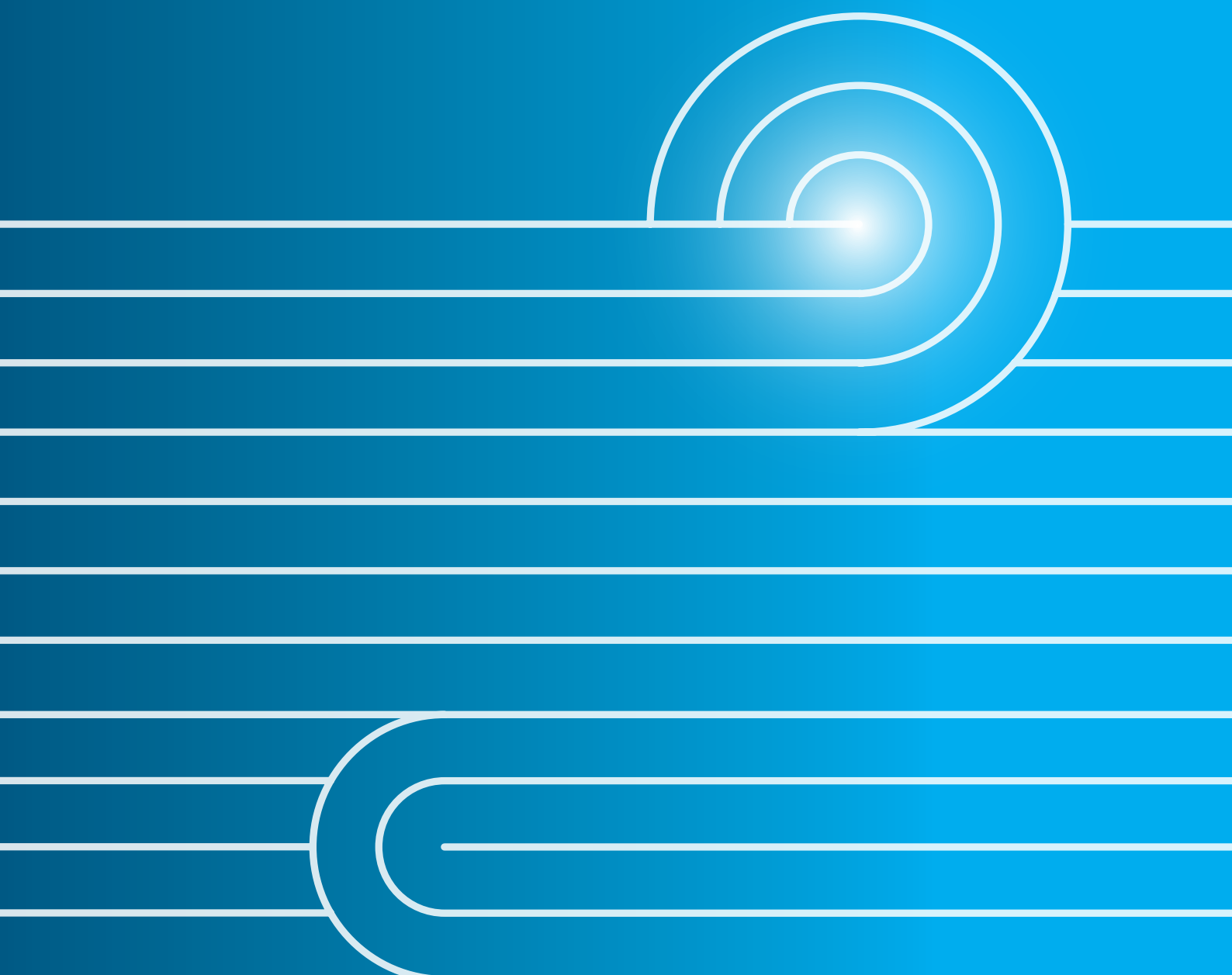
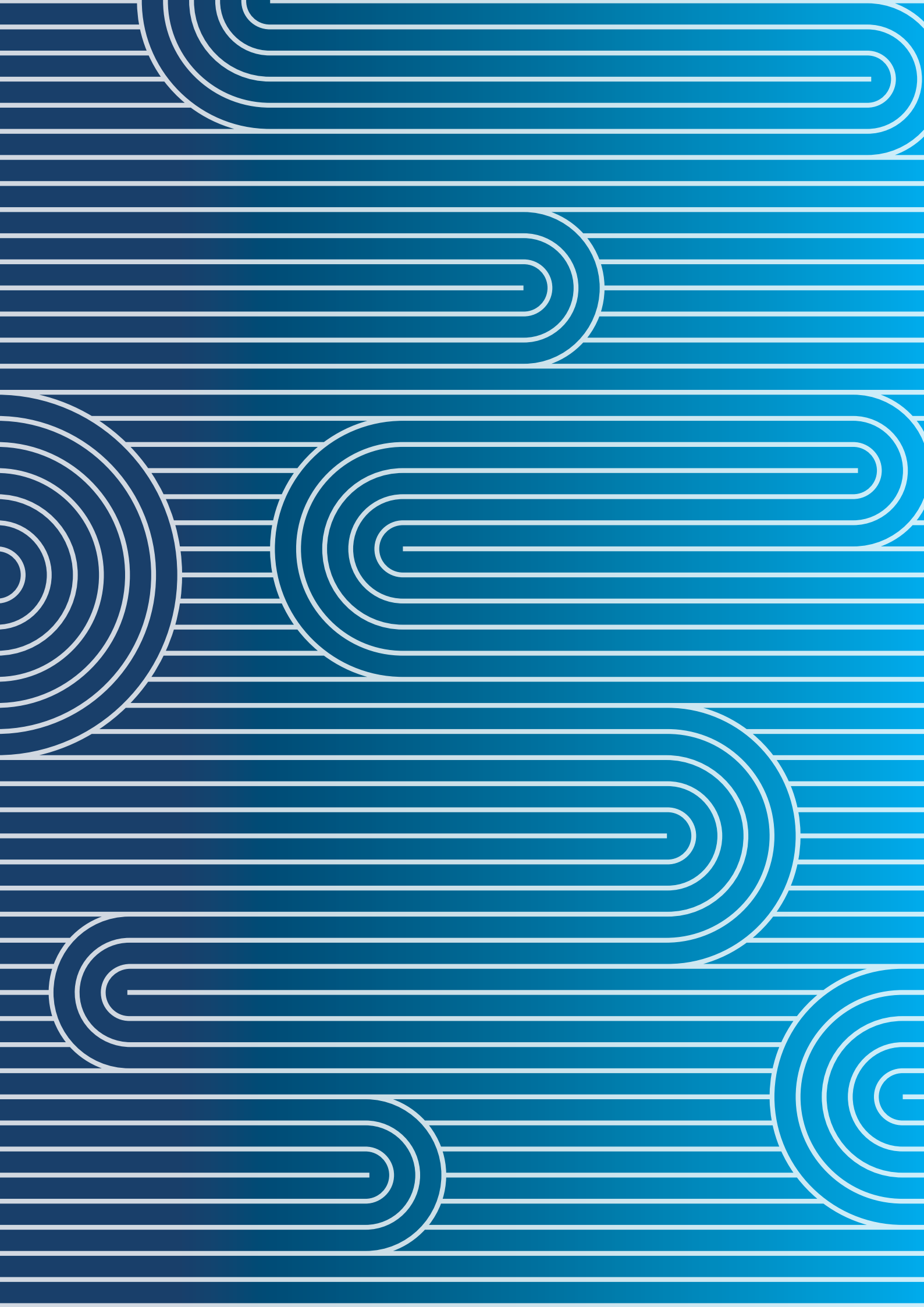


# Interim Report 2023/24





## FINANCIAL STATEMENTS

Six months ended 31 December 2023

# Introduction

On behalf of the Board and Management, we are pleased to share Transpower New Zealand's financial results for the six months ending 31 December 2023.

Our first half results for the 2024 financial year were stable, both in terms of performance and returns to shareholders. Operating revenue increased by 4% to \$465 million (2022: \$448 million).

Operating expenses were \$186 million, a 12% increase from the previous period (2022: \$166 million), primarily due to higher maintenance costs from price increases, ongoing Cyclone Gabrielle remediation work and higher resourcing costs.

Net profit after tax was \$68 million, a 6% increase from the previous period (2022: \$64 million), primarily due to lower dismantling costs.

Capital expenditure was \$199 million, a 15% increase from the previous period (2022: \$173 million), in line with Transpower's approved capital programme.

The Board has declared an interim dividend of 4 cents/share or \$44 million, representing 40% of the expected full-year dividend forecast in Transpower's 2023/24 Statement of Corporate Intent (SCI).

Transpower has maintained its financial performance despite ongoing supply chain disruptions, higher maintenance and resourcing costs, and the ongoing impacts of Cyclone Gabrielle. Despite challenges, we are on track to achieve our targets set out in the SCI other than HVAC availability, which is predominantly related to cable fault repairs in Auckland.

Last December, the Commerce Commission released its 2023 Input Methodology decision, confirming Transpower's regulated asset base will be inflation indexed from its fourth regulatory control period (RCP4). The Board notes that this decision will materially reduce the revenue that Transpower will derive over the next ten to fifteen years.

This decision comes at a time when the Board is considering the necessary funding for the level of investment required to accommodate increased electrification.

The final outcome of its submission to the Commerce Commission for funding for Transpower's 2025 to 2030 work programme will not be known until closer to the end of 2024, but it is likely that the combination of reduced revenue and increased investment expectations from 2025 onwards will require consideration of the level of dividend that the company can sustain. For the current year, the Board has elected to declare an interim dividend in line with its SCI, given the stable half-year result.

Transpower submitted its RCP4 proposal to the Commerce Commission in November 2023, setting out its vision for the national grid between 2025 and 2030.

We are forecasting capital expenditure of \$2.25 billion across 2025 to 2030, up 32% from our current five-year period. We are beginning a period of intensified work on the grid over the next 10 to 15 years to replace or upgrade existing assets for better resilience as they come to end-of-life, as well as additional work to harden the grid and increase its capacity to address new generation, load, and demand.

This work is critical to ensuring New Zealanders continue to have a safe and reliable national grid. It's also an essential foundation for future enhancements to the grid to support electrification and Aotearoa's transition to a net zero carbon future.

As we enter a period of strong electricity demand growth, we remain on track to ensure we continue to be a modern and efficient national grid operator, focused on empowering the energy future for New Zealand.



**Dr Keith Turner**  
Chair



**Alison Andrew**  
Chief Executive



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# Statement of profit or loss and other comprehensive income

For the six months ended 31 December 2023

Group (\$m)	Notes	2023 Unaudited	2022 Unaudited
<b>Operating revenue</b>	<b>A1</b>	<b>465</b>	<b>448</b>
<b>Operating expenses</b>	<b>A2</b>	<b>186</b>	<b>166</b>
<b>Earnings before interest, tax, depreciation, amortisation, asset write-offs, impairment and changes in the fair value of financial instruments (EBITDAIF)</b>		<b>279</b>	<b>282</b>
Depreciation, amortisation, asset write-offs, dismantling and impairment	B1	144	156
Net interest expense	C4	49	46
<b>Net profit before tax and changes in the fair value of financial instruments</b>		<b>86</b>	<b>80</b>
Gain in the fair value of financial instruments	D2	8	8
<b>Net profit before tax</b>		<b>94</b>	<b>88</b>
Income tax expense		26	24
<b>Net profit</b>		<b>68</b>	<b>64</b>
Attributable to:			
Non-controlling interest		1	-
Owners of the parent		67	64
<b>Other comprehensive income/(expenses)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Net (loss) on credit spread changes on own debt	D2	(5)	(8)
<i>Items that may be reclassified to profit or loss</i>			
Net gain/(loss) on cash flow hedges	D2	(47)	20
<b>Other comprehensive income/(expenses)</b>		<b>(52)</b>	<b>12</b>
Attributable to:			
Non-controlling interest		-	-
Owners of the parent		(52)	12
<b>Total comprehensive income/(expenses)</b>		<b>16</b>	<b>76</b>
Attributable to:			
Non-controlling interest		1	-
Owners of the parent		15	76

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

# Statement of financial position

As at 31 December 2023

Group (\$m)	Notes	2023 31 December Unaudited	2023 30 June Audited
<b>Current assets</b>			
Cash and cash equivalents		73	396
Investments		30	35
Trade receivables and other assets		112	81
Derivative financial instruments	D1	117	150
		<b>332</b>	<b>662</b>
<b>Non-current assets</b>			
Trade receivables and other assets		8	7
Derivative financial instruments	D1	128	137
NZPCL investment		85	82
Property, plant and equipment	B1	5,203	5,135
Intangible assets	B1	388	394
		<b>5,812</b>	<b>5,755</b>
<b>Total assets</b>		<b>6,144</b>	<b>6,417</b>
<b>Current liabilities</b>			
Trade and other payables		100	117
Tax payable		5	8
Deferred income		1	1
Derivative financial instruments	D1	53	68
Provisions		28	27
Borrowings	C3	175	609
Lease liabilities		9	8
		<b>371</b>	<b>838</b>
<b>Non-current liabilities</b>			
Deferred income		198	187
Derivative financial instruments	D1	28	56
Provisions		36	44
Borrowings	C3	2,965	2,683
NZPCL debt		87	85
Lease liabilities		79	83
Deferred tax		589	594
		<b>3,982</b>	<b>3,732</b>
<b>Total liabilities</b>		<b>4,353</b>	<b>4,570</b>

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



Group (\$m)	Notes	2023 31 December Unaudited	2023 30 June Audited
<b>Equity</b>			
Capital		1,200	1,200
Retained earnings		506	516
Cash flow hedge reserve		87	134
Non-controlling interest		(2)	(3)
<b>Total equity</b>		<b>1,791</b>	<b>1,847</b>
<b>Total funds employed</b>		<b>6,144</b>	<b>6,417</b>

The Board of Directors of Transpower New Zealand Limited authorised these financial statements for issue on 27 February 2024.

For, and on behalf of, the Board



**Dr Keith Turner**  
Chair



**Michele Embling**  
Chair of Audit and Risk Committee

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



# Statement of changes in equity

For the six months ended 31 December 2023

Group Unaudited (\$m)	Notes	Ordinary shares	Retained earnings	Cash flow hedge reserve	Owners of the Parent	Non controlling interest	Total
Equity at 1 July 2023		1,200	516	134	1,850	(3)	1,847
Net profit		-	67	-	67	1	68
Other comprehensive income/(expense)		-	(5)	(47)	(52)	-	(52)
<b>Total comprehensive income</b>		<b>-</b>	<b>62</b>	<b>(47)</b>	<b>15</b>	<b>1</b>	<b>16</b>
Dividends paid	C2	-	(72)	-	(72)	-	(72)
<b>Total equity at 31 December 2023</b>		<b>1,200</b>	<b>506</b>	<b>87</b>	<b>1,793</b>	<b>(2)</b>	<b>1,791</b>
Equity at 1 July 2022		1,200	522	138	1,860	(1)	1,859
Net profit		-	64	-	64	-	64
Other comprehensive income/(expense)		-	(8)	20	12	-	12
<b>Total comprehensive income</b>		<b>-</b>	<b>56</b>	<b>20</b>	<b>76</b>	<b>-</b>	<b>76</b>
Dividends paid	C2	-	(72)	-	(72)	-	(72)
<b>Total equity at 31 December 2022</b>		<b>1,200</b>	<b>506</b>	<b>158</b>	<b>1,864</b>	<b>(1)</b>	<b>1,863</b>

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





# Statement of cash flows

For the six months ended 31 December 2023

Group (\$m)	Notes	2023 Unaudited	2022 Unaudited
Receipts from customers		453	460
Interest received		7	4
Payments to suppliers and employees		(216)	(185)
Tax payments		(14)	(20)
Interest paid		(60)	(56)
<b>Operating cash flows</b>		<b>170</b>	<b>203</b>
Sale of property, plant and equipment		-	1
Sale of investments		19	51
Purchase of property, plant and equipment and intangibles		(212)	(188)
Purchase of investments		(13)	(1)
<b>Investing cash flows</b>		<b>(206)</b>	<b>(137)</b>
Proceeds from bonds, term debt and commercial paper		225	415
Collateral received/(paid)		2	(26)
Dividends paid	C2	(72)	(72)
Payment of lease liabilities		(4)	(4)
Repayment of bonds, term debt and commercial paper		(438)	(303)
<b>Financing cash flows</b>		<b>(287)</b>	<b>10</b>
Net increase/(decrease) in cash flow		(323)	76
Cash at the beginning of the period		396	58
Cash at the end of the period		73	134
Cash comprises:			
Bank balances and on-call deposits		68	56
Restricted cash - retention money held on trust		5	3
Short-term deposits with original maturity less than three months		-	75

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

## Cash flow statement reconciliation

A reconciliation of net profit to operating cash flows is provided below:

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Net profit</b>	<b>68</b>	<b>64</b>
<b>Add/(deduct) non-cash items:</b>		
Gain in the fair value of financial instruments	(8)	(8)
Depreciation, amortisation, asset write-offs and impairment	144	156
Deferred tax	15	5
Capitalised interest	(3)	(3)
<b>Movements in working capital items:</b>		
(Increase) in trade and other assets	(29)	(2)
(Increase) in trade and other payables, interest payable and deferred income	(15)	(8)
(Decrease)/increase in taxation payable	(3)	(1)
Increase in provisions	1	-
<b>Operating cash flows</b>	<b>170</b>	<b>203</b>

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



# About this report

## Reporting entity

These interim financial statements are for Transpower New Zealand Limited (Transpower) and its subsidiaries (together the Group). Transpower is a state-owned enterprise registered in New Zealand under the Companies Act 1993 and is a FMC reporting entity under the Financial Markets Conduct Act 2013.

The Group is the owner and operator of New Zealand's national electricity grid and its operations are not considered seasonal or cyclical in nature.

Transpower's interim financial statements for the six months ended 31 December 2023 provide a summary of Transpower's performance for the period and outline significant changes to information reported in the audited financial statements for the year ended 30 June 2023 (FY23 Integrated Annual Report). The interim financial statements should be read in conjunction with the FY23 Integrated Annual Report.

## Basis of preparation

Transpower's interim financial statements are prepared:

- in accordance with New Zealand generally accepted accounting practice (GAAP) as appropriate for interim financial statements, and comply with NZ IAS 34: *Interim Financial Reporting* and IAS 34: *Interim Financial Reporting*, as appropriate for profit-oriented entities.
- in accordance with the requirements of the Financial Markets Conduct Act 2013 and the State-Owned Enterprise Act 1986.
- in millions of New Zealand dollars (NZD), unless otherwise noted.
- on a historical cost basis, except for certain investments and financial instruments held at fair value.
- using the same accounting policies and significant estimates and critical judgements disclosed in the FY23 Integrated Annual Report.

## New accounting standards

All mandatory amendments and interpretations have been adopted in the period. None have had a material impact on these financial statements.

There are no new accounting standards issued, but not yet effective, which materially impact the Group.

## Non-GAAP measures

Transpower use non-GAAP measures that are not in accordance with NZ IFRS. These non-GAAP measures provide useful information to users of the financial statements to assist in understanding financial performance. These measures are also used internally to evaluate performance and have been consistently applied.

Non-GAAP measures included in these financial statements are:

**EBITDAIF** - Earnings before interest, tax, depreciation, amortisation, asset write-offs, impairment and changes in the fair value of financial instruments. EBITDAIF adds back net interest expense, depreciation, amortisation, asset write-offs and impairment to earnings before tax and changes in the fair value of financial instruments.



## A. Financial Performance

### A1. Operating revenue

For the six months ended 31 December 2023

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Transmission revenue</b>		
Interconnection	362	353
Connection	59	62
EV (rebate)	(12)	(12)
Other regulated transmission	7	2
Customer investment contracts	14	12
Undergrounding and transmission realignment	2	2
Other transmission	3	1
<b>Total transmission revenue</b>	<b>435</b>	<b>420</b>
<b>Other revenue</b>		
System operator	25	22
Other	5	6
<b>Total other revenue</b>	<b>30</b>	<b>28</b>
<b>Total operating revenue</b>	<b>465</b>	<b>448</b>

#### Description

Transmission revenue is regulated and set by the Commerce Commission (the Commission). It 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 entered into with customers to build grid connection assets.

Undergrounding and transmission realignment contracts are entered into with third parties to underground and/or realign certain transmission line assets.

System operator income relates to payments received to operate the electricity market, to dispatch generation.



## A2. Operating expenses

For the six months ended 31 December 2023

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Grid maintenance</b>		
Substations maintenance - HVAC	29	24
Substations and cables maintenance - HVDC	9	6
Lines maintenance - HVAC	21	19
Lines maintenance - HVDC	1	1
Transmission-related rates	3	3
Other	4	5
	<b>67</b>	<b>58</b>
<b>IST maintenance and operations</b>		
Support and maintenance	9	8
Outsourced services	8	7
Licences	7	6
Other IST	1	1
	<b>25</b>	<b>22</b>
<b>Other operating expenses</b>		
Investigations	14	11
Ancillary service costs	1	3
Employee benefits	74	67
Capitalised salary costs	(15)	(14)
Salary transferred to investigations	(5)	(4)
Contractors and consultants	6	6
Industry levies	8	5
Insurance	4	4
Travel and vehicle costs	2	2
Other business support costs	5	6
	<b>94</b>	<b>86</b>
<b>Total operating expenses</b>	<b>186</b>	<b>166</b>

### Description

Grid maintenance includes inspection, servicing and repair costs. Other grid maintenance expenses include maintenance support, communication systems costs and training for service providers and third parties.

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

Investigations include work conducted prior to the commencement of a capital project, updates to maintenance standards and demand-response costs.

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



## A3. Auditor's remuneration

For the six months ended 31 December 2023

Fees paid to Transpower's auditor (Ernst & Young) were \$570,000 (2022: \$598,000).

Group (\$000)	2023 Unaudited	2022 Unaudited
Audit and review of the statutory financial statements		
Year-end audit	269	265
Review of the half year financial statements	65	-
	<b>334</b>	<b>265</b>
Audit or review related services required by legislation to be provided by the auditors		
Trust deed requirements <sup>1</sup>	7	7
Annual solvency return review	15	-
Annual regulatory disclosure review	158	150
	<b>180</b>	<b>157</b>
Other assurance services where there is discretion as to whether the service is provided by the auditor or another firm		
Assurance engagement		
Independent review of TPM development <sup>2</sup>	-	75
Independent review of Carbon footprint report	43	42
Independent review of Independent Price-Quality Path (IPP) reopener	-	45
Independent review of financial model	9	11
	<b>52</b>	<b>173</b>
Other services		
Acquisition of remuneration benchmarking reports <sup>3</sup>	4	3
	<b>4</b>	<b>3</b>
<b>Total auditor's remuneration</b>	<b>570</b>	<b>598</b>

1. Trust deed requirements include fees to review Directors' certificates in relation to debt held against one trust deed.

2. This includes the independent review of Transpower's models, calculations and assumptions under the new Transmission Pricing Methodology (TPM). The new TPM was effective from 1 April 2023.

3. The provision of the remuneration benchmarking reports, which provide market-based sector information and no specific recommendations to Transpower, is not considered to impact on auditor independence.

## A4. Segment performance

For the six months ended 31 December 2023

The Group's segments are:

- **Transmission** - the transmission of electricity from the point of generation to the point of connection.
- **System operator** - operates the electricity market to dispatch generation to ensure the short term security of the New Zealand electricity system.
- **Other** - the material portion includes Risk Reinsurance Limited (RRL), which provides insurance services for the group.

External revenue is derived from New Zealand customers and assets based in New Zealand. The Group has no other reportable segments.

Group Unaudited (\$m)	Transmission		System Operator		Other		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
External revenue	435	420	25	22	5	6	465	448
Capex	195	165	4	8	-	-	199	173



## B. Assets

### B1. Property, plant and equipment and intangible assets

#### Property, plant and equipment

Group (\$m)	31 December 2023 Unaudited	31 December 2022 Unaudited	30 June 2023 Audited
Opening net book value	5,135	5,048	5,048
Additions	203	173	384
Transfers to intangible assets	(10)	(19)	(33)
Disposals	(2)	(2)	(21)
Depreciation	(123)	(120)	(245)
(Impairment)/reversal	-	1	2
<b>Closing net book value</b>	<b>5,203</b>	<b>5,081</b>	<b>5,135</b>

The above includes lease assets, which primarily relate to the lease of fibre optic cables for Transpower's communication network and property leases for office buildings and IT data centres.

#### Intangibles

Group (\$m)	31 December 2023 Unaudited	31 December 2022 Unaudited	30 June 2023 Audited
Opening net book value	394	395	395
Transfers from work in progress	10	19	33
Amortisation	(17)	(17)	(33)
(Impairment)/reversal	1	-	(1)
<b>Closing net book value</b>	<b>388</b>	<b>397</b>	<b>394</b>

#### Depreciation, amortisation, write-offs and dismantling

For the six months ended 31 December 2023

Group (\$m)	2023 Unaudited	2022 Unaudited
Depreciation	123	120
Amortisation	17	17
Impairment/(reversal)	(1)	(1)
Net loss on disposal	2	5
Dismantling expense	3	15
	<b>144</b>	<b>156</b>

#### Capital Commitments

At 31 December 2023, Transpower has \$286 million of property, plant and equipment commitments (31 December 2022: \$200 million, 30 June 2023: \$223 million), of which \$277 million is due within one year of balance date.





## C. Funding

### C1. Net tangible assets per share

Group (\$m)	31 December 2023 Unaudited	31 December 2022 Unaudited
Net assets/(equity)	1,791	1,863
Less intangible assets	(388)	(397)
<b>Total net tangible assets</b>	<b>1,403</b>	<b>1,466</b>
<b>Net tangible assets per share (\$)</b>	<b>1.17</b>	<b>1.22</b>

Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. The non-GAAP measure above is disclosed to comply with NZX Debt Market Listing Rule - Appendix 2 / 2 (f).

### C2. Dividends

For the six months ended 31 December 2023

#### Dividends declared and paid

Group (\$m)	2023 Unaudited		2022 Unaudited	
	(\$m)	cents per share	(\$m)	cents per share
Final dividend declared	72	6	72	6
	<b>72</b>	<b>6</b>	<b>72</b>	<b>6</b>
<b>Interim dividend declared</b>	<b>44</b>	<b>4</b>	<b>48</b>	<b>4</b>

On 27 February 2024, the Directors approved the payment of an interim dividend of \$44 million. The dividend will be partially imputed and is expected to be paid on 20 March 2024.



## C3. Borrowings

### Green Financing

Transpower's Green Finance Programme ("the Programme") supports Transpower's commitment to achieve a net-zero carbon transmission grid. Transpower has achieved a Programmatic Certification with the Climate Bonds Standard Version 3.0.

The Programme covers both existing and future issuances of Transpower's borrowings instruments, the proceeds of which are allocated to finance or refinance Eligible Green Assets - Transpower's transmission lines and substations, key enabling infrastructure in supporting the increasing take up of renewable generation in New Zealand.

The following instruments listed are all certified as Green Financing Instruments under the Programme.

Group (\$m)	Issuance	Maturity	Coupon (%)	31 December 2023 Unaudited	30 June 2023 Audited
<b>Domestic Commercial Paper</b>					
NZ Issue	NZ\$25	4-Mar-24	5.65	25	-
<b>Domestic Bonds</b>					
Bonds 2024	NZ\$150	14-Mar-24	2.73	150	148
Bonds 2025	NZ\$125	6-Mar-25	3.82	124	123
Bonds 2025	NZ\$175	9-Jun-25	BKBM + 0.32	176	176
Bonds 2025	NZ\$450	4-Sep-25	1.74	429	417
Bonds 2026	NZ\$150	8-Apr-26	1.52	140	135
Bonds 2026	NZ\$200	8-Sep-26	2.05	188	182
Bonds 2026	NZ\$200	14-Sep-26	BKBM + 0.37	202	-
Bonds 2027	NZ\$200	16-Sep-27	4.63	204	198
Bonds 2028	NZ\$100	15-Mar-28	5.89	107	105
<b>Australian Medium Term Notes</b>					
AUD MTN 2023	AU\$300	28-Aug-23	5.75	-	333
AUD MTN 2028	AU\$200	29-Nov-28	4.98	220	218
AUD MTN 2030	AU\$300	30-Jun-30	5.23	338	325
<b>Swiss Bonds</b>					
CHF MTN 2027	CHF125	16-Dec-27	0.02	221	208
CHF MTN 2029	CHF160	16-Mar-29	0.04	278	260
<b>US Private Placement</b>					
USPP 2023	US\$78	13-Oct-23	3.58	-	128
USPP 2026	US\$75	28-Jun-26	2.81	115	114
USPP 2026	US\$70	13-Oct-26	3.83	111	111
USPP 2028	US\$75	28-Jun-28	2.91	112	111
<b>Carrying value of borrowings</b>				<b>3,140</b>	<b>3,292</b>
<i>Comprising</i>					
Current				175	609
Non-current				2,965	2,683



## Description

Debt is reported at fair value and therefore reflects value movements due to interest rate and exchange rate fluctuations. These valuations are considered level two in the fair value hierarchy and are unchanged from 30 June 2023

Changes in borrowings	31 December 2023 Unaudited	30 June 2023 Audited
As at 1 July	3,292	2,928
Net cash borrowed/(repaid)	(213)	387
Non-cash change in fair value adjustment through P&L	58	(51)
Non-cash change in fair value adjustment through OCI	6	21
Other	(3)	7
<b>Closing carrying value</b>	<b>3,140</b>	<b>3,292</b>

## C4. Net interest expense

For the six months ended 31 December 2023

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Interest revenue</b>		
Interest received	7	4
	<b>7</b>	<b>4</b>
<b>Interest expense</b>		
Interest expense and associated fees	52	46
Capitalised interest	(3)	(3)
Lease interest	2	2
Imputed interest	5	5
	<b>56</b>	<b>50</b>
<b>Total net interest expense</b>	<b>49</b>	<b>46</b>

## Description

Capitalised interest is based on Transpower's forecast weighted average cost of borrowing, being 3.32% for the six months to December 2023 (six months to December 2022: 3.00%)

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



## D. Financial instruments used to manage risk

### D1. Derivative financial instruments

Transpower groups its derivative financial instruments into two categories:

Group (\$m)	31 December 2023 Unaudited		30 June 2023 Audited	
	Asset	Liabilities	Asset	Liabilities
<b>Borrowings related derivatives</b>				
Interest rate swaps (portfolio) - cash flow hedge accounted	148	-	210	-
Interest rate swaps (portfolio)	11	(75)	1	(103)
Cross-currency interest rate swaps	83	(3)	73	(18)
<b>Purchasing related derivatives and hedge commitment</b>				
Foreign exchange forward contracts	1	(2)	1	(2)
Commitment on fair value hedges	2	(1)	2	(1)
<b>Total derivatives and hedge commitment</b>	<b>245</b>	<b>(81)</b>	<b>287</b>	<b>(124)</b>
<i>Comprising:</i>				
Current	117	(53)	150	(68)
Non-current	128	(28)	137	(56)



## D2. Impact of derivatives on the income statement and equity

For the six months ended 31 December 2023

The tables below provide a breakdown of the change in fair value of financial instruments recognised in the statement of comprehensive income, credit spread on Borrowings and a reconciliation of movements in the cash flow hedge reserve:

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Change in fair value of financial instruments:</b>		
Hedged foreign currency purchase commitment	(1)	(2)
Foreign exchange forward contracts	1	2
<b>Fair value hedges - gain/(loss)</b>	<b>-</b>	<b>-</b>
Borrowings	(58)	115
NZPCL debt and investment	1	-
Cross-currency interest rate swaps	26	(85)
Interest rate swaps	38	(21)
Investments	1	(1)
<b>Derivatives not designated as hedges - gain/(loss)</b>	<b>8</b>	<b>8</b>
<b>Total change in fair value of financial instruments in the income statement</b>	<b>8</b>	<b>8</b>

The fair value movements in the table above do not include interest.

### Credit risk components in other comprehensive income

Group (\$m)	2023 Unaudited	2022 Unaudited
<b>Credit spread on debt</b>		
Foreign debt	(3)	(11)
NZD debt	(3)	-
Gross fair value gain/(loss)	(6)	(11)
less income tax benefit/(expense)	1	3
<b>Total change in fair value of financial instruments in other comprehensive income</b>	<b>(5)</b>	<b>(8)</b>
<b>Reconciliation of movements in the cashflow hedge reserve</b>		
As at 1 July	134	138
Effective gain/(loss) on cash flow hedges recognised directly in the cash flow hedge reserve account	(66)	28
Income tax benefit/(expense)	19	(8)
<b>As at 31 December</b>	<b>87</b>	<b>158</b>



## E. Other disclosures

### E1. Related parties

For the six months ended 31 December 2023

#### Government-related transactions

As a state-owned enterprise, Transpower transacts with other government-related entities. Significant transactions and balances (greater than \$15 million) are as follows:

Group (\$m)	2023 Unaudited	2022 Unaudited
Meridian Energy Limited - revenue	33	42
Electricity Authority - revenue	26	23
	<b>59</b>	<b>65</b>

Meridian Energy Limited (Meridian) is a majority state owned company and is an electricity generator and retailer. Meridian pays Transpower primarily for electricity transmission.

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

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

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

### E2. Contingencies

#### (i) Economic Value (EV) account

Transpower operates its revenue-setting methodology within an EV framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under the Commission regulations, Transpower is required to pass onto, or claim back from customers, the customer balance at the end of RCP2 (31 March 2020). This balance is spread evenly over the 5 years of RCP3 from 1 April 2020 to 31 March 2025. The Commission has set the annual undiscounted amount to be returned by Transpower to its customers in RCP3 at \$18 million based on the forecast closing balance at end of RCP2, which over-returns the actual customer balance by \$7 million (discounted). That over-return will be recovered from customers during RCP4.

A positive balance is an amount Transpower will recover from customers in future years. A negative balance is an amount Transpower will return to customers in future years.

The table below provides the movements in EV account balance for the disclosure year ended 30 June 2023, as shown in the published regulatory disclosure of the annual compliance statement 2022–23.

Group (\$m)	HVAC	HVDC	Total
Opening EV account balance as at 1 July 2022	28	13	41
Interest on opening balance	1	1	2
Returned/(recovered) during the year	18	-	18
To be recovered from/(paid to) customers in RCP4	18	1	19
<b>Closing EV account balance as at 30 June 2023</b>	<b>65</b>	<b>15</b>	<b>80</b>

In the six months to December 2023, Transpower spent \$2 million (six months to December 2022: \$3 million) on developing a new transmission pricing methodology (TPM). Consistent with previous years, the Commission has approved revenue reopeners for prudent and efficient TPM expenditure, allowing Transpower to recover TPM costs in RCP4. Approved TPM expenditure has been added to the closing EV account balance in RCP3, which will then be applied to revenue in RCP4.

#### (ii) Other contingencies

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.

### E3. Subsequent events

Other than dividends declared on 27 February 2024 (refer to note C2), there are no other subsequent events.

