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ANNUAL REPORT  
2015\_16

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**MARK VERBIEST**  
CHAIRMAN

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**ALISON ANDREW**  
CHIEF EXECUTIVE

**We operate at the heart of New Zealand's economy, providing connections that power our way of life. Our two roles as grid owner and real-time system operator are interdependent, and both are essential for the power system to operate successfully.**

However, our role is more than just transmitting electricity. We have a responsibility, one that we take seriously, to help meet New Zealanders' changing energy needs in a safe, affordable, reliable and sustainable way – working with our customers and stakeholders to ensure our assets and services can continue to power New Zealand for many generations to come.

This year, we reviewed and updated our previously published long-term outlook of the national grid, *Transmission Tomorrow*. In the document, we look at the evolving environment, uncertainty around emerging technologies and what role we will play in enabling a reliable and secure energy future. We have established six new strategic priorities to guide our near, medium and long-term business strategy, stewarding our activity and providing structure for our planning and reporting as we face a changing landscape.

### Our financial performance

We have performed well both financially and operationally this year, achieving all of our business plan and Statement of Corporate Intent (SCI) targets, despite a more challenging operating environment under our second 5-year Regulatory Control Period (RCP2), which began on 1 April 2016.

As indicated in last year's report, the regulatory parameters set by the Commerce Commission have resulted in a lower allowable return compared to the previous Regulatory Control Period and therefore lower financial performance than in 2014/15. As a result, our total dividend is down 13.3% to \$163 million, in line with the level set out in our SCI.

Our earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments (EBITDAIF) were \$749.4 million, a slight decrease of 0.8% from 2014/15, driven by lower revenue and a slight increase in operating costs due largely to increased asset maintenance. We held this increase to 1.2% with tight cost control and cost efficiencies identified through our major business transformation programme.

Depreciation, amortisation and write-offs increased 1.9% to \$269.3 million, reflecting significant asset commissioning last year. Our net interest expenses of \$212.3 million were down 2.3% from last year. Our net profit after tax, before net changes in the fair value of financial instruments, was \$192.9 million, a decrease of 0.9% from 2014/15. Capital expenditure (capex) for the year was \$229.7 million – a 36% reduction on last year, reflecting deferral of work into later years of RCP2 as well as efficiencies resulting from our transformation programme.

We have a major transformation programme underway across the business. A significant part of this is a programme to evolve and mature our Grid Operating Model, which came to fruition this year. More than 10 related projects were underway or completed at financial year end, expected to realise \$106 million in forecast savings over RCP2 and driving efficiency across our grid business.

### Our focus on safety and customers

Maintaining our service to customers means keeping our people and the public safe when operating around, or on, our assets. We are especially pleased this year with an improved safety performance following a major focus on reducing the level of serious injuries for our staff, contractors and all the people who work on our assets.

We met our safety targets, and injury frequency (which measures safety performance for both Transpower and our contractor service providers) is down 40% from 2014/15. Our dedicated programmes and new approach to risk management have helped ingrain a positive safety culture across our business. Our people and service providers have shown real commitment to getting home safe – especially important with the inherent risks of our operating environment.

The service we provide can be easy to take for granted – nearly everyone in New Zealand is connected to the grid, and the power system enables economic growth as well as a comfortable modern living standard. Transmission, however, is only one part of the electricity system. We are part of a wider value chain, and working closely with our customers – the generators and distributors – is critical for us to continue providing essential services to consumers.

With no major grid interruptions this year, we have exceeded our asset reliability targets. However, at generator and N-security sites (where there is no back-up supply), there were more interruptions than targeted. We continue work on confirming appropriate service levels and agreeing joint actions with our customers to optimise site operation.

In the customer survey we undertook this year, we tracked key performance metrics on experiences with our service in loss-of-supply events and project delivery. We learned we communicate promptly and effectively but need to improve our understanding of our customers' technical requirements and the time it takes us to respond to new service requests. Over the coming year, we will work closely with our customers on how to address this valuable feedback.

Pleasingly, we met our HVDC availability target of 98.9%. In the past year, the HVDC has seen around 75 GWH per week of lower-cost hydro generation transfer. Favourable hydro conditions and the Southdown and Otahuhu thermal plant decommissionings at the end of 2015 contributed to this predominantly northward transfer.

Unfortunately, we did not meet our HVAC availability target due to a high volume of scheduled maintenance work in the lower South Island. Work continues on improving our outage planning, and this year, a new change management framework has seen the average outage variation request lead time increase from 10 to 40 days, giving our customers more time to plan and communicate. We are focused on major planned outages that will require close coordination between industry stakeholders in the coming year.

### **Our asset decision making**

We manage over \$5 billion of transmission assets that help to secure consistently high reliability and availability levels for consumers. Putting a framework in place to identify risks and opportunities and enable more informed decisions in our asset management has been a key focus this year. We have planned further ahead and committed work to our service providers earlier, providing more certainty around resourcing constraints and lowering costs by reducing the amount of expensive rework and last-minute repairs.

We remain the only infrastructure company in New Zealand to hold PAS 55 international accreditation for asset management and are on track to be certified with the new international standard for asset management (ISO 55001) in the next few years.

To achieve ongoing efficiencies in the way we manage our assets and deliver grid services, we continue to take a long-term view that balances expenditure over time. Capex is down 36% from last year following the completion of work required under the last Regulatory Control Period and a number of customer projects. The reduction also reflects our deferment of capital works projects into later years based on improved asset decision making and work prioritisation and efficiency savings resulting from our ongoing transformation programme.

Our focus on continually improving our asset health modelling ensures we can optimise service levels, asset health and cost efficiencies. Fully understanding how our assets are performing enables us to make the right investment decisions that balance reliability with cost and provide real value to our customers.

We continue to access debt capital markets to fund our grid investment and refinance maturing debt. In June, to avoid uncertainty and market volatility before the UK Brexit vote, we issued USD150 million in United States Private Placement Notes with 10 and 12-year tenors, which was well received by our US-based investors.

### **Transmission pricing**

We are conscious of the impact of our capital investments on consumer pricing and are committed to keeping our component of the end-user bill as low as possible while ensuring we maintain appropriate service levels and asset health.

Operational changes to the way HVDC transmission prices are allocated, agreed with the Electricity Authority this year, have resulted in an estimated \$65 million saving to the industry and consumers. All things being equal, we would expect total savings to approximately double by the end of winter and similar savings in future years.

These operational changes were separate to the Electricity Authority's wider review of transmission pricing, including its current draft proposal for a new methodology for how transmission revenue is allocated to our customers. We have been actively involved in this process and remain committed to working with the Electricity Authority and other stakeholders to achieve the most practical and enduring solution.

As system operator, we run the electricity market in real time. This year saw us agree a new service provider agreement with the Electricity Authority, balancing risk with reward and simplifying our performance and delivery incentives. The fixed base fee within the contract will help to provide transparency to industry and create the appropriate commercial incentives to optimise our delivery.

### Board changes

Good governance is critical to achieving our business objectives and strategic priorities. In April, directors Mike Pohio and Keith Tempest retired after 7 and 5 years' service, respectively, and we would like to thank them for their valuable contribution to our strategy and results.

We welcomed new directors Hon Tony Ryall and Bill Osborne in May, and new director Dean Carroll starts in November.

### Our outlook

In the absence of unforeseen events, capex reductions in the past year and those built into our forward plan should support financial performance to be delivered in line with our regulatory benchmark for the rest of RCP2. Our capex costs for 2016/17 include investment to realise operational efficiencies as our business transformation programme enters its second year. Capex will increase in 2016/17 as we deliver our RCP2 programme while seeking further efficiencies.

Late 2017 should see a review of the Commerce Commission's input methodologies (IMs) (which determine our regulatory parameters) for the next Regulatory Control Period RCP3 (2020–2025). Our priorities are to address the impact of emerging technologies and market changes on electricity network regulation, clarify aspects of the weighted average cost of capital (WACC) and establish a clear decision-making framework and thresholds for changing the IMs.

We are planning customer and stakeholder engagement on the service levels we should achieve in RCP3 and aim to begin consultation later this year. Overall, our focus remains on operational efficiency – to maintain reliable transmission services at an appropriate price point and meet the regulated rate of return on our assets.



**ALISON ANDREW**  
CHIEF EXECUTIVE



**MARK VERBIEST**  
CHAIRMAN

## // CORPORATE GOVERNANCE AT TRANSPOWER

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.

This information confirms that our corporate governance policies, practices and procedures meet the requirements of the *Corporate Governance in New Zealand: Principles and Guidelines*, the *New Zealand Corporate Governance Forum Guidelines* and the NZX's Corporate Governance Best Practice Code in the material respects appropriate for an SOE.

### Board of Directors

Our **board** is responsible for Transpower's long-term success and supervision of our management and business affairs. The board and management are committed to ensuring that we maintain a high standard of corporate governance and adhere to high ethical standards.

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

The role and responsibilities of the board are set out in our **Board Charter**. The board has eight scheduled meetings each year and also meets whenever necessary to discuss urgent business. The chair, chief executive and general counsel and company secretary establish meeting agendas to ensure key issues are covered throughout the year. The directors generally receive materials for board meetings seven days in advance. Executive team members and other senior employees regularly attend board meetings and are also available to directors between meetings.

The board appoints the chief executive. The board delegates responsibility for Transpower's day-to-day management to the chief executive, who in turn may delegate authority to general managers. Our **Delegated Authority Policy** describes the limits of delegated authority and prescribes the matters in respect of which the board reserves its decision-making authority.

A director may obtain independent professional advice at our cost relating to Transpower's affairs or to their responsibilities as a director. Before obtaining any advice, directors must discuss the matter with the chairman. Advice relating to our affairs is then made available to the board.

Our **Directors' Interests Policy** governs how we resolve and manage the way directors' individual interests are disclosed.

### Director induction and professional development

The board introduces new directors to management and the business through induction programmes designed to suit the new director and their needs. The programme usually includes one-on-one meetings with management and site visits to key assets. New directors also receive a pack containing key information about our business and meet with the chief executive and the executive team.

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



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

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**Corporate Governance in New Zealand: Principles and Guidelines**

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

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**Corporate Governance in New Zealand: Principles and Guidelines**

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

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**Corporate Governance in New Zealand: Principles and Guidelines**

## Board committees

We have three regular board committees: the Audit and Finance Committee, the Risk Committee and the People and Performance Committee. Each board committee has **terms of reference** that outline the role, rights, responsibilities and membership requirements for that committee. Other committees may be established from time to time to consider matters of special importance or to exercise the board's delegated authority. The board is responsible for appointing committee members according to the skills, experience and other qualities they bring to the committee.

A minimum of two directors are required to sit on each committee, although typically three or more do so. Each committee is chaired by a director who is not our chairman. The directors' report section of our **annual report** shows which directors belong to each committee. The agenda, papers and minutes of each committee are provided to all directors. The board is also given a verbal report by the committee chair on the outcomes of each meeting.

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

## Audit

Our Audit and Finance Committee recommends the appointment of external auditors (subject to the authority of the Auditor-General) and manages the external audit process, including reviewing, monitoring and approving external audit and management reports.

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

The external auditor is subject to the independence rules of the Auditor-General. These rules require the audit partner to be rotated after a maximum of six years. We disclose fees paid to external auditors in our annual report and differentiate between audit fees and fees for individually identified non-audit work.

Our board, particularly through our Audit and Finance and Risk Committees, has regular dialogue with both external and internal auditors and management.

Many of our directors who are members of the Audit and Finance and Risk Committees have previous financial experience.

## Remuneration

The shareholding Ministers determine remuneration for directors, and this is paid in accordance with our **Directors' Fees and Expenses Policy**. We do not grant securities to any director.

Our People and Performance Committee oversees and approves recruitment, remuneration, retention and termination decisions and policies and procedures regarding senior management and reviews and recommends to the board the chief executive's remuneration, terms, annual key performance indicators and performance recommendations.

The **Remuneration and Performance Incentive Payment Policy** (chief executive and executive team) covers our remuneration approach specific to our chief executive and executive team, as well as its discretionary Performance Incentive Payment (PIP) Scheme, which applies to the chief executive and executive team only. The PIP Scheme is designed to incentivise and ensure appropriate alignment between individual performance and our strategic objectives. It does this by recognising employee performance and contribution over and above the normal requirements of a job through discretionary payment.

Our **Remuneration Policy** provides clarity on how employees are paid and what benefits they may receive.



## Financial reporting

Our board and management are committed to providing financial statements that are clear, concise and easy to understand. The board has an effective system of internal control for reliable financial reporting and accounting records. Our financial reporting and annual report include sufficient, meaningful information, in addition to all information required by law, to enable our shareholding Ministers and stakeholders to be well informed.

Our annual report explains that our board is directly responsible for the quality and accuracy of our financial reports and ensures our company records are complete and accurate by adopting appropriate accounting policies and applying appropriate controls and processes. The Audit and Finance Committee is responsible for reviewing and recommending the board's approval of annual and semi-annual financial reporting, including financial statements.

The committee goes through a rigorous process to ensure the quality and integrity of financial statements, including ensuring their relevance, faithful representation, verifiability, comparability and timeliness. This process includes extensive review and discussion between committee members, senior management and the auditors and certification by the chief executive and the chief financial officer, who are principally accountable to the board. Directors, through their expertise and experience, have sufficient understanding to challenge and query the accuracy and completeness of financial reports.

The **Compliance Policy**, approved by the board, states how staff are able to raise concerns about possible improprieties in financial reporting or other matters in confidence.

## Board and committee performance

Our board acts in good faith and in the best interests of the company. The board is accountable to the shareholding Ministers for our performance, and our directors hold office at the pleasure of our shareholding Ministers. The Treasury monitors and advises our shareholding Ministers on our board's performance. Each director's performance is evaluated by the chairman, and the board also evaluates its overall performance annually through external evaluations.

## Risk management

We recognise that managing risk is an essential and critical component of our business. Our board requires us to have rigorous processes for risk management and internal controls.

The board actively considers the strategic risks we face and ensures we have a framework in place to identify, assess, manage and report on major business risks. The board is responsible for determining the nature and extent of the principal risks we are willing to take in achieving our strategic objectives and leads by example to foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions. We maintain a register of key risks and the risk management actions to be undertaken in respect of those risks.

Our **Risk Management Policy** is approved by the board and reviewed annually by the Risk Committee.

The Risk Committee is responsible for ensuring that management has established a risk management framework that includes policies and procedures to effectively identify, treat and monitor principal business risks. The committee receives updates on risk management at every meeting and reports this information to the board following each meeting.

Our Risk Management Policy sets out the basis for risk management throughout all our business activities. We recognise that risks cannot be eliminated from our business – instead, we are clear about our risk appetite and proactively seek to identify and manage risk within these risk tolerances where possible.

**The board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures**

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**Corporate Governance in New Zealand: Principles and Guidelines**

**Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these**

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**Corporate Governance in New Zealand: Principles and Guidelines**

**The board should foster constructive relationships with shareholders that encourage them to engage with the entity**

**Corporate Governance in New Zealand: Principles and Guidelines**

**The board should respect the interests of stakeholders taking into account the entity's ownership type and its fundamental purpose**

**Corporate Governance in New Zealand: Principles and Guidelines**

### Shareholder relations

Through regular communications with our shareholding Ministers, we present a balanced and understandable assessment of our position to enable the Ministers to assess the company's performance, business model, strategy and prospects.

We meet with our shareholding Ministers and/or their proxies annually to examine our performance and review our strategic direction. Our shareholding Ministers are able to place items on the agenda for the annual meeting (including any governance or strategy items) and to request other meetings throughout the year if required. Our board and senior executives attend the annual shareholders' meeting and are available to answer any questions the shareholding Ministers have.

The board submits our Statement of Corporate Intent, business plan, interim report and annual report to our shareholding Ministers. We send financial information to The Treasury each month and consult when required. We also consult with our shareholding Ministers on substantial business and operational matters and those outside the scope of our core business. We announce various matters that have a material effect on our commercial value on both The Treasury's website and ours, pursuant to the SOE continuous disclosure requirements.

We report on the environmental, social and governance considerations specific to our company on our website to demonstrate to our shareholding Ministers and other stakeholders how we manage those issues.

### Stakeholder relations

We hold annual public meetings which give all our stakeholders the opportunity to learn more about our business performance, future growth, and how we are discharging our corporate social responsibility.

In addition to our shareholding Ministers, our stakeholders include other Ministers of the Crown and their ministries, The Treasury, regulators, customers, iwi, industry and business groups, contractors and suppliers, and the wider public. We invest considerable effort in maintaining productive relationships with our stakeholders. This includes providing timely and appropriate information and opportunities for feedback.

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

### Disclosure obligations

Compliance with our continuous disclosure obligations is the board's responsibility. The board must balance their oversight of our continuous disclosure compliance with our requirement to disclose material information immediately. The board examines continuous disclosure at the end of every meeting, including whether anything discussed at the meeting warrants disclosure, and reviews any disclosures made the previous month. The executive team also evaluates disclosure at their two-weekly meetings.

### 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).

Based on the register of bondholders, Transpower has at least the following number of bond holders as at 31 August 2016:

TRP010 – 462 holders

TRP020 – 180 holders

TRP030 – 194 holders

Our Insider Trading Policy and Guidelines have clear rules for when directors, officers and staff are dealing in listed Transpower debt securities.

### Code of Ethics and Conduct Policy

We have a Code of Ethics and Conduct Policy that our directors, employees, contractors and consultants are expected to comply with. The code is designed to promote and maintain high standards of ethical behaviour and provides advice on how to deal with ethical problems that may be encountered in our operations.

Our Code of Ethics and Conduct Policy sets out explicit expectations for decision making and personal behaviour in respect of the following:

- Acting honestly and with high standards of personal and professional integrity.
- Conflicts of interest for employees, contractors and consultants. Our directors declare any interests they have after they are appointed to the board, and the interests are updated at every meeting. The chairman and general counsel together decide whether the interests present any conflicts and manage those accordingly, including not allowing directors to vote or be present during discussions where there may be a conflict.
- Proper use of our property or information.
- Not participating in any illegal or unethical activity, including safeguards against insider trading in the entity's securities (refer also to the Insider Trading Policy).
- Fair dealing with shareholders, customers, employees, suppliers and other stakeholders.
- Giving and receiving gifts, koha, facilitation payments and bribes (refer also to the Discretionary Expenditure, Gifts and Travel Policy).
- Compliance with relevant laws and regulations.
- Reporting of unethical decision making and/or behaviour (refer also to the Compliance Policy).
- Conduct expected of management and the board in responding to and supporting instances of whistleblowing (refer to the Compliance Policy).

Our Code of Ethics and Conduct Policy includes processes for recording and evaluating compliance with the code and measures for dealing with breaches of the code, depending on the person who has breached it.

New employees are required to acknowledge that they have read and understood and will comply with the requirements of our Code of Ethics and Conduct Policy. Our induction process includes the completion of the 'Doing the right thing at Transpower' learning module, which ensures people who join us are familiar with our organisation and what we expect of them while they are part of our team. This includes familiarisation with our Code of Ethics and Conduct Policy.

The board reviews the Code of Ethics and Conduct Policy every five years and is regularly updated by the General Manager – People on any non-compliance with the policy.

**Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation**

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**Corporate Governance in New Zealand: Principles and Guidelines**



## // DIRECTORS' REPORT

### Directors' report to the shareholders

for the year ended 30 June 2016

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 2016.

#### 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	
	2016	2015
	\$M	\$M
Operating revenue	1,034.5	1,037.0
Operating expenses	285.1	281.6
<b>Earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments</b>	<b>749.4</b>	<b>755.4</b>
Depreciation, amortisation and write-offs	269.3	264.3
Net interest expenses	212.3	217.3
<b>Earnings before changes in the fair value of financial instruments and tax</b>	<b>267.8</b>	<b>273.8</b>
Income tax expense excluding changes in the fair value of financial instruments	74.9	79.2
<b>Earnings before net changes in the fair value of financial instruments</b>	<b>192.9</b>	<b>194.6</b>
Loss in the fair value of financial instruments	16.7	114.5
Income tax expenses (credit) on changes in the fair value of financial instruments	(4.8)	(33.2)
<b>Net profit</b>	<b>181.0</b>	<b>113.3</b>

#### KEY BALANCES

Property, plant and equipment	4,599.7	4,631.9
Intangibles	392.9	391.3
Capital work in progress	68.0	77.7
	<b>5,060.6</b>	<b>5,100.9</b>
External debt balances at face value		
New Zealand dollar debt	1,175.0	1,375.0
Foreign debt after adjusting for related foreign exchange derivatives	1,941.9	1,721.4
	<b>3,116.9</b>	<b>3,096.4</b>

#### DIVIDENDS

Transpower paid an interim dividend of \$64.8 million on 10 March 2016.

The directors declared a final dividend of \$98.2 million on 18 August 2016.

#### 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 Grant Taylor 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 2016 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 (chair)	1 August 2010	8	8
Don Huse (deputy chair)	1 May 2011	8	8
Jan Evans-Freeman	1 November 2012	8	8
Tim Lusk	1 May 2015	8	8
Pip Dunphy	1 May 2015	8	8
Tony Ryall	1 May 2016	1	1
Bill Osborne	1 May 2016	1	1
Michael Pohio (resigned April 2016)	1 July 2009	7	6
Keith Tempest (resigned April 2016)	1 May 2011	7	7

### MEETINGS OF THE RISK COMMITTEE

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Pip Dunphy (chair)	3	3
Tim Lusk	3	3
Jan Evans-Freeman	3	3
Tony Ryall (commenced May 2016)	1	1
Ian Fraser (consultant)	3	3
Keith Tempest (resigned April 2016)	2	2

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 (chair)	4	4
Mark Verbiest	4	4
Pip Dunphy	4	4
Bill Osborne (commenced May 2016)	Nil	Nil
Michael Pohio (resigned April 2016)	3	2

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
Jan Evans-Freeman (chair May 2016)	5	5
Mark Verbiest	5	5
Tim Lusk	5	5
Bill Osborne (commenced May 2016)	1	1
Michael Pohio (chair, resigned April 2016)	3	2
Keith Tempest (resigned April 2016)	3	3

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

## Information on directors of subsidiary companies as at 30 June 2016

<b>TB and T Limited</b>	<b>Risk Reinsurance Limited</b>
Christopher Sutherland	David Knight
David Knight	John Clarke
<b>Halfway Bush Finance Limited</b>	<b>emsTradepoint Limited</b>
Christopher Sutherland	Alex Ball
David Knight	David Knight
	John Clarke

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	2016 \$000	2015 \$000
Mark Verbiest (chairman)	1 August 2010		114	112
Don Huse (deputy chairman )	1 May 2011		73	59
Jan Evans-Freeman	1 November 2012		55	54
Tim Lusk	1 May 2015		58	9
Pip Dunphy	1 May 2015		58	9
Tony Ryall	1 May 2016		9	–
Bill Osborne	1 May 2016		9	–
Michael Pohio	1 July 2009	30 April 2016	48	56
Keith Tempest	1 May 2011	30 April 2016	48	60
Ian Fraser	1 May 2007	1 May 2015	–	59
Abigail Foote	1 May 2009	1 May 2015	–	47
			472	465

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	Chair	Spark New Zealand Limited
	Chair	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
Don Huse	Chair	OTTP New Zealand Forest Investments Limited
	Chair	Crown Irrigation 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
	Independent Chair	Enable Networks Limited
	Independent Director*	Wairarapa Rural Fire Board
Pip Dunphy	Chair*	First Gas Holdings TopCo Limited and subsidiary companies
	Chair*	Gas Services NZ Limited and subsidiary companies
	Deputy Chair	Abano Healthcare Limited
	Chair of the Advisory Board*	Penny
	Director	ACE Insurance Limited
	Director**	Academic Colleges Group Limited
	Director	Fonterra Shareholders Fund
	Director*	Tamaki Research
	Director	New Zealand Superannuation Fund
	Trustee	Ngahere Trust
	Member of the Advisory Board	NEXT Foundation
Tony Ryall	Chair	nib NZ Limited
	Chair	nib NZ Holdings Limited
	Trustee	Massey University Foundation
	Consultant	Simpson Grierson
Bill Osborne	Director	Rangitira Services Limited
	Director	Chiefs Rugby Club GP Limited
Michael Pohio	Chair	BNZ Regional Partners - Waikato
	Director	National Institute for Water and Atmosphere (NIWA)
	Director*	Panuku Development Auckland
	Director**	Bay Radio Therapy Services GP Limited
	Pro Chancellor**	University of Waikato Council
Keith Tempest	Director	Crown Fibre Holdings Limited
	Director	NZ Bus Limited
	Director	Bay Venues Limited
	Director**	Port of Tauranga Limited

\* 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
1,120-1,129	1	240-249	9
500-509	1	230-239	5
480-489	1	220-229*	14
470-479	1	210-219	10
450-459	1	200-209*	7
420-429	1	190-199	6
400-409	1	180-189*	13
390-399*	1	170-179	11
380-389	1	160-169*	18
360-369	1	150-159*	36
340-349	1	140-149	45
310-319	3	130-139*	69
300-309	1	120-129	73
290-299*	5	110-119*	79
270-279*	3	100-109	71
260-269	1		
250-259	3	Total	493

The bands above include all remuneration paid to or on behalf of employees, including base salary, performance payments, 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**

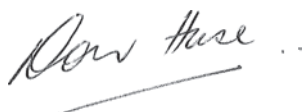
During the year, the Transpower Group made donations and study grants of \$1,052,000 (2015: \$1,103,000). Donations principally comprise sponsorship of university research projects, tertiary scholarships and the CommunityCare Fund.

The board of directors of Transpower New Zealand Limited authorised the financial statements for issue on 18 August 2016.

For and on behalf of the board



**MARK VERBIEST**  
CHAIRMAN  
18 August 2016



**DON HUSE**  
DIRECTOR  
18 August 2016



# FINANCIAL STATEMENTS

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## Statement of comprehensive income

for the year ended 30 June 2016

	NOTES	GROUP	
		2016 \$M	2015 \$M
<b>Operating revenue</b>	2	1,034.5	1,037.0
<b>Operating expenses</b>	3	285.1	281.6
<b>Earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments</b>	1	749.4	755.4
Depreciation, amortisation and write-offs	5	269.3	264.3
Net interest expenses	4	212.3	217.3
<b>Earnings before changes in the fair value of financial instruments and tax</b>		267.8	273.8
Loss in the fair value of financial instruments	15	16.7	114.5
<b>Earnings before tax</b>		251.1	159.3
Income tax expense	16	70.1	46.0
<b>Net profit and total comprehensive income</b>		181.0	113.3
Total net profit and total comprehensive income for the period is attributable to:			
Non-controlling interest	8	(0.9)	(0.9)
Owners of the parent		181.9	114.2
		181.0	113.3

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

<b>Earnings before changes in the fair value of financial instruments and tax</b>		267.8	273.8
Income tax expense excluding changes in the fair value of financial instruments		74.9	79.2
<b>Earnings before net changes in the fair value of financial instruments</b>	1	192.9	194.6
Loss in the fair value of financial instruments		16.7	114.5
Income tax expense (credit) on changes in the fair value of financial instruments		(4.8)	(33.2)
<b>Net profit</b>		181.0	113.3

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



## Statement of financial position

as at 30 June 2016

		GROUP		
	NOTES	2016 \$M	2015 \$M	2014 \$M
<b>ASSETS EMPLOYED</b>				
Cash and cash equivalents		79.9	33.9	203.0
Investments	9	128.8	75.1	59.5
Trade receivables and other assets	10	135.7	129.5	172.9
Derivatives and hedge commitment in gain	7	346.3	255.7	95.0
NZPCL investment	8	76.3	132.2	104.0
Property, plant and equipment	5	4,599.7	4,631.9	4,495.4
Intangibles	5	392.9	391.3	373.3
Capital work in progress	5	68.0	77.7	165.3
<b>TOTAL ASSETS EMPLOYED</b>		<b>5,827.6</b>	<b>5,727.3</b>	<b>5,668.4</b>
<b>FUNDS EMPLOYED</b>				
<b>Liabilities</b>				
Trade and other payables	11	96.2	127.4	98.5
Current tax liability		14.6	4.4	9.6
Deferred income	2	72.9	73.8	65.5
Derivatives and hedge commitment in loss	7	491.2	323.9	420.2
Provisions	12	31.0	20.8	16.8
Debt	6	3,334.0	3,368.3	3,255.8
NZPCL debt	8	79.4	134.3	104.7
Deferred tax	16	328.8	298.3	268.3
<b>Total liabilities</b>		<b>4,448.1</b>	<b>4,351.2</b>	<b>4,239.4</b>
<b>EQUITY</b>				
Capital	13	1,200.0	1,200.0	1,200.0
Accumulated surplus		181.8	177.5	229.5
Non-controlling interest	8	(2.3)	(1.4)	(0.5)
<b>Total equity</b>		<b>1,379.5</b>	<b>1,376.1</b>	<b>1,429.0</b>
<b>TOTAL FUNDS EMPLOYED</b>		<b>5,827.6</b>	<b>5,727.3</b>	<b>5,668.4</b>

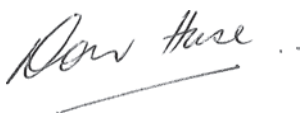
The 2014 figures have been included due to a change in the presentation to the statement of financial position. Further information is provided in note 1, changes in accounting policies and disclosures.

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 18 August 2016.

For, and on behalf of, the board



**MARK VERBIEST**  
CHAIRMAN  
18 August 2016



**DON HUSE**  
DIRECTOR  
18 August 2016

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

## Statement of changes in equity

for the year ended 30 June 2016

			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						
Dividends paid	13	–	(166.2)	(166.2)	–	(166.2)
Total equity at 30 June 2015		1,200.0	177.5	1,377.5	(1.4)	1,376.1
2015/16						
Equity at 1 July 2015		1,200.0	177.5	1,377.5	(1.4)	1,376.1
Profit for the period		–	181.9	181.9	(0.9)	181.0
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	181.9	181.9	(0.9)	181.0
Transactions with owners						
Dividends paid	13	–	(177.6)	(177.6)	–	(177.6)
Total equity at 30 June 2016		1,200.0	181.8	1,381.8	(2.3)	1,379.5

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

## Cash flow statement

for the year ended 30 June 2016

	GROUP	
	2016	2015
	\$M	\$M
<b>CASH FLOW FROM OPERATIONS</b>		
Receipts from customers	1,021.4	1,048.6
Interest received	8.6	8.5
Payments to suppliers and employees	(286.4)	(260.9)
Tax payments	(29.4)	(21.3)
Interest paid	(221.5)	(235.5)
<b>Net cash inflows from operations</b>	<b>492.7</b>	<b>539.4</b>
<b>CASH FLOW FROM INVESTMENTS</b>		
Sale of property, plant and equipment	8.1	32.3
Sale of short-term investments	47.6	61.7
Purchase of property, plant and equipment	(240.1)	(347.2)
Purchase of short-term investments	(99.4)	(77.3)
<b>Net cash (outflows) from investments</b>	<b>(283.8)</b>	<b>(330.5)</b>
<b>CASH FLOW FROM FINANCING</b>		
Increase in loans	915.8	708.2
Dividends paid	(177.6)	(166.2)
Interest rate swap terminations	(10.1)	(50.9)
Repayment of loans	(891.0)	(869.1)
<b>Net cash (outflows) from financing</b>	<b>(162.9)</b>	<b>(378.0)</b>
Net increase/(decrease) in cash held	46.0	(169.1)
Opening balance brought forward	33.9	203.0
<b>Closing net cash carried forward</b>	<b>79.9</b>	<b>33.9</b>
<b>Closing net cash carried forward comprises:</b>		
Cash and on-call deposits	34.8	32.9
Short-term deposits with original maturity less than three months	45.1	1.0

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

## Cash flow statement reconciliation

for the year ended 30 June 2016

### RECONCILIATION OF "NET PROFIT" WITH "NET CASH FLOW FROM OPERATIONS"

	GROUP	
	2016	2015
	\$M	\$M
<b>Net profit</b>	181.0	113.3
<b>Add (deduct) non-cash items:</b>		
Change in the fair value of financial instruments	16.7	114.5
Depreciation, amortisation and write-offs	269.3	264.3
Deferred tax	30.5	30.0
Capitalised interest	(7.3)	(9.7)
<b>Movements in working capital items:</b>		
(Increase)/decrease in trade and other receivables	(6.4)	3.3
(Increase)/decrease in prepayments	0.9	0.2
(Decrease)/increase in trade and other payables, interest payable and deferred income	(7.4)	25.5
(Decrease)/increase in taxation payable	10.2	(5.2)
(Decrease)/increase in provisions	5.2	3.2
<b>Net cash flow from operations</b>	<b>492.7</b>	<b>539.4</b>

## Notes to the financial statements

for the year ended 30 June 2016

1	Transpower Group information	11	Trade and other payables
2	Operating revenue and deferred income	12	Provisions
3	Operating expenses and lease commitments	13	Equity
4	Net interest expenses	14	Segment reporting
5	Capital assets and commitments	15	Change in fair value of financial instruments
6	Debt, financial instruments and risk management	16	Taxation
7	Derivatives and hedge commitment	17	Related parties
8	NZPCL debt and investment	18	Contingencies
9	Investments	19	Subsequent events
10	Trade receivables and other assets		

### 1. TRANSPOWER GROUP INFORMATION

#### Reporting entity and statutory base

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

The Group is the owner and operator of New Zealand's national electricity grid. The Group is a for-profit entity in accordance with XRB A1 Accounting Standards Framework.

#### Basis of preparation

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

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

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

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

#### Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified for certain investments, held for sale assets, financial assets and financial liabilities.

Transpower discloses an alternative measure of profit which is earnings before net changes in fair values of financial instruments. Transpower discloses this information as it provides a different measure of underlying performance to the IFRS mandated profit measures, which are also disclosed. The directors consider that this additional profit measure is useful additional information for users of the financial statements. Transpower has consistently reported an alternative profit on this basis since the adoption of IFRS.

Transpower also makes a non-GAAP disclosure in the statement of comprehensive income of earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments. Directors believe this disclosure provides a useful subtotal for users of the financial statements.

## 1. TRANSPOWER GROUP INFORMATION *continued*

### Significant 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 2016. Subsidiaries are those entities controlled, directly or indirectly, by Transpower.

All significant intercompany balances and transactions are eliminated on consolidation.

The Group discloses a non-controlling interest (NCI) relating to New Zealand Power Cayman 2003-1 Limited (NZPCL). NCI is measured at the NCI's share of net assets.

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

- |                                   |        |
|-----------------------------------|--------|
| i. Revenue                        | Note 2 |
| ii. Property, plant and equipment | Note 5 |
| iii. Borrowings and derivatives   | Note 6 |

### Changes in accounting policies and disclosures

#### *Statement of financial position*

Transpower has previously disclosed current and non-current assets, and current and non-current liabilities in the statement of financial position. In 2016 Transpower reviewed its financial statements presentation and has elected to present its statement of financial position based on liquidity in accordance with NZ IAS 1. This has resulted in the amalgamation of certain balances that were previously disclosed as current and non-current. In addition, certain immaterial balances have been amalgamated. The notes provide a breakdown between current and non-current classification where applicable. We believe that this disclosure provides more relevant and meaningful information. The comparative period has been restated and the opening position of the comparative period has been restated and disclosed.

#### *Statement of comprehensive income*

Transpower has amalgamated certain balances within the statement of comprehensive income compared to the previous annual report. Interest revenue has been reclassified into net interest expenses. The comparative figures have been recalculated, as interest revenue of \$8.5 million is now within net interest expenses rather than revenue.

### 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*

On adoption of NZ IFRS 9, the fair value movement attributing to own credit risk will be presented in other comprehensive income. Hedge accounting of cross-currency and interest rate swaps may have a material impact upon the Group financial statements in the event that Transpower chooses to adopt hedge accounting for these instruments.

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

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

#### *NZ IFRS 16 Leases, effective from 1 July 2019*

Management has not yet fully assessed this standard. However, when adopted, it is expected that the lease commitments disclosed in note 3 would be capitalised as an asset and an offsetting liability created.

### 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.



## 2. OPERATING REVENUE AND DEFERRED INCOME

	GROUP	
	2016	2015
	\$M	\$M
<b>Transmission revenue</b>		
HVAC interconnection	667.8	681.9
HVAC connection	127.3	129.4
EV (rebate) charge – HVAC	(28.2)	(29.2)
HVDC	128.0	128.7
EV (rebate) charge – HVDC	22.5	17.0
Other regulated transmission	7.6	8.7
Customer investment contracts	43.5	41.7
Other transmission	5.6	6.0
	974.1	984.2
<b>Other revenue</b>		
System operator	44.0	40.5
Other	16.4	12.3
	60.4	52.8
<b>Total operating revenue</b>	<b>1,034.5</b>	<b>1,037.0</b>

**Description****Transmission revenue**

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

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

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.

Included in the above numbers is revenue subject to the telecommunications development levy of \$1.9 million in the year to 30 June 2016 (June 2015: \$2.1 million).

**Accounting policies**

Transmission revenue is recorded as it is invoiced, apart from customer investment contracts. Customer investment contracts for the construction of network assets are recognised over the contract period or asset life with revenue shown on a yield to maturity basis grossed up for an imputed interest expense.

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

Agreements between Transpower and third parties to underground and/or realign certain transmission line assets are recognised based on the revenue source. If the revenue is received from central or local government, or their agencies, then the revenue is recognised according to the Government Grants standard (NZ IAS 20) with revenue 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.

**Related disclosures**

	GROUP	
	2016	2015
	\$M	\$M
<b>Deferred income</b>		
Customer investment contracts	15.0	15.4
Transmission realignment	55.6	55.0
Other	2.3	3.4
<b>Total deferred income</b>	<b>72.9</b>	<b>73.8</b>

## 3. OPERATING EXPENSES AND LEASE COMMITMENTS

GROUP

	2016	2015
	\$M	\$M
<b>Grid maintenance</b>		
HVAC substations maintenance	45.3	41.2
HVDC substations and cables maintenance	9.1	8.0
HVAC lines maintenance	38.3	40.3
HVDC lines maintenance	0.9	1.7
Transmission related rates	6.6	4.1
Other	7.5	11.7
	107.7	107.0
<b>IST maintenance and operations</b>		
Support and maintenance	10.3	10.1
Outsourced services	15.2	15.1
Licences	8.6	8.7
IST leases	9.5	11.3
	43.6	45.2
<b>Other operating expenses</b>		
Investigations	12.4	10.9
Ancillary service costs	3.0	4.2
Employee benefits	99.2	99.5
Capitalised salary costs	(20.0)	(26.2)
Salary transferred to investigations	(5.4)	(6.0)
Operating lease and rental costs	4.1	5.7
Industry levies	9.5	9.6
Insurance	5.3	6.4
Other business support costs	25.7	25.3
	133.8	129.4
<b>Total operating expenses</b>	<b>285.1</b>	<b>281.6</b>

**Description**

Maintenance includes inspection, servicing and repair costs.

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

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

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

**Accounting policies**

Transpower determines whether a lease is a finance lease or an operating lease in accordance with relevant NZ IFRS.

If there are costs associated with entering into a lease then these costs are treated as Prepayments and then amortised to Operating lease and rental costs over the life of the related operating lease.

## 3. OPERATING EXPENSES AND LEASE COMMITMENTS continued

## Related disclosures

Fees paid to external auditor	GROUP	
	2016	2015
	\$000	\$000
<b>Audit of financial statements</b>		
Audit and reviews of financial statements <sup>(1)</sup>	433	413
<b>Other services</b>		
Review work	–	30
Financial model assurance <sup>(2)</sup>	40	15
Regulatory audit work <sup>(3)</sup>	–	20
Training courses	54	18
Trust deed requirements <sup>(4)</sup>	14	13
Accounting advice	–	2
Remuneration benchmarking report	2	2
	110	100
<b>Total fees paid to external auditor</b>	<b>543</b>	<b>513</b>

(1) This includes an annual audit and a six monthly review.

(2) Financial model assurance is the company valuation methodology review 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.

## Operating lease commitments

	GROUP	
	2016	2015
	\$M	\$M
<b>Commitments in respect of non-cancellable operating leases payable:</b>		
Within one year	13.5	16.0
One to two years	13.5	14.6
Two to five years	40.4	43.3
Later than five years	104.6	143.0
<b>Total operating lease commitments</b>	<b>172.0</b>	<b>216.9</b>

The lease commitments primarily relate to the leasing of fibre optic cables for Transpower's communications network (included in IST leases) and a lease for the Wellington office building (included in operating lease and rental costs under other operating expenses).

## 4. NET INTEREST EXPENSES

	GROUP	
	2016	2015
	\$M	\$M
<b>Interest revenue</b>		
Interest received	7.7	8.5
	7.7	8.5
<b>Interest expenses</b>		
Interest expenses and associated fees	221.5	231.4
Capitalised interest	(7.3)	(9.7)
Imputed interest	5.8	4.1
	220.0	225.8
<b>Total net interest expenses</b>	<b>212.3</b>	<b>217.3</b>

## Description

Capitalised interest is based on Transpower's forecast weighted average cost of borrowing, which, for 2016, was 7.1% (2015: 7.2%).

Imputed interest arises on deferred income and discounted future cash flows of provisions.

## 5. CAPITAL ASSETS AND COMMITMENTS

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

GROUP	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES
	\$M	\$M	\$M	\$M
<b>At 30 June 2016</b>				
Cost	2,429.8	146.3	2,331.8	864.3
Accumulated depreciation/amortisation	(515.3)	(45.3)	(600.5)	(253.2)
Net book value/carrying value	1,914.5	101.0	1,731.3	611.1
<b>30 June 2016 reconciliation</b>				
Opening net book value/carrying value (1 July 2015)	1,897.4	103.0	1,729.2	641.5
Additions/transfers	82.9	2.0	82.7	6.3
Disposals/transfers	(5.0)	(0.1)	(6.8)	(0.2)
Depreciation/amortisation	(60.8)	(3.9)	(73.8)	(36.5)
Closing net book value/carrying value	1,914.5	101.0	1,731.3	611.1
<b>Total non-current assets, including held for sale assets</b>	1,914.5	101.0	1,731.3	611.1
<b>At 30 June 2015</b>				
Cost	2,352.8	144.6	2,264.2	858.3
Accumulated depreciation/amortisation	(455.4)	(41.6)	(535.0)	(216.8)
Net book value/carrying value	1,897.4	103.0	1,729.2	641.5
<b>30 June 2015 reconciliation</b>				
Opening net book value/carrying value (1 July 2014)	1,852.1	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	1,897.4	103.0	1,729.2	641.5
<b>Total non-current assets, including held for sale assets</b>	1,897.4	103.0	1,729.2	641.5

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
324.8	176.9	6,273.9	293.6	279.8	573.4	68.0
(150.6)	(109.3)	(1,674.2)	(3.0)	(177.5)	(180.5)	–
174.2	67.6	4,599.7	290.6	102.3	392.9	68.0
192.2	68.6	4,631.9	288.2	103.1	391.3	77.7
9.9	15.6	199.4	3.0	35.1	38.1	229.5
(1.8)	(2.2)	(16.1)	–	(0.2)	(0.2)	(239.2)
(26.1)	(14.4)	(215.5)	(0.6)	(35.7)	(36.3)	–
174.2	67.6	4,599.7	290.6	102.3	392.9	68.0
174.2	67.6	4,599.7	290.6	102.3	392.9	68.0
341.6	168.8	6,130.3	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	4,631.9	288.2	103.1	391.3	77.7
177.7	51.3	4,452.5	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	4,631.9	288.2	103.1	391.3	77.7
192.2	68.6	4,631.9	288.2	103.1	391.3	77.7

## 5. CAPITAL ASSETS AND COMMITMENTS continued

	2016	2015
	\$M	\$M
<b>Depreciation, amortisation and write-offs</b>		
Total depreciation	215.5	201.4
Total amortisation	36.3	33.5
Write-offs	17.5	29.4
	269.3	264.3

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

	GROUP	
	2016	2015
	\$M	\$M
HVAC transmission lines	23.2	19.5
HVAC substations	30.6	37.9
Communications	2.2	15.3
Other	12.0	5.0
	68.0	77.7

**Description**

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

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

**Accounting policies**

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

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

At each reporting date, Transpower reviews the carrying amounts of its tangible and intangible assets and exercises judgement to determine whether there is any indication that those assets have suffered an impairment loss. 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). The recoverable amount for regulated assets is generally equal to the regulatory book value for revenue recovery purposes. There is no impairment in 2016 (2015: nil).

**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:

HVAC transmission lines	40-70 years
HVAC substations	8-55 years
HVDC assets (transmission lines, substations and submarine cables)	18-30 years
HVAC transmission lines (transmission cables)	45 years
HVAC transmission lines (tower painting)	10-15 years
Communication assets	5-25 years
Administration assets	4-15 years



## 5. CAPITAL ASSETS AND COMMITMENTS continued

### **Non-current assets held for sale**

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

### **Intangibles**

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

Software	5-8 years
Right to access asset	90 years

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

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

### **Key judgements**

Transpower has exercised judgement, with assistance from independent engineers, in determining the useful life of property, plant and equipment and finite-life intangible assets. For transmission line assets, a determining factor in the life assumption is proximity to the coast.

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.

### **Related disclosures**

Land and buildings are contained within the above classes and have a net book value of \$247.5 million (2015: \$246.0 million). Held for sale non-current assets are contained within the above classes and have a net book value of \$0.4 million (2015: \$1.2 million).

	GROUP	
	2016	2015
	\$M	\$M
<b>Capital commitments in respect of contracts for property, plant and equipment:</b>		
Property, plant and equipment	105.6	80.4
	105.6	80.4
<b>Capital commitments in respect of contracts for intangible assets:</b>		
Easements and right to access assets	0.1	0.5
Software	0.3	–
	0.4	0.5
<b>Total capital commitments</b>	<b>106.0</b>	<b>80.9</b>

## 6. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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### (a) Summary

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

Debt 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. Measuring derivatives at fair value and net debt at amortised cost would create a recognition inconsistency or accounting mismatch. Therefore, both are valued at fair value.

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 that is denominated in both NZD and foreign currencies and an investment portfolio and from purchases in certain foreign currencies.

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

### *Key judgements*

A key judgement has been made in relation to the fair values of debt and derivatives. Fair values are determined by discounting cash flows based on the relevant yield curve. The yield curve is adjusted to reflect the credit risk of the counterparty to the transaction or the credit risk of Transpower. These valuations are considered level two in the IFRS three-level valuation hierarchy.

### (b) Financial risks

#### *i. Liquidity risk*

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

To smooth the Group's refinancing requirements in future periods, the Group's policy is that committed funding facilities maturing in any 12-month period are not to exceed NZD750 million. No more than 50% of debt can mature within the next three years and at least 30% of debt must mature after five years.

## 6. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *continued*

### *Term debt*

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

	CURRENCY	FOREIGN CURRENCY EQUIVALENT \$M	NZD \$M
Domestic medium term note programme	NZD	–	No set limit
Australian medium term note programme	AUD	750	783
European commercial paper programme	USD	500	701
Domestic commercial paper programme	NZD	–	500

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 two year standby facility for NZD250 million, maturing 7 December 2016, undrawn since inception.
- a two year standby facility for NZD250 million, maturing 6 December 2017, undrawn since inception.

### *ii. Interest rate risk*

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

The Group's policy sets minimum and maximum hedging parameters expressed as a percentage of forecast debt. Interest rate swaps and options are used to change the interest rate structure on existing and forecast debt and cross-currency interest rate swaps entered into.

### *iii. Currency risk*

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

Foreign currency borrowings are converted into a NZD denominated exposure at the time of commitment to drawdown.

Currency risk on foreign currency-denominated borrowings is managed using cross-currency interest rate swaps and basis swaps.

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

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

Currency risk on foreign currency-denominated purchases is the risk of adverse impact of exchange rate movements, which determine the NZD cost of foreign currency-denominated purchases. It is the Group's policy to hedge committed foreign currency-denominated payments greater than NZD1 million (NZD equivalent) by using forward foreign exchange contracts to fix or offset the NZD cost. For committed payments between NZD100,000 and NZD1 million the Group has discretion on whether or not to hedge.

## 6. 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 derivatives in the table below are interest rate swaps and cross-currency interest rate swaps. The effective interest rate on debt including the effect of derivative financial instruments was 6.9% (2015: 7.2%).

#### GROUP 2016

			DEBT		DERIVATIVE	TOTAL
	DEBT CURRENCY	DEBT AND DERIVATIVE MATURITY DATE	DEBT FACE VALUE	DEBT FAIR VALUE	DERIVATIVE FAIR VALUE	TOTAL DEBT + DERIVATIVE FAIR VALUE
			\$M	NZ\$M	NZ\$M	NZ\$M
Bonds						
Bonds 2017	NZD	15-Feb-17	50.0	52.4	(2.0)	50.4
Bonds 2018	NZD	30-Nov-18	325.0	342.6	(9.8)	332.8
Bonds 2019	NZD	6-Sep-19	200.0	212.2	(9.3)	202.9
Bonds 2019	NZD	12-Nov-19	50.0	56.9	(6.9)	50.0
FRN CPI linked	NZD	15-May-20	100.0	97.3	3.5	100.8
Bonds 2020	NZD	10-Jun-20	150.0	171.0	(25.0)	146.0
Bonds 2022	NZD	30-Jun-22	150.0	156.0	(9.6)	146.4
Bonds 2023	NZD	15-Mar-23	50.0	56.0	(5.8)	50.2
Bonds 2028	NZD	15-Mar-28	100.0	115.9	(16.2)	99.7
EMTN						
CAD EMTN	CAD	20-Mar-17	250.0	276.1	34.4	310.5
HKD EMTN	HKD	24-Mar-20	400.0	79.1	(6.3)	72.8
AUD EMTN	AUD	6-Aug-21	150.0	167.0	(6.9)	160.1
AUD EMTN	AUD	28-Aug-23	300.0	366.5	(31.7)	334.8
USPP						
USPP 2016	USD	27-Sep-16	25.0	36.0	5.1	41.1
USPP 2019	USD	27-Sep-19	75.0	121.1	(0.3)	120.8
USPP 2021	USD	13-Oct-21	232.0	353.8	(62.2)	291.6
USPP 2022	USD	15-Dec-22	150.0	230.5	(24.1)	206.4
USPP 2023	USD	13-Oct-23	78.0	120.5	(24.4)	96.1
USPP 2026	USD	28-Jun-26	75.0	107.6	3.5	111.1
USPP 2026	USD	13-Oct-26	70.0	109.7	(27.2)	82.5
USPP 2028	USD	28-Jun-28	75.0	105.8	4.0	109.8
			3,334.0		(217.2)	3,116.8
Debt short term			–			
Current portion of long-term debt			364.5			
Debt short term			364.5			
Debt long term			2,969.5			
Total debt as per statement of financial position			3,334.0		(217.2)	3,116.8
Debt face value (as per above)						
New Zealand dollar debt			1,175.0			
Foreign debt after adjusting for related cross-currency interest rate swaps			1,941.9			
			3,116.9			

## 6. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The notional amount of the cross-currency interest rate swaps is NZD1,941.9 million.

The majority 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. 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.

	DERIVATIVE NOTIONAL VALUE	DERIVATIVE FAIR VALUE
	\$M	\$M
<b>Value of interest rate swaps (net settled) – liabilities</b>	4,507.5	439.0
<b>Value of interest rate swaps (net settled) – assets</b>	1,707.5	(76.9)
<b>Total fair value of interest rate swaps</b>		362.1
<b>Total fair value of debt-related derivatives as shown on previous page</b>		(217.2)
<b>Total debt derivatives fair value (refer to note 7 for further derivatives breakdown)</b>		144.9

### *Effective net contractual cash flow maturity profile*

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

	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Debt and corresponding derivatives	507.0	95.1	416.2	775.6	69.4	1,889.7	3,753.0
Interest rate swap (portfolio) – liabilities	111.9	112.1	95.0	85.8	13.3	54.8	472.9
Interest rate swap (portfolio) – assets	(18.6)	(18.7)	(12.5)	(8.6)	(6.0)	(22.0)	(86.4)
Trade and other payables	95.0	0.1	0.1	–	0.2	0.5	95.9
Finance lease liabilities	0.1	0.1	0.1	0.1	0.1	–	0.5
<b>Total contractual cash flows</b>	695.4	188.7	498.9	852.9	77.0	1,923.0	4,235.9

## 6. 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 derivatives in the table below are interest rate swaps and cross-currency interest rate swaps. The effective interest rate on debt including the effect of derivative financial instruments was 7.2% (2014: 7.1%).

## GROUP 2015

			DEBT		DERIVATIVE	TOTAL
	DEBT CURRENCY	DEBT AND DERIVATIVE MATURITY DATE	DEBT FACE VALUE	DEBT FAIR VALUE	DERIVATIVE FAIR VALUE	TOTAL DEBT + DERIVATIVE FAIR VALUE
			\$M	NZ\$M	NZ\$M	NZ\$M
Bonds						
Bonds 2015	NZD	3-Dec-15	175.0	176.3	–	176.3
Bonds 2017	NZD	15-Feb-17	50.0	53.7	(2.9)	50.8
Bonds 2018	NZD	30-Nov-18	325.0	340.5	(6.9)	333.6
Bonds 2019	NZD	6-Sep-19	200.0	208.5	(2.6)	205.9
Bonds 2019	NZD	12-Nov-19	50.0	56.9	(6.3)	50.6
Bonds 2020	NZD	10-Jun-20	150.0	169.5	(22.5)	147.0
FRN CPI linked	NZD	15-May-20	100.0	97.7	4.7	102.4
Bonds 2022	NZD	30-Jun-22	75.0	74.1	(0.1)	74.0
Bonds 2023	NZD	15-Mar-23	50.0	53.5	(2.0)	51.5
Bonds 2028	NZD	15-Mar-28	100.0	106.6	(4.4)	102.2
Term borrowing						
BOTM facility	NZD	17-May-16	100.0	100.6	–	100.6
EMTN						
CAD EMTN	CAD	20-Mar-17	250.0	306.0	8.2	314.2
HKD EMTN	HKD	24-Mar-20	400.0	81.4	(7.5)	73.9
AUD EMTN	AUD	6-Aug-21	150.0	176.7	(13.1)	163.6
AUD EMTN	AUD	28-Aug-23	300.0	382.5	(43.6)	338.9
USPP						
USPP 2016	USD	27-Sep-16	25.0	39.7	1.3	41.0
USPP 2019	USD	27-Sep-19	75.0	128.9	(8.1)	120.8
USPP 2021	USD	13-Oct-21	232.0	359.2	(58.7)	300.5
USPP 2022	USD	15-Dec-22	150.0	230.8	(21.2)	209.6
USPP 2023	USD	13-Oct-23	78.0	119.6	(19.4)	100.2
USPP 2026	USD	13-Oct-26	70.0	105.6	(17.3)	88.3
			3,368.3		(222.4)	3,145.9
Debt short term			–			
Current portion of long-term debt			276.9			
Debt short term			276.9			
Debt long term			3,091.4			
Total debt as per statement of financial position			3,368.3		(222.4)	3,145.9
Debt face value (as per above)						
New Zealand dollar debt			1,375.0			
Foreign debt after adjusting for related cross-currency interest rate swaps			1,721.4			
			3,096.4			

## 6. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The notional amount of the cross-currency interest rate swaps is NZD1,721.4 million.

The majority 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. 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.

	DERIVATIVE NOTIONAL VALUE	DERIVATIVE FAIR VALUE
	\$M	\$M
<b>Value of interest rate swaps (net settled) – liabilities</b>	5,404.5	307.5
<b>Value of interest rate swaps (net settled) – assets</b>	1,567.5	(16.9)
<b>Total fair value of interest rate swaps</b>		290.6
<b>Total fair value of debt-related derivatives as shown on previous page</b>		(222.4)
<b>Total debt derivatives fair value (refer to note 7 for further derivatives breakdown)</b>		68.2

### *Effective net contractual cash flow maturity profile*

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

	WITHIN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FOUR YEARS	FOUR TO FIVE YEARS	GREATER THAN FIVE YEARS	TOTAL
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Debt and corresponding derivatives	408.2	517.4	111.4	436.2	793.3	1,653.6	3,920.1
Interest rate swap (portfolio) – liabilities	77.6	80.9	67.2	47.6	29.7	34.7	337.7
Interest rate swap (portfolio) – assets	(6.2)	(7.9)	(5.5)	(2.3)	(0.1)	5.5	(16.5)
Trade and other payables	126.0	0.1	0.1	–	0.2	0.5	126.9
Finance lease liabilities	0.1	0.1	0.1	0.1	0.1	0.1	0.6
<b>Total contractual cash flows</b>	<b>605.7</b>	<b>590.6</b>	<b>173.3</b>	<b>481.6</b>	<b>823.2</b>	<b>1,694.4</b>	<b>4,368.8</b>

### *iv. Credit risk*

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

#### *Treasury credit risk*

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% of Group shareholders' funds or 15% 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 & Poor's credit rating of A or above (or Fitch or Moody's equivalent). The exception to these minimum credit ratings is for Risk Reinsurance Limited (RRL) investments. 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.

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

## 6. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

	GROUP	
	2016	2015
	\$M	\$M
Cross-currency interest rate swaps (CCIRS)	153.3	183.5
Foreign exchange forward contracts	—	1.3
<b>Total</b>	<b>153.3</b>	<b>184.8</b>

The breakdown of the CCIRS by counterparty is as follows:

	GROUP	
	2016	2015
	\$M	\$M
ANZ Bank New Zealand Limited	59.8	60.2
Bank of New Zealand	31.8	43.6
Citibank N.A.	19.1	26.8
Commonwealth Bank of Australia	32.7	28.0
Westpac Banking Corporation	9.9	24.9
	<b>153.3</b>	<b>183.5</b>

### Customer credit risk

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

Transpower's customers comprise predominantly electricity generators, distribution companies and some large industrial users. There is a high concentration of credit risk with respect to trade receivables due to the small number of significant customers from which the majority of revenue is received. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 2016 (June 2015: nil).

The entities below have receivables balances greater than 10% of the total trade receivables of \$99.3 million at 30 June 2016 (June 2015: \$92.9 million).

	GROUP	
	2016	2015
	\$M	\$M
Vector Limited	19.4	19.6
Meridian Energy Limited	11.9	11.2
Powerco Limited	11.3	9.6

There is a specific credit risk in relation to customer default on customer investment contracts where revenue is recovered from individual customers over time for specific assets already in use. Transpower believes the majority of this risk relates to certain large industrial users. Transpower monitors the creditworthiness of these organisations. The largest credit risk in this category relates to an organisation with future revenue payments out to 2047 of \$9.3 million on a net present value basis.

There have been no customer defaults in 2016 (2015: nil).



## 6. 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.

#### Interest rate risk

The Group has minimal interest rate exposure, given that the majority of the net debt and derivative portfolio is fixed. Therefore, no sensitivity analysis has been performed on interest rate risk.

#### 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.

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			
	2016	2016	2015	2015
	+100bp	-100bp	+100bp	-100bp
	\$M	\$M	\$M	\$M
Yield curve interest rate change	112.0	(116.6)	141.5	(148.6)

### vi. Commodity risk

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

### vii. Insurance risk

Transpower operates a captive insurance company through its subsidiary Risk Reinsurance Limited (RRL) and also has external insurance.

The insurance for the substation assets and submarine cables is outlined in the table below. Transmission lines are not insured because the premium cost exceeds the probability of significant loss.

Insurance policy	AMOUNT INSURED	DEDUCTIBLE	RRL RETAINED RISK	EXTERNALLY INSURED RISK	TOTAL INSURED
HVDC submarine cables	\$0–15m	Nil	\$15m	Nil	
	\$15–40m	Nil	\$8.75m	\$16.25m	\$90m
	\$40–90m	Nil	\$0	\$50m	
Other grid assets (excluding transmission lines)	\$0–10m	\$1m	\$9m	Nil	
	\$10–750m	\$1m	Nil	\$739m	\$750m

RRL maintains an investment portfolio to meet insurance claims.

### viii. Regulatory risk

Transpower is a natural monopoly and is regulated by the Commerce Commission (CC). The CC 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 commissioning thresholds and cannot recover these costs.

## 7. DERIVATIVES AND HEDGE COMMITMENT

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

	GROUP						
	ST ASSET	LT ASSET	TOTAL ASSET	ST (LIABILITY)	LT (LIABILITY)	TOTAL (LIABILITY)	NET ASSET (LIABILITY)
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>2016</b>							
<b>Debt-related derivatives</b>							
Cross-currency interest rate swaps	–	183.1	183.1	(39.6)	(7.5)	(47.1)	136.0
Interest rate swaps	38.0	123.5	161.5	(108.8)	(333.6)	(442.4)	(280.9)
<b>Purchasing related derivatives and hedge commitment</b>							
Foreign exchange forward contracts	–	–	–	(1.0)	(0.7)	(1.7)	(1.7)
Commitment on fair value hedges	1.0	0.7	1.7	–	–	–	1.7
<b>Total derivatives and hedge commitment</b>	<b>39.0</b>	<b>307.3</b>	<b>346.3</b>	<b>(149.4)</b>	<b>(341.8)</b>	<b>(491.2)</b>	<b>(144.9)</b>
<b>2015</b>							
<b>Debt-related derivatives</b>							
Cross-currency interest rate swaps	–	188.9	188.9	–	(9.6)	(9.6)	179.3
Interest rate swaps	16.9	48.1	65.0	(77.0)	(235.5)	(312.5)	(247.5)
<b>Purchasing related derivatives and hedge commitment</b>							
Foreign exchange forward contracts	0.7	0.8	1.5	(0.3)	–	(0.3)	1.2
Commitment on fair value hedges	0.3	–	0.3	(0.7)	(0.8)	(1.5)	(1.2)
<b>Total derivatives and hedge commitment</b>	<b>17.9</b>	<b>237.8</b>	<b>255.7</b>	<b>(78.0)</b>	<b>(245.9)</b>	<b>(323.9)</b>	<b>(68.2)</b>

### Description

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

### Accounting policies

#### *Derivative financial instruments*

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

The valuation technique and key inputs used to value the derivatives are disclosed in note 6 Debt, financial instruments and risk management.

## 8. NZPCL DEBT AND INVESTMENT

	GROUP	
	2016	2015
	\$M	\$M
<b>Investment</b>		
Current	2.1	62.2
Non-current	74.2	70.0
	76.3	132.2
<b>Debt</b>		
Current	2.1	62.3
Non-current	77.3	72.0
	79.4	134.3
Net investment (debt)	(3.1)	(2.1)
Non-controlling interest net of tax	(2.3)	(1.4)

**Description**

In November 2009, the Group partially terminated the 2003 cross-border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has consolidated a special-purpose vehicle, New Zealand Power Cayman 2003-1 Limited (NZPCL). NZPCL has a USD deposit with a financial institution and a USD loan from another financial institution. The cash flows from the deposit and loan offset. No consideration was transferred. The loan to NZPCL is guaranteed by Transpower.

As Transpower has no legal ownership interest in NZPCL, the net liabilities and any movements in net liabilities are recognised as a non-controlling interest. The substance of the transaction is such that Transpower rather than the non-controlling interest would be responsible for any shortfall between the value of the asset and the liability.

**Accounting policies**

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

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

## 9. INVESTMENTS

	GROUP	
	2016	2015
	\$M	\$M
<b>Risk Reinsurance Limited investments</b>		
– Deposits	25.1	33.4
– Floating rate notes	2.0	1.5
– Corporate bonds	52.7	33.3
– Equities	8.9	6.9
	88.7	75.1
<b>Transpower investments</b>		
– Deposits	40.1	–
<b>Total investments</b>	<b>128.8</b>	<b>75.1</b>

**Description**

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

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

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

**Accounting policies**

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, reference to similar instruments and discounted cash flow analysis.

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). Deposits, floating rate notes and corporate bonds are considered level two in the NZ IFRS 13 three level valuation hierarchy. Quoted market prices are used for equities, which is the level one category as described by NZ IFRS 13.

The investments are current assets.

**10. TRADE RECEIVABLES AND OTHER ASSETS**

	GROUP	
	2016	2015
	\$M	\$M
<b>Current</b>		
Trade and other receivables	99.3	92.9
Prepayments	7.8	8.2
Inventory	3.0	2.3
	110.1	103.4
<b>Non-current</b>		
Prepayments	25.6	26.1
<b>Total trade and other receivables</b>	<b>135.7</b>	<b>129.5</b>
<b>Ageing of trade receivables</b>		
Current	99.3	92.9
Past 31 days	–	–
	99.3	92.9

**Description**

The prepayments predominantly relate to telecommunication lease connection fees.

There was no impairment of receivables during the year (2015: nil).

**Accounting policies**

For trade receivables, fair values are materially similar to their face value. Therefore, receivables are recorded at face value. Due to the short-term nature of the receivables, no discounting is applied.

**11. TRADE AND OTHER PAYABLES**

	GROUP	
	2016	2015
	\$M	\$M
<b>Current</b>		
Trade creditors and accruals	84.2	115.5
Employee entitlements	10.7	10.4
Finance leases	0.1	0.1
	95.0	126.0
<b>Non-current</b>		
Other non-current payables	0.9	0.9
Finance leases	0.3	0.5
	1.2	1.4
<b>Total trade and other payables</b>	<b>96.2</b>	<b>127.4</b>

**Accounting policies**

For trade and other payables, fair values are materially similar to their face value. Therefore, payables are recorded at face value. Due to the short-term nature of the trade creditors, no discounting is applied.

## 12. PROVISIONS

GROUP

	CONTRACTOR PROVISION	DISMANTLING	OTHER	TOTAL
	\$M	\$M	\$M	\$M
Balance at 1 July 2015	12.4	6.0	2.4	20.8
Provisions made during the period	2.0	7.5	6.2	15.7
Provisions used during the period	(0.2)	(2.5)	(2.8)	(5.5)
Provisions reversed during the period	–	–	–	–
<b>Balance at 30 June 2016</b>	<b>14.2</b>	<b>11.0</b>	<b>5.8</b>	<b>31.0</b>
Current portion of provisions	0.6	5.7	1.9	8.2
Non-current portion of provisions	13.6	5.3	3.9	22.8
<b>Balance at 30 June 2016</b>	<b>14.2</b>	<b>11.0</b>	<b>5.8</b>	<b>31.0</b>

**Description*****Contractor provision***

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

***Dismantling***

Transpower recognises site restoration and rehabilitation liabilities where it believes an obligation exists. Transpower has estimated decommissioning costs based on engineering advice. Actual decommissioning costs may vary from the figures indicated.

**Accounting policies**

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

## 13. EQUITY

**Capital**

Transpower has 1,200,000,000 issued and fully paid \$1 ordinary shares. Transpower's authorised capital is \$1,200,000,000 (2015: \$1,200,000,000). The shares confer on the holders the right to vote at any annual general meeting of Transpower. All shares rank equally.

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

**Credit rating**

Transpower's strong investment grade credit rating remains unchanged from the prior year (Standard & Poor's AA- and Moody's A1).

## 13. EQUITY continued

## Net tangible assets per share

	GROUP	
	2016	2015
	\$M	\$M
Net assets (equity)	1,379.5	1,376.1
Less intangibles (note 5)	(392.9)	(391.3)
Total net tangible assets	986.6	984.8
Net tangible assets per share (\$)	0.82	0.82

## Dividends

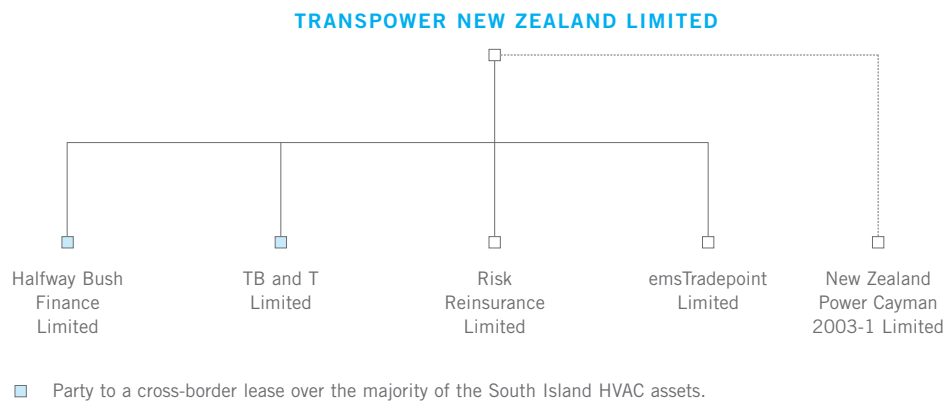
Dividends declared and provided by Transpower are as follows:

	2016	2016	2015	2015
	\$M	CENTS PER SHARE	\$M	CENTS PER SHARE
Previous year final dividend paid	112.8	9	91.0	8
Interim dividend paid	64.8	5	75.2	6
	177.6	14	166.2	14
Final dividend declared subsequent to balance date (refer note 19)	98.2	8	112.8	9

## Group entities

All subsidiaries are wholly owned, are incorporated in New Zealand (except where specified otherwise) and have a balance date of 30 June 2016. 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 8 NZPCL debt and investment for more detail. Risk Reinsurance Limited is registered and incorporated in the Cayman Islands and was established to provide insurance for the Transpower Group.

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



On 1 July 2015, Transpower incorporated a 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.

#### 14. SEGMENT REPORTING

In 2016, 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 portions of the 'other' balance is made up of the following discrete activities:

- **System operator** – the provision of real-time services to ensure the short term security of the New Zealand electricity system.
- **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 avoidable cost allocation methodology (ACAM).

#### Major customers

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

CUSTOMER	% OF GROUP REVENUE	SEGMENT
Vector Limited	18.5 (2015: 19.0)	Transmission
Meridian Energy Limited	11.0 (2015: 10.6)	Transmission

	TRANSMISSION		OTHER		ADJUSTMENTS		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
External revenue	968.6	980.4	60.1	52.5	5.8	4.1	1,034.5	1,037.0
Operating expenses								
Grid maintenance	100.8	102.9	–	–	6.9	4.1	107.7	107.0
IST maintenance	38.7	39.4	6.0	5.8	(1.1)	–	43.6	45.2
Other	111.8	103.0	9.8	12.2	12.2	14.2	133.8	129.4
<b>Total operating expenses</b>	<b>251.3</b>	<b>245.3</b>	<b>15.8</b>	<b>18.0</b>	<b>18.0</b>	<b>18.3</b>	<b>285.1</b>	<b>281.6</b>
Earnings before interest, tax, depreciation, amortisation, asset write-offs and changes in the fair value of financial instruments per statement of comprehensive income	717.3	735.1	44.3	34.5	(12.2)	(14.2)	749.4	755.4
Capex	220.5	347.0	9.2	12.0	–	–	229.7	359.0

The adjustments are primarily made up of:

	2016	2015	EXPLANATION
	\$M	\$M	
External revenue	5.8	4.1	Financial statements includes imputed interest in non-operating expenses, net interest expenses (note 4)
Operating expense – grid maintenance	6.6	4.1	The management report excludes rates because they are a regulatory pass-through
Operating expense – other	9.5	9.6	The management report excludes industry levies because they are a regulatory pass-through
Operating expense – other	1.1	2.1	The management report excludes HVDC reserves because they are a regulatory pass-through
Operating expense – other	0.8	2.5	The management report excludes customer investigations as unregulated costs



## 15. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	GROUP	
	2016	2015
	\$M	\$M
<b>Accounting hedges</b>		
Foreign exchange forward contracts – hedge accounted	2.9	(4.3)
Hedge commitment	(2.9)	4.3
	–	–
<b>Other</b>		
Foreign debt	(67.4)	275.9
Cross-currency interest rate swaps	36.5	(293.0)
Foreign interest rate swaps	–	0.8
NZD interest rate swaps	26.0	67.6
Investments	(1.9)	(1.5)
NZD debt	23.5	64.7
	16.7	114.5
<b>Total fair value (gain) loss</b>	<b>16.7</b>	<b>114.5</b>

**Description**

The Group experiences fair value movements principally through movements in underlying interest rates and exchange rates on debt and derivatives. 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 spreads are an estimate of the additional premium over the relevant yield curve that would be required by market participants to compensate them for the perceived credit risk inherent in the counterparty and transaction. For derivative transactions, the impact of credit spreads is substantially lower than for debt and investment transactions due to the offsetting nature of the cash flows.

**Related disclosures**

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

	GROUP	
	2016	2015
	\$M	\$M
<b>Current year fair value profit/(loss) movement included above</b>		
Fair value movement in debt due to credit spread movement	34.3	15.4
Fair value movement in assets due to credit spread movement	(1.4)	(0.8)
Fair value movement in derivatives due to credit spread movement	22.7	(15.6)
Statement of financial position balance – decrease in debt due to credit spread	172.1	137.8
Statement of financial position balance – (decrease) in investment due to credit spread	(2.3)	(0.9)
Statement of financial position balance – decrease in derivatives due to credit spread	27.3	4.6

## 16. TAXATION

## Income tax expenses

	GROUP	
	2016	2015
	\$M	\$M
<b>Current tax expense</b>		
Current period	39.6	15.3
Adjustment for prior periods	–	0.7
	39.6	16.0
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	30.5	30.5
Adjustment for prior periods	–	(0.5)
	30.5	30.0
<b>Total income tax expense (credit)</b>	<b>70.1</b>	<b>46.0</b>

## Reconciliation of effective tax

Operating surplus before tax	251.1	159.3
Income tax at 28c	70.3	44.6
Tax effect of:		
Net non-deductible expenses and non-assessable items	(0.2)	1.2
Under/(over) provided in prior periods	–	0.2
<b>Total income tax expense (credit)</b>	<b>70.1</b>	<b>46.0</b>

## Description

There are no unrecognised deferred tax balances (2015: nil).

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

## Accounting policies

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

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

## 16. TAXATION continued

## Related disclosures

*Imputation credits*

The imputation credits balance at 30 June 2016 is \$89.3 million (2015: \$143.4 million). This balance includes the tax payable figure at 30 June 2016.

*Deferred tax*

	GROUP				
	BALANCE 1 JULY 2014	RECOGNISED IN PROFIT OR LOSS	BALANCE 30 JUNE 2015	RECOGNISED IN PROFIT OR LOSS	BALANCE 30 JUNE 2016
	\$M	\$M	\$M	\$M	\$M
Property, plant and equipment temporary differences	350.2	48.9	399.1	34.6	433.7
Fair value of net debt and derivatives	(75.3)	(14.7)	(90.0)	(4.1)	(94.1)
Revenue deferral	(3.0)	(2.1)	(5.1)	–	(5.1)
Dismantling provision	(1.3)	(0.4)	(1.7)	–	(1.7)
Impairment	(0.3)	0.3	–	–	–
Other	(2.0)	(2.0)	(4.0)	–	(4.0)
<b>Total deferred tax</b>	<b>268.3</b>	<b>30.0</b>	<b>298.3</b>	<b>30.5</b>	<b>328.8</b>

## 17. RELATED PARTIES

**Transactions with key management personnel**

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

**Key management personnel compensation**

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

	GROUP	
	2016	2015
	\$M	\$M
Directors' fees	0.5	0.5
Other key management personnel	5.1	4.8
<b>Short-term employee remuneration</b>	<b>5.6</b>	<b>5.3</b>
Defined contribution schemes	0.2	0.2

There were no termination payments to key management personnel in 2016 (2015: \$0.4 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	
	2016	2015
	\$M	\$M
Meridian Energy Limited – revenue	113.8	109.6
Electricity Authority – revenue	43.2	41.8

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

The Electricity Authority (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 Inland Revenue.

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

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

## 18. CONTINGENCIES

### (i) Guarantees

#### NZPCL

In November 2009, the Group partially terminated the 2003 cross-border lease in respect of the majority of the HVAC transmission assets in the South Island. As a result of the partial termination, Transpower has consolidated a special-purpose vehicle, NZPCL.

NZPCL has a USD deposit with a financial institution and a USD loan from another financial institution. The cash flows from the deposit and loan offset. No consideration was transferred. The loan to NZPCL is guaranteed by Transpower.

The substance of the transaction is such that Transpower rather than the non-controlling interest would be responsible for any shortfall between the value of the asset and the liability. The likelihood of losses in respect of these matters is considered to be remote.

#### Debt

Transpower has given a negative pledge covenant to certain debt holders that, while any debt issued remains outstanding, we will not, subject to certain exceptions, create or permit to exist any charge or lien over any of our assets.

### (ii) Economic gain (loss) account

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

The provisional balances and expected cash flows from the EV accounts for HVAC and HVDC customers at 30 June 2016 are set out below. The 30 June 2016 provisional numbers do not take into account the EV balances to be recovered (paid) in the period 1 April 2017 to 31 March 2018. These figures will not be finalised until October 2016.

	HVAC \$M	HVDC \$M	TOTAL \$M
<b>30 June 2016 provisional balance</b>			
Pre-input methodology EV balances to be recovered (paid) 1 July 2016 to 31 March 2020	(29.6)	59.0	29.4
Post-input methodology EV balances to be recovered (paid) 1 July 2016 to 31 March 2017	(10.3)	2.1	(8.2)
<b>Total to be recovered (paid)</b>	<b>(39.9)</b>	<b>61.1</b>	<b>21.2</b>
<b>30 June 2015 balance</b>			
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)
<b>Total to be recovered (paid)</b>	<b>(46.9)</b>	<b>74.6</b>	<b>27.7</b>

### (iii) 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.

## 19. SUBSEQUENT EVENTS

The directors approved the payment of a dividend on 18 August 2016 of \$98.2 million. The dividend will be fully imputed and is expected to be paid on 20 September 2016.

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 2016*

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

### Opinion

We have audited the financial statements of the Group on pages 2 to 35, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement 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 2016; 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 18 August 2016. 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.

### **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' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Markets Conduct Act 2013.

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.

### **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 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 areas 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.



**Grant Taylor**

**Ernst & Young**

On behalf of the Auditor-General  
Wellington, New Zealand

**BOARD OF DIRECTORS****CHAIRMAN**

MARK VERBIEST

**DEPUTY CHAIRMAN**

DON HUSE

**DIRECTORS**

PROFESSOR JAN EVANS-FREEMAN

PIP DUNPHY

TIM LUSK

HON TONY RYALL

BILL OSBORNE

**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

**ADDRESS OF OFFICES****WELLINGTON**

TRANSPower HOUSE, 96 THE TERRACE

PO BOX 1021, WELLINGTON 6140

TELEPHONE 64 4 495 7000

FACSIMILE 64 4 495 7100

**AUCKLAND**

GATE 1, GRIDCO ROAD, OTAHUHU

PO BOX 17-215, GREENLANE, AUCKLAND 1546

TELEPHONE 64 9 589 2300

FACSIMILE 64 9 589 2310

**PALMERSTON NORTH**

LEVEL 5, IRD BUILDING

CORNER ASHLEY STREET

AND FERGUSON STREET

PO BOX 640, PALMERSTON NORTH 4440

TELEPHONE 64 6 357 0919

FACSIMILE 64 6 357 0917

**CHRISTCHURCH**

31 GILBERTHORPES ROAD

ISLINGTON

PO BOX 21-154, EDGEWARE

CHRISTCHURCH 8143

TELEPHONE 64 3 590 7600

FACSIMILE 64 3 338 1290







[WWW.TRANSPOWER.CO.NZ](http://WWW.TRANSPOWER.CO.NZ)