ANNUAL REPORT 2013/14

Keeping the energy flowing

TRANSPOWER

CONNECTING NEW ZEALAND


CONNECTING COMMUNITIES
EFFICIENT AND SECURE POWER SUPPLY
SAFE, SMART SOLUTIONS
CUSTOMER SERVICE

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

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

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WORKING CLOSELY WITH OUR CUSTOMERS

During the last 12 months, we commissioned the last of our major transmission projects and have focused on using innovative solutions to create further efficiencies. Financial performance for the year has been satisfactory.

Financial performance

Net profit after tax from continuing operations, before net changes in the fair value of financial instruments, was $184 million (2013: $202 million) a reduction of $18 million on the previous period. This net decrease reflected higher revenue, depreciation and interest costs. These were an outcome of our significant build programme.

Earnings before interest, tax, depreciation, asset write-offs, impairments and changes in the fair value of financial instruments (EBITDAIF) was $717 million (2013: $623 million) an increase of $94 million. The increase resulted from higher transmission revenue of $941 million (2013: $861 million), an increase of $80 million (9 per cent). The revenue increase reflects the commissioning of the North Auckland and Northland (NAaN) project and the impact of the previous year's HVDC commissioning. Operating expenses of $287 million were down from $295 million the previous year.

Depreciation, amortisation, impairments and write-offs increased to $251 million (2013: $205 million). This reflects higher depreciation following commissioning of the HVDC and NAaN projects, and higher asset write-offs of $34 million (2013: $17 million) as old or obsolete assets were replaced or removed from service.

Net finance expenses increased to $209 million (2013: $142 million). The increase was primarily due to higher debt levels and a reduction of capitalised interest as the major projects are now operational.

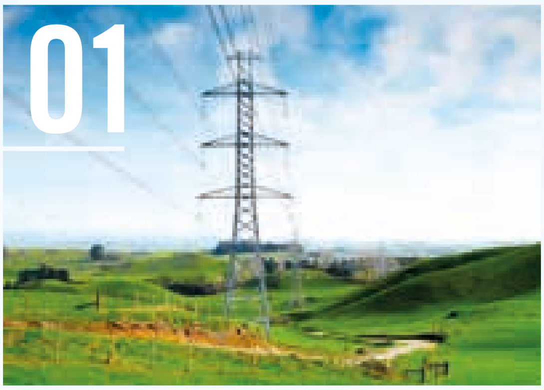
Net profit after tax from continuing operations, including net changes in the fair value of financial instruments, was $216 million (2013: $197 million). The net change in fair value for the year was a $45 million dollar gain (2013: $7 million loss) - predominantly the result of movements in market interest rates.

We are not in the business of trading financial instruments, which are generally held to maturity. Fair value movements are non-cash in nature and do not reflect the underlying operating performance of the business.

Capital expenditure was $502 million (2013: $684 million). Of this, $196 million related to the completion of the HVDC Pole 3, NAaN and Wairakei to Whakamaru projects. The balance of capital expenditure is made up predominantly of small to medium sized projects needed to reinforce the grid.

Funding We continue to access a range of debt capital markets to fund the grid investment programme and to refinance maturing debt. In August and November 2013, we secured long term funding through domestic and offshore bond issues totalling NZ$540 million. These debt issues have maturities ranging between five and ten years, helping to maintain our prudent and diversified funding profile. Net debt at 30 June 2014 was $3.3 billion.

GRID/MORE CAPACITY



WAIRAKEI TO WHAKAMARU LINE COMMISSIONED

OVER THE LAST WEEK OF JUNE AND FIRST WEEK OF JULY 2014, WE COMMISSIONED THE NEW WAIRAKEI TO WHAKAMARU 220 KV DOUBLE CIRCUIT TRANSMISSION LINE. WE WILL NOW REMOVE THE OLDER LOWER-CAPACITY ‘B’ LINE, WHICH IS NO LONGER REQUIRED.

A key enabler for our borrowing programme is a strong, investment grade credit rating (Standard & Poor’s AA- and Moody’s A1). The ratings reflect our Crown ownership, the highly regulated nature of our cash flows, the essential nature of the services we provide and the efficiency and effectiveness of our business.

Dividend payments An interim dividend of $60 million was paid to the Crown in March 2014. The Board has resolved to pay a final dividend of $91 million. This will be paid in September 2014. Total dividends paid for the 2013/14 financial year will be $151 million.

Regulation

Regulatory Control Period 2 Transpower operates within Regulatory Control Periods set by the Commerce Commission. In each regulatory period future revenue, expenditure and performance targets are set for Transpower’s transmission business, on a five-year cycle. The first Regulatory Control Period (RCP1) ends in June 2015. We are currently working through a consultation process with the Commerce Commission, our customers and other stakeholders to finalise settings for Regulatory Control Period 2 (RCP2). This will cover 1 July 2015 to 30 June 2020. The Commerce Commission will issue its final determination by 29 August 2014.

ALISON ANDREW
CHIEF EXECUTIVE

MARK VERBIEST
CHAIRMAN

The Commission is reviewing whether it should change the way it sets the rate of return for regulated businesses (including Transpower). It has released a draft decision which, if adopted, would reduce Transpower's Weighted Average Cost of Capital (WACC) by approximately 25 basis points (equivalent to approximately $18 million revenue per annum). We are actively engaged in the consultation process given the impact this could have on our returns, and on investment in regulated infrastructure across New Zealand.

Transmission revenue and pricing Transmission charges make up approximately 9 per cent of an average residential electricity consumer's power bill. We are aware that rising electricity prices represent a significant cost for businesses and households. We are committed to keeping our costs as low as possible while ensuring we provide a secure and reliable transmission service.

Our latest forecasts indicate that transmission revenue will be flat in real terms during RCP2.

The Electricity Authority is continuing its review of whether changes to the way transmission costs are allocated between transmission customers could improve the efficiency of the electricity sector. In the meantime, we have identified a number of small changes to our pricing methodology that may encourage more efficient use of the grid without materially changing the underlying allocation of the costs of transmission. We are working with our customers and the Electricity Authority with a view to putting these changes in place by September 2015.

North Island Grid Upgrade cost recovery Our request to amend the major capex allowance on the North Island Grid Upgrade (NIGU) project is being considered by the Commerce Commission. The request for an increase in the allowance, from the $824 million originally approved to $894 million, reflects higher than budgeted costs incurred in the construction of the overhead transmission line and associated land compensation payments. However, the maximum amount we will recover from transmission customers is $876 million. A final decision by the Commerce Commission is expected by August 2015.

Performance of the grid against our Statement of Corporate Intent targets

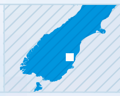
Our performance against the targets in our 2013/14 Statement of Corporate Intent was as follows:

OPERATIONAL PERFORMANCE	TO 30 JUNE 2014	SCI TARGET	TARGET MET
HVAC AVAILABILITY %	98.9	98.8	✓
HVDC AVAILABILITY %	80.8	86.9	✗
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 0.05 SYSTEM MINUTES[1]	17	15	✗
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 1.0 SYSTEM MINUTE	2	3	✓

1. One system minute is based on a system peak of 6414 MW for the purposes of this calculation. One system minute is equivalent to the loss of total national electricity supply for one minute at peak load – equivalent to turning off a city the size of Hamilton for about 40 minutes.

BETTER CUSTOMER SERVICE

ASSET TRANSFER PROGRAMME - PALMERSTON



THE PALMERSTON SUBSTATION AND CONNECTING LINES, LOCATED ROUGHLY 46KM NORTH OF DUNEDIN, WERE RECENTLY TRANSFERRED TO OTAGONET AS PART OF OUR ASSET TRANSFER PROGRAMME. THIS WILL ENABLE OTAGONET TO BETTER CONFIGURE THEIR NETWORK TO MEET THE NEEDS OF THEIR CONSUMERS.

HVDC availability was lower in 2013/14 due to additional outages associated with the commissioning of the new HVDC control system. Our HVDC availability target for 2014/15 is 97%.

During the 2013/14 financial year, we had 17 unplanned events resulting in interruptions of greater than 0.05 system minutes. This compared with 12 events in the previous year.

There were two more significant unplanned events in 2013/14 that were greater than 1.0 system minute. On 12 November 2013, there were supply interruptions to customers in the North Island when automatic frequency load shedding relays were triggered following a test on the HVDC link as part of the HVDC Pole 3 project. This resulted in 4.1 system minutes of non-supply. The testing uncovered an issue with equipment settings, which was able to be corrected before the final stage of the HVDC project was completed. On 10 April 2014, the two 220 kV circuits supplying into the Hawke's Bay region tripped simultaneously because of lightning. This resulted in interruptions to supply in the Hawke's Bay and East Coast of the North Island. This resulted in 3.2 system minutes of non-supply.

Our total system minutes lost of 12.1 was well below the average number of the previous four years of 15.2 system minutes.

Safety

There were 30 medical treatment and lost time injuries against a 2013/14 Statement of Corporate Intent (SCI) target of no more than 30 injuries. The nature of these injuries ranged from minor cuts and bruises to more significant events such as broken ankles resulting from falls. This is an improvement on the 34 injuries sustained in 2012/13. Unfortunately there was one injury causing permanent disability (amputated finger). However, the overall severity of these incidents has decreased.

The Board engaged the services of an overseas safety and health field assessor to review the improvements made since the last assessment in March 2013. The assessor reported a significant improvement in field activities. While the findings were positive, further work needs to be done and we are working closely with our service providers to help identify and drive improvements that will make all our workforce safer.

A Safety and Health Strategic Plan has been developed with a number of key safety initiatives and actions identified for delivery over the next 12-36 months.

Strengthening the Grid

The second and final stage of the HVDC interisland link project - replacing the control system on Pole 2 and installing a new STATCOM at Haywards - was completed in December 2013. This brought the capacity of the link to 1200 MW. The total project cost was some $70 million less than the regulatory approved cost.

The NAaN project, a new 220 kV cable circuit running 37km from Pakuranga to Albany supported by two new substations, now provides an alternative route to move power through and around Auckland and to Northland. This project was commissioned in February 2014, substantially under the approved cost of $473 million.

The last of our major projects has now been completed. The Wairakei to Whakamaru Replacement Transmission Line project was substantially completed in June 2014. It is a key enabler for transmitting new sources of renewable, geothermal generation from the central North Island around the country.

Transpower's $162 million project to replace end-of-life conductors on the Bunnythorpe to Haywards transmission line received approval from the Commerce Commission in May 2014. Work will start in summer 2014/15.

BETTER RESILIENCE

NEW INFORMATION TECHNOLOGY DATA CENTRES

WE ARE ESTABLISHING TWO NEW DATA CENTRES (ONE IN EACH ISLAND) FOR OUR CRITICAL HARDWARE AND SYSTEMS IN SECURE BUILDINGS PROVIDED BY SPARK DIGITAL. OUR TECHNOLOGY SYSTEMS CURRENTLY SHARE INFRASTRUCTURE FOR CRITICAL BUSINESS APPLICATIONS AND NORMAL ENTERPRISE APPLICATIONS, AND THE NEW DATA CENTRES WILL ENABLE THE TWO TO BE SEPARATED. THIS WILL ENSURE BETTER RELIABILITY AND RESILIENCE OF OUR CRITICAL APPLICATIONS AND MAKE IT EASIER TO REFRESH TECHNOLOGY EQUIPMENT.

We have been working with the New Zealand Transport Authority and local lines company Electra to convert the Paraparaumu substation to 220 kV and connect to the nearby Bunnythorpe to Haywards line. This will allow us to remove the 23kms of 110 kV line that supplies Paraparaumu to make way for the new Transmission Gully highway. This has been welcomed by the local community. Work is well under way. The new substation is due to be commissioned in January 2015. The 110 kV line removal will begin immediately afterwards.

Operating the future grid

The need for major investment has now reduced with the completion of the capital investment programme. That said, we still have a large volume of smaller projects to undertake and approximately 12,000km of transmission lines and 178 substations to maintain. We will continue to spend around $300 to $400 million per year on maintenance and refurbishment.

We will continue to adapt and be flexible in our planning and operations to meet the changing needs of the electricity market. While national demand growth is expected to be flat, growth will occur in some regions. In addition, consumers want more control over their electricity usage. Accordingly, we will balance cost and service to provide a grid that delivers the most value to our customers, stakeholders and ultimately to the end consumer. This requires us to continue to seek new ways of operating the grid and to invest in innovative systems and technologies to deliver more service from our existing assets.

Technology, innovation and customer delivery Utilising new technologies will help to reduce or defer the need for new grid assets – ultimately resulting in cost savings for the end consumer and limiting the footprint of the future grid.

Over the past financial year, we have built on our previous technology and innovation successes to create further efficiencies and better levels of service.

Optical current transformers were successfully introduced as part of the Albany to Henderson underground cabling project in West Auckland. We are monitoring their performance. If they continue to perform well, we will deploy them as replacements to existing protection designs. This will remove the need to run many hundreds of metres of expensive power cable around our sites by using fewer, smaller fibre-optic connections.

We completed a successful demand response programme during 2013/14. Demand response - where electricity consumers are paid to temporarily reduce their electricity demand - is proving to be a win-win for Transpower and consumers. We ran our first commercial demand response programme between July and December 2013. There were eight participants and twenty successful demand response events occurred. The largest call to participants was for 175 MW during testing for the HVDC Pole 3 project. Overall participants' feedback on the programme has been positive. We will continue to develop our demand response capability as an alternative to transmission investment to deliver long-term benefits to consumers.

With the recent approval by the Commerce Commission of the Bunnythorpe-Haywards Reconductoring project, we are moving forward with our High Temperature Low Sag (HTLS) conductor trial. This will enable us to determine if the additional capacity of HTLS conductors can be applied economically in the New Zealand environment. We plan to begin trialling the HTLS conductors on a small section of the Bunnythorpe-Haywards line within the next two years.

Managing our assets Better targeted maintenance work, combined with prioritising where we focus our resources to get the most out of our assets, will ultimately result in better service, lower costs and less disruption for our customers.

Our new Asset Management Framework (now PAS 55 accredited – an internationally recognised asset management system), has provided a clear line of sight from our business drivers to our asset management decisions. We have also developed new customer-facing performance and asset health measures to help us better prioritise our efforts.

Asset health measures provide an estimate of the effective remaining life for our transformers, transmission lines and circuit breakers and hence allow better targeted asset management decisions. Asset health measures will be progressively extended to all our key asset fleets.

Easy access to the right information about our assets is critical for our people to make the right decisions and implement appropriate solutions - both in the office or in the field locations throughout New Zealand. We have implemented a new drawings management system that enables the most up-to-date information to be easily accessed by our office staff and field crews via mobile devices even in our most remote locations. The next step will be to integrate this system with Maximo - our Asset Information Management System - to provide a one-stop shop for asset-related information.

We continue to rationalise the ownership of some lower voltage connection assets. Asset transfers to distribution companies provide them with more control over connection assets and allows us to focus our resources on the interconnected grid. Ultimately this enables us to provide a better service at a lower cost.

All of these developments will result in lower capital costs, more targeted maintenance expenditure and improved reliability to customers.

Corridor management We need to ensure that our assets are easy to access and that developments underneath or adjacent to existing assets are managed safely. We are working with local authorities to ensure that transmission line buffer corridors are considered in their regional and district plans. Buffer corridors manage the risk to people and property, and ensure that we always have full access to our assets. Fourteen councils now have buffer corridors in their district plans. We will continue to work with the remaining councils and other interested parties to stress the importance of protecting national infrastructure in the public interest.

Managing the system in real time

The 2013/14 financial year has been one of the busiest commissioning periods for decades on the system. Two major generators were commissioned during the year and the HVDC controls were also successfully commissioned into the market.

The new HVDC controls - frequency-keeping controls and round power - were tested and trialled over a period of several months. Round power is a fully automated bi-pole control function that will automatically start and stop HVDC poles as required. The future of round power will see the introduction of a national frequency-keeping market, national reserve market and increased reserve sharing.

In conjunction with the Electricity Authority, we also successfully implemented the Dispatchable Demand programme this year. Purchasers in the wholesale electricity market are now able to offer load into the market alongside generation in a world-first implementation of dispatchable demand.

SAFE, SMART SOLUTION

04

SPOTLIGHT ON CUSTOMER SERVICE

A COMBINATION OF DEMAND RESPONSE AND OUR MOBILE SUBSTATION ENABLED THE LIGHTS TO STAY ON FOR THE TEKAPO REGION DURING JANUARY-MAY 2014. HIGH ELECTRICITY DEMAND, DUE TO A LARGE INCREASE IN IRRIGATION COMBINED WITH THE REGION'S MAIN GENERATION SOURCES BEING OUT FOR MAINTENANCE, PUT THE POWER SUPPLY AT RISK. WE INVITED CONSUMERS WITHIN THE LOCAL ELECTRICITY NETWORK TO PARTICIPATE IN OUR DEMAND SIDE PROGRAMME TO COVER PEAK LOADS DURING THIS TIME. WE ALSO INVITED ANY ORGANISATION WITH DISCRETIONARY DEMAND TO PARTICIPATE IN THE PROGRAMME, WITH THE AIM OF CREATING A DIVERSE PORTFOLIO OF RESOURCES TO PROVIDE FLEXIBILITY WHEN PEAK DEMAND WAS FORECAST IN THE REGION. BY USING OUR DEMAND RESPONSE MODEL, WE WERE ABLE TO CONTRACT ENOUGH DEMAND RESPONSE TO KEEP THE LIGHTS ON, USING VERY SMALL AMOUNTS OF LOAD FROM SMALL-SCALE PARTICIPANTS IN THE TEKAPO AREA.

In order to maintain the integrity of critical Transpower systems, upgrades are required for the Supervisory Control and Data Acquisition (SCADA) system and Market System software platforms. SCADA enables the real-time operation of the electricity system. The SCADA upgrade programme has started and will provide a like-for-like upgrade of the software for the SCADA platform and Market Systems. This will ensure the operational integrity of New Zealand's National Grid is maintained. The upgrade is scheduled to go live in late 2015.

The Energy Market Services (EMS) team completed a grid exit point meter upgrade project with internet protocol meters now installed throughout New Zealand enabling the real time collection of electricity and power quality data. The EMS team also took on the Allocation Agent role for the Gas Industry Company reconciling gas industry gas volumes. This resulted in the establishment of emsTradepoint in late 2013 as a physical natural gas exchange for producers, wholesalers and industrial users.

People

We had a change of Chief Executive this year with Patrick Strange leaving us on 31 January following seven years service. We welcomed Alison Andrew to the organisation on Monday 3 February who brings a strong customer focus and substantial experience in organisational transformation.

General Management Team changes We have also had several changes at our General Management Team.

The System Operator has undergone a structure review to better align with regulatory expectations, and to focus on the relationship with the Electricity Authority. After making a significant contribution to the electricity industry, Kieran Devine resigned from the role of General Manager System Operations in May 2014. John Clarke, previously General Manager Grid Development, took up this role from 31 May 2014.

Cynthia Brophy, our General Manager People and Corporate Relations left Transpower in June 2014 following eight years with the company. Bob Simpson, our Chief Engineer, retired in July 2014 following a long and successful career both within Transpower and the wider electricity industry.

Garth Dibley, General Manager Grid Performance, also departed the company in July 2014 to take up a new position as Chief Executive of WEL Networks.

Howard Cattermole, Chief Financial Officer, departed the company in August 2014 following fifteen years' service.

We thank Kieran, Cynthia, Bob, Garth and Howard for their commitment and dedication to Transpower during their tenures, and wish them all the best for their future endeavours.

Board changes Alastair Scott resigned as a Director from the Board of Transpower, effective from 29 April 2014, to stand for election as a Member of Parliament for Wairarapa. The Board acknowledges Alastair's significant contribution during his tenure.

Communities

We value our ongoing relationships with the 26,000 landowners who have our lines running across their private land. This financial year we implemented additional feedback mechanisms to help improve the way we operate when carrying out maintenance work on their land. This involves continuing to work with our service provider companies to foster positive working relationships with our landowners.

Our community relations programme aims to invest in communities affected by our assets. During the year,

IN ADDITION TO MANAGING DEMAND OVER THIS TIME, WE NEEDED TO CREATE A SEVEN DAY OUTAGE TO COMPLETE AN ESSENTIAL LONG-TERM PROJECT AT THE TEKAPO SUBSTATION. WE WERE ABLE TO DEPLOY OUR MOBILE SUBSTATION TO COVER ELECTRICITY DEMAND DURING THIS TIME. THE COMMUNITY EXPERIENCED AN EIGHT-HOUR OUTAGE TO MAKE THE SITE READY TO CONNECT TO THE MOBILE SUBSTATION FOR THE FIRST TIME. HOWEVER, POWER WAS MAINTAINED TO CONSUMERS FOR THE REMAINING SIX DAYS. IN THE FUTURE, THE MOBILE SUBSTATION WILL BE USED TO COVER MAINTENANCE PERIODS WITH NO DISRUPTION TO THE LOCAL COMMUNITY. THE COMBINATION OF DEMAND RESPONSE AND THE MOBILE SUBSTATION MEANT THAT WE COULD AVOID ROLLING POWER OUTAGES FOR THE REGION DURING THE SUMMER ‘PEAKS’ AND UNDERTAKE A SUBSTANTIAL PROJECT WITH MINIMAL DISRUPTION TO THE COMMUNITY.

our CommunityCare Fund awarded grants totalling close to $1 million to 52 community-based projects nationwide. Projects included upgrading school swimming pools and playgrounds, walking and biking tracks and community hall upgrades.

The CommunityCare Fund is complemented by Greenline, our community environmental programme. We have completed the second year of our three year Greenline partnerships with Kapiti, Manawatu, and Horowhenua Councils, where we provide funding and volunteers for their environmental projects. In this financial year, over 5000 trees were planted by Transpower volunteers.

Reducing carbon emissions Sulphur hexafluoride (SF_6) emissions continue to be the largest source of our emissions. Reducing these emissions continues to be a key focus of our carbon management programme. We will achieve this through enhanced maintenance of our high voltage equipment and, in the longer term, through promoting SF_6-free alternatives.

Looking forward

We will continue to focus on developing smart solutions to get more out of the grid rather than investing in more assets. We see this as a critical and achievable way to reduce costs for the end consumer in the long term.

We will continue to work closely with our customers to improve their service experience, and to better focus our expenditure. We see this ongoing dialogue with customers as an opportunity to provide more value, and to ensure a strong and reliable grid for the future.

ALISON ANDREW
CHIEF EXECUTIVE

MARK VERBIEST
CHAIRMAN

2013/14

THE TARGETS FOR OPERATIONAL, FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS, AS DETAILED IN THE 2013/14 STATEMENT OF CORPORATE INTENT, ARE COMPARED BELOW WITH ACTUAL RESULTS ACHIEVED FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014.

OPERATIONAL PERFORMANCE INDICATORS	ACTUAL 30 JUNE 2014	TARGET 30 JUNE 2014
HIGH VOLTAGE ALTERNATING CURRENT (HVAC) CIRCUIT AVAILABILITY (%)	98.9	98.8
HIGH VOLTAGE DIRECT CURRENT (HVDC) (POLE 2 ONLY) CIRCUIT AVAILABILITY (%)	80.8	86.9
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 0.05 SYSTEM MINUTES	17	15
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 1 SYSTEM MINUTE	2	3

FINANCIAL PERFORMANCE INDICATORS*	ACTUAL 30 JUNE 2014	TARGET 30 JUNE 2014
EBITDAIF** MARGIN (%)	71.1	70.2
FREE FUNDS FROM OPERATIONS INTEREST COVERAGE (TIMES)	3.0	2.9
RETURN ON CAPITAL EMPLOYED (%)	6.8	6.9
RETURN ON EQUITY (%)	11.4	11.5
AVERAGE TOTAL TRANSMISSION COSTS (c/kWh)	2.44	2.31
ESTIMATED ECONOMIC VALUE ADDED ($MILLION)	62	67

* THE FIRST FOUR FINANCIAL PERFORMANCE INDICATORS EXCLUDE THE DISCONTINUED OPERATIONS (SALE OF D-CYPHATRADE).
** EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, IMPAIRMENT AND NET FAIR VALUE ADJUSTMENTS.

NON-FINANCIAL PERFORMANCE TARGETS	ACTUAL 30 JUNE 2014	TARGET 30 JUNE 2014
MATERIAL BREACHES OF SYSTEM OPERATOR PERFORMANCE OBLIGATIONS REPORTED TO THE ELECTRICITY AUTHORITY	0	<4
ACC WORKPLACE SAFETY AUDIT STATUS	TERTIARY	TERTIARY
NUMBER OF FATALITIES OR INJURIES CAUSING PERMANENT DISABILITY	1	0
NUMBER OF MEDICAL TREATMENT INJURIES	30	≤30

THE PERFORMANCE TARGETS FOR THE 2014/15 PERIOD, WHICH ARE DETAILED IN THE 2014/15 STATEMENT OF CORPORATE INTENT, WILL BE REPORTED IN NEXT YEAR'S ANNUAL REPORT AND ARE AS FOLLOWS:

14/15

OPERATIONAL PERFORMANCE INDICATORS	TARGET 30 JUNE 2015
HIGH VOLTAGE ALTERNATING CURRENT (HVAC) CIRCUIT AVAILABILITY (%)	98.8
HIGH VOLTAGE DIRECT CURRENT (HVDC) BI-POLE CIRCUIT AVAILABILITY (%)	97.0
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 0.05 SYSTEM MINUTES	15
NUMBER OF LOSS OF SUPPLY EVENTS GREATER THAN 1 SYSTEM MINUTE	3

FINANCIAL PERFORMANCE INDICATORS	TARGET 30 JUNE 2015
EBITDAIF* MARGIN (%)	70.2
FREE FUNDS FROM OPERATIONS INTEREST COVERAGE (TIMES)	3.0
RETURN ON CAPITAL EMPLOYED (%)	6.8
RETURN ON EQUITY (%)	11.8
AVERAGE TOTAL TRANSMISSION COSTS (c/kWh)	2.59
ESTIMATED ECONOMIC VALUE ADDED ($MILLION)	43

* EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, IMPAIRMENT AND NET FAIR VALUE ADJUSTMENTS

NON-FINANCIAL PERFORMANCE TARGETS	TARGET 30 JUNE 2015
MATERIAL BREACHES OF SYSTEM OPERATOR PERFORMANCE OBLIGATIONS REPORTED TO THE ELECTRICITY AUTHORITY	<4
ACC WORKPLACE SAFETY AUDIT STATUS	TERTIARY
NUMBER OF FATALITIES OR INJURIES CAUSING PERMANENT DISABILITY	0
TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)	<8

MARK VERBIEST
CHAIRMAN

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

IAN FRASER
DEPUTY CHAIRMAN

IAN was appointed to the Transpower Board in May 2007. After graduating in engineering at Canterbury University, Ian has worked as a consulting engineer and in the construction industry. He was a Director of Beca Group from 1985 to 2007, Managing Director of Beca Carter Hollings and Ferner from 2004 to 2007 and has served on a number of industry boards including the New Zealand Society for Earthquake Engineering, the Association of Consulting Engineers (president 2000 to 2002) and was a Director of Mighty River Power from 1999 to 2006 (Deputy Chair 2005 to 2007). He is currently a Director of New Zealand Social Infrastructure Fund and BGS Trustee and a consultant to Beca Group.

DON HUSE

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

ABBY FOOTE

ABBY has an extensive legal background and experience in the areas of finance and mergers and acquisitions, both in New Zealand and in the United Kingdom. Abby has previously served as an independent Director and Chair of Mike Pero Mortgages and as Chief Executive of internet-based financial services company Fundit. She has also held senior positions at Telecom Corporation of New Zealand, Cable and Wireless Plc and the Pharmaceutical Management Agency. She is currently a Director of the Local Government Funding Agency, Z Energy and BNZ Life Insurance.

JAN EVANS-FREEMAN

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

MIKE POHIO

MIKE has been Chief Executive of Tainui Group Holdings since 2006. Prior to that, he was container terminal manager at the Port of Tauranga. Mike has also worked for Fonterra and its Hamilton-based predecessor, the New Zealand Dairy Group. Mike's roles for Fonterra and its antecedents have included Group Financial Controller, General Manager of Glencoal Energy, Regional General Manager for Anchor Products and Manager of Merger Benefits. Mike is Chairman of BNZ Partners, Waikato Region and a Member of the University of Waikato Council. He has tribal linkages to Te Arawa (Ngati Pikiao) and Ngai Tahu.

KEITH TEMPEST

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

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Corporate governance

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

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

BOARD COMPOSITION AND PERFORMANCE

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

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

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

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

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

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

GOVERNANCE REQUIREMENTS AND BEST PRACTICE

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

BOARD COMMITTEES

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

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

Audit and Finance Committee

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

- annual audit plans and internal and external audits and reviews reports
- compliance and statutory reporting/disclosure
- treasury activity
- financial reporting, risk assessments, plans and policies
- insurance programmes, including the governance and operational activities of Risk Reinsurance Limited (RRL).

Network Risk Committee

The Board requires the Network Risk Committee to meet at least four times a year, unless otherwise agreed by the Board, and to consider, assess and review asset and network risks and their controls.

Corporate governance continued

People and Performance Committee

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

System Operator Committee

The Board requires the System Operator Committee to meet at least four times a year, unless otherwise agreed by the Board, and to consider, assess and review the System Operator's capability and strategic direction and to monitor the relationship with the System Operator's regulator, the Electricity Authority.

ETHICAL STANDARDS

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

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

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

ANNUAL MEETINGS

In line with shareholder expectations for more SOE disclosure, accountability and visibility, Transpower is holding its sixth Annual Public Meeting in Wellington on 14 August 2014. The objective is to give all Transpower stakeholders the opportunity to learn more about its business performance, future growth and how it is discharging its corporate social responsibility. Transpower will hold its Annual Shareholder Meeting on 13 November 2014, where shareholders and/or their proxies meet with the Board to examine Transpower's performance and review its strategic direction.

REPORTING AND DISCLOSURE

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

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

DEBT LISTINGS AND WAIVERS

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

- 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 TRP010 bonds is for a period of one year from 28 February 2014. The waiver in respect of the TRP020 bonds is for a period of one year from 7 September 2013. In addition to disclosing the waivers and their implications and conditions in its half yearly and annual reports, Transpower is to notify NZX Regulation if there are any material changes to the spread of either tranche of Bonds.

Corporate governance continued

- A waiver from the previous rule 10.5.3 of the then current Listing Rules which requires an issuer to provide its half yearly report to NZX and quoted security holders within three months of the end of the first six months of each financial year of the issuer. NZX has recognised that SOEs are subject to reporting obligations that differ from those required of other companies. In particular, SOEs are not required to provide their annual reports to NZX and quoted security holders until they are provided to the responsible Minister and laid before the House.
- A waiver from rule 11.1.1 to permit Transpower to restrict the transfer of the Bonds in anything other than parcels of $1,000 or if the transfer would result in any bondholder holding less than $5,000 (if not zero).

AUDIT

The Auditor-General appoints Transpower's external auditors and sets the parameters of any assignments that they may undertake.

RISK MANAGEMENT

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

REMUNERATION

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

Directors' report to the shareholders

for the year ended 30 June 2014

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 2014.

ACTIVITIES

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

RESULTS FOR THE YEAR

	GROUP		PARENT	
	2014 $M	2013 $M	**2014** $M	2013 $M
CONTINUING OPERATIONS				
Operating revenue	1,003.7	918.4	1,022.8	918.8
Operating expenses	287.2	295.3	294.4	302.5
Earnings before interest, tax, depreciation, amortisation, impairment, asset write-offs, and changes in the fair value of financial instruments	716.5	623.1	728.4	616.3
Depreciation, amortisation, impairment and asset write-offs	251.2	204.9	251.2	204.9
Finance expenses	209.4	142.3	241.2	129.6
Earnings before changes in fair values of financial instruments and tax	255.9	275.9	236.0	281.8
Income tax expense (credit) excluding changes in the fair value of financial instruments	72.0	73.7	57.5	73.6
Earnings before net changes in fair values of financial instruments	183.9	202.2	178.5	208.2
DISCONTINUED OPERATIONS				
Earnings before changes in the fair value of financial instruments and tax	–	68.2	–	62.7
Income tax expense (credit) excluding changes in the fair value of financial instruments	–	1.9	–	–
Earnings before net changes in fair values of financial instruments	–	66.3	–	62.7
Net profit on total activities excluding net changes in the fair value of financial instruments	183.9	268.5	178.5	270.9
(Gain) loss in the fair value of financial instruments	(45.0)	6.6	52.6	97.5
Income tax expense (credit) on changes in the fair value of financial instruments	13.1	(1.8)	(14.7)	(27.4)
Net profit (loss) on financial instruments	(31.9)	4.8	37.9	70.1
TOTAL PROFIT	215.8	263.7	140.6	200.8

KEY BALANCES

Non current assets, including held for sale assets (note 13)	5,034.0	4,822.1	5,034.0	4,822.1
External debt balances at face value				
New Zealand dollar debt	1,400.0	1,249.8	1,400.0	899.8
Foreign debt after adjusting for related foreign exchange derivatives	1,899.9	1,687.4	1,899.9	902.4
	3,299.9	2,937.2	3,299.9	1,802.2

DIVIDENDS

Transpower paid an interim dividend of $60.0 million on 20 March 2014. The directors declared a final dividend of $91.0 million on 14 August 2014.

DISCONTINUED OPERATIONS

The discontinued operations relate to d-cyphaTrade Limited which was sold to ASX Limited on 31 May 2013.

Directors' report to the shareholders continued

for the year ended 30 June 2014

AUDITORS

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

INFORMATION ON TRANSPOWER DIRECTORS

Meetings of the board of directors

The members of the board of directors at 30 June 2014 are listed below, together with the number of board meetings held and attended during the period each director was eligible to attend such meetings.

DIRECTOR	DATE COMMENCED IN OFFICE	MEETINGS HELD	MEETINGS ATTENDED
Mark Verbiest (chairman)	1 August 2010	10	10
Ian Fraser (deputy chairman)	1 May 2007	10	10
Abigail Foote	1 May 2009	10	10
Michael Pohio	1 July 2009	10	9
Keith Tempest	1 May 2011	10	10
Don Huse	1 May 2011	10	10
Alastair Scott (resigned April 14)	1 July 2011	9	9
Jan Evans-Freeman	1 November 2012	10	10

Meetings of the audit and finance committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Don Huse (chairman)	4	4
Mark Verbiest	4	3
Abigail Foote	4	4
Alastair Scott (resigned April 14)	4	3

The audit and finance committee considers any matters relating to the internal and external audits of the Transpower Group. It recommends appointment of internal auditors and considers policy and reporting on risk and compliance. It also monitors and recommends to the board to approve policies in relation to the treasury function for the Transpower Group.

Meetings of the network risk committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Ian Fraser (chairman)	4	4
Keith Tempest	4	4
Tim Lusk (consultant)	4	3
Jan Evans-Freeman	1	1

The network risk committee monitors and recommends to the board to approve policies in relation to maintaining the integrity of the national grid.

Meetings of the people and performance committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Michael Pohio (chairman)	5	4
Mark Verbiest	5	5
Keith Tempest	5	5
Jan Evans-Freeman	5	4

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

Directors' report to the shareholders continued

for the year ended 30 June 2014

Meetings of the system operation committee

MEMBERS	MEETINGS HELD	MEETINGS ATTENDED
Keith Tempest (chairman)	2	2
Michael Pohio	2	2
Ian Fraser	2	2

The system operation committee monitors compliance with the system operator's statutory and contractual requirements and its ability to meet the needs of the electricity industry and the regulator.

Information on directors of subsidiary companies as at 30 June 2014

TB and T Limited
Howard Cattermole
Christopher Sutherland

Halfway Bush Finance Limited
Howard Cattermole
Christopher Sutherland

Risk Reinsurance Limited
Abigail Foote
Howard Cattermole
Garth Dibley

Mike Carter resigned from Risk Reinsurance Limited on 22 August 2013.
Patrick Strange resigned from TB and T Limited and Halfway Bush Finance Limited on 3 February 2014.
Garth Dibley was appointed to Risk Reinsurance Limited on 17 March 2014 and resigned on 23 July 2014.

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	2014 $000	2013 $000
Mark Verbiest (chairman)	1 August 2010		111	110
Ian Fraser (deputy chairman)	1 May 2007		70	71
Abigail Foote	1 May 2009		54	57
Michael Pohio	1 July 2009		56	57
Maury Leyland*	1 November 2010	31 July 2012	–	4
Keith Tempest	1 May 2011		58	53
Don Huse	1 May 2011		58	57
Alastair Scott*	1 July 2011	30 April 2014	44	53
Jan Evans-Freeman	1 November 2012		52	34
			503	496

** Alastair Scott resigned from the board effective 30 April 2014.*
** Maury Leyland resigned from the board effective 31 July 2012.*

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' report to the shareholders continued

for the year ended 30 June 2014

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	Director	Freightways Limited
	Chairman	Willis Bond Capital Partners Limited
	Director**	Financial Markets Authority
	Consultant	Simpson Grierson
	Chairman	Spark New Zealand Limited
	Consultant	New Zealand Treasury
	Director*	ANZ Bank New Zealand Limited
Ian Fraser	Director	New Zealand Social Infrastructure Fund Limited
	Director*	BGS Trustee Limited
	Consultant	Beca Group Limited
	Chair**	Interim Board, University of Canterbury Quake Centre
Abigail Foote	Commissioner**	New Zealand Gambling Commission
	Director	New Zealand Local Government Funding Agency
	Director	Z Energy Limited
	Director	BNZ Life Insurance Limited
Michael Pohio	CEO	Tainui Group Holdings Limited
	Chairman	BNZ Partners – Waikato Region
	Member	University of Waikato Council
Keith Tempest	Director	Port of Tauranga Limited
	Director	Crown Fibre Holdings Limited
	Director	NZ Bus Limited
	Shareholder**	Trustpower Limited
	Director**	Tauranga City Venues Limited
	Director**	Tauranga City Aquatics Limited
	Director**	Bay Leisure Events Limited
	Director*	Bay Events Limited
Don Huse	Director	Precinct Properties New Zealand Limited (formerly AMP NZ Office Limited)
	Director*	OTPP New Zealand Forest Investments Limited
	Deputy Chair	Crown Irrigation Investments Limited
Jan Evans-Freeman	Pro Vice-Chancellor	College of Engineering, University of Canterbury
	Director	Wireless Research Institute
	Director	Electric Power Engineering Centre
	Director*	University of Canterbury Quake Centre
	Member**	Interim Board, University of Canterbury Quake Centre
	Member*	IPENZ Governing Board
Alastair Scott**	Member	Massey University Council
	Director	Matahiwi Vineyard Limited
	Director	Henergy Cage-Free 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' report to the shareholders continued

for the year ended 30 June 2014

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 which 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
1,220-1,229	1
850-859*	1
800-809*	1
780-789*	1
750-759*	1
530-539*	1
500-509	1
490-499	1
440-449	2
420-429*	1
410-419*	2
400-409	1
390-399	1
380-389	2
370-379*	1
360-369	2
350-359	4
340-349	1
330-339	2
310-319*	2
300-309	1

REMUNERATION BAND ($000)	CURRENT AND FORMER EMPLOYEES
290-299*	4
280-289	3
270-279*	8
260-269*	9
250-259*	9
240-249	9
230-239	7
220-229*	11
210-219*	10
200-209*	10
190-199	10
180-189	8
170-179*	16
160-169*	27
150-159*	38
140-149*	65
130-139	68
120-129*	68
110-119*	59
100-109*	57
	526

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 which include one or more former employees who received a severance or redundancy payment without which they would not have been in that band. In 2013/14, following completion of the major projects and other business restructuring, a number of senior roles were disestablished.

Transpower's performance incentive scheme was discontinued for most employees in 2012/13.

Directors' report to the shareholders continued

for the year ended 30 June 2014

Study grants and donations

During the year, the Transpower Group made donations and study grants of $1,195,000 (2013: $1,146,000). Donations comprise principally 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 14 August 2014.

For and on behalf of the board

MARK VERBIEST	**DON HUSE**
CHAIRMAN	DIRECTOR
14 August 2014	14 August 2014

FINANCIAL STATEMENTS 2013/14

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Statement of comprehensive income

for the year ended 30 June 2014

		GROUP		PARENT	
		2014	2013	2014	2013
	NOTES	$M	$M	$M	$M
Operating revenue					
Transmission revenue	2	940.5	860.7	940.5	860.7
Other revenue	2	53.0	51.4	47.2	52.1
Finance revenue	5	10.2	6.3	35.1	6.0
		1,003.7	918.4	1,022.8	918.8
Operating expenses					
Transmission expenses	4	127.8	141.3	127.8	141.3
Employee benefits	4	70.0	65.2	70.0	65.2
Other operating expenses	4	89.4	88.8	96.6	96.0
		287.2	295.3	294.4	302.5
Earnings before interest, tax, depreciation, amortisation, impairment, asset write-offs and changes in the fair value of financial instruments		716.5	623.1	728.4	616.3
Depreciation	13	190.8	166.4	190.8	166.4
Amortisation	13	26.9	18.4	26.9	18.4
Impairment	13	–	3.5	–	3.5
Asset write-offs		33.5	16.6	33.5	16.6
Finance expenses	5	209.4	142.3	241.2	129.6
Earnings before changes in the fair value of financial instruments and tax		255.9	275.9	236.0	281.8
(Gain) loss in the fair value of financial instruments	6	(45.0)	6.6	52.6	97.5
Earnings before tax		300.9	269.3	183.4	184.3
Income tax expense (credit)	7	85.1	71.9	42.8	46.2
Profit from continuing operations		215.8	197.4	140.6	138.1
Discontinued operations	23				
Earnings before tax		–	68.2	–	62.7
Income tax expense (credit)	7	–	1.9	–	–
Profit		–	66.3	–	62.7
Net profit (loss) and total comprehensive income		215.8	263.7	140.6	200.8
Total net profit (loss) and total comprehensive income for the period is attributable to:					
Non controlling interest	18	1.8	(4.5)	–	–
Owners of the parent		214.0	268.2	140.6	200.8
		215.8	263.7	140.6	200.8

Statement of comprehensive income continued

for the year ended 30 June 2014

		GROUP		PARENT	
		2014	2013	2014	2013
	NOTES	$M	$M	$M	$M
Reconciliation of net profit (loss) specifying the net impact of fair value movements					
Earnings on continuing activities before changes in the fair value of financial instruments and tax		255.9	275.9	236.0	281.8
Income tax expense (credit) on continuing activities excluding changes in the fair value of financial instruments		72.0	73.7	57.5	73.6
Earnings on continuing activities before net changes in fair values of financial instruments	26	183.9	202.2	178.5	208.2
Earnings on discontinued activities before changes in the fair value of financial instruments and tax		–	68.2	–	62.7
Income tax expense (credit) on discontinued activities		–	1.9	–	–
Earnings on discontinued activities after tax		–	66.3	–	62.7
Net profit on total activities excluding net changes in the fair value of financial instruments		183.9	268.5	178.5	270.9
(Gain) loss in the fair value of financial instruments		(45.0)	6.6	52.6	97.5
Income tax expense (credit) on changes in the fair value of financial instruments		13.1	(1.8)	(14.7)	(27.4)
Net profit (loss) on total operations		215.8	263.7	140.6	200.8

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

Statement of financial position

as at 30 June 2014

		GROUP		PARENT	
		2014	2013	2014	2013
	NOTES	$M	$M	$M	$M
ASSETS EMPLOYED					
Current assets					
Cash and cash equivalents		203.0	1.4	198.4	1.4
Trade and other receivables	8	138.7	114.2	139.8	214.3
Other investments	12	59.5	69.9	–	–
Derivatives and hedge commitment in gain	11	63.1	160.6	63.1	145.1
Other financial assets		0.7	–	0.7	–
Non current assets held for sale	13	44.1	51.0	44.1	51.0
Inventories		5.8	12.5	5.8	12.5
		514.9	409.6	451.9	424.3
Non current assets					
Trade and other receivables	8	27.7	27.3	27.7	27.3
Investment in subsidiaries	18	–	–	20.2	270.2
NZPCL investment	10	104.0	111.1	–	–
Derivatives and hedge commitment in gain	11	31.9	118.8	31.9	5.9
Other financial assets		–	5.4	–	5.4
Property, plant and equipment	13	4,451.3	3,926.6	4,451.3	3,926.6
Capital work in progress	13	165.3	497.3	165.3	497.3
Intangibles	13	373.3	347.2	373.3	347.2
		5,153.5	5,033.7	5,069.7	5,079.9
Total assets employed		5,668.4	5,443.3	5,521.6	5,504.2
FUNDS EMPLOYED					
Current liabilities					
Cash and cash equivalents		–	0.4	–	–
Trade and other payables	14	97.0	93.1	96.9	93.0
Current tax liability		9.6	1.4	9.6	1.4
Current debt	16	499.4	179.1	499.4	1,783.7
Derivatives and hedge commitment in loss	11	74.6	237.7	74.6	141.0
Deferred income	3	65.5	63.5	65.5	63.5
Provisions	15	3.5	10.5	3.5	10.5
		749.6	585.7	749.5	2,093.1

Statement of financial position continued

as at 30 June 2014

		GROUP		PARENT	
		2014	2013	2014	2013
	NOTES	$M	$M	$M	$M
Non current liabilities					
Non current payables		0.9	0.9	0.9	0.9
Finance lease liabilities		0.6	0.5	0.6	0.5
Derivatives and hedge commitment in loss	11	345.6	276.5	345.6	87.6
NZPCL debt	10	104.7	114.2	–	–
Non current debt	16	2,756.4	2,844.6	2,756.4	1,633.0
Deferred tax	17	268.3	207.9	268.4	277.8
Provisions	15	13.3	2.8	13.3	2.8
		3,489.8	3,447.4	3,385.2	2,002.6
Total liabilities		4,239.4	4,033.1	4,134.7	4,095.7
EQUITY					
Capital	18	1,200.0	1,200.0	1,200.0	1,200.0
Accumulated surplus		229.5	212.5	186.9	208.5
Non controlling interest	10	(0.5)	(2.3)	–	–
Total equity		1,429.0	1,410.2	1,386.9	1,408.5
Total funds employed		5,668.4	5,443.3	5,521.6	5,504.2

The board of directors of Transpower New Zealand Limited authorised these financial statements for issue on 14 August 2014.

For and on behalf of the board

MARK VERBIEST	**DON HUSE**
CHAIRMAN	DIRECTOR
14 August 2014	14 August 2014

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

Statement of changes in equity

for the year ended 30 June 2014

		GROUP				
	NOTES	ORDINARY SHARES $M	RETAINED EARNINGS $M	OWNERS OF THE PARENT $M	NON CONTROLLING INTEREST $M	TOTAL $M
2012/13						
Equity at 1 July 2012		1,200.0	307.0	1,507.0	2.2	1,509.2
Profit for the period		–	268.2	268.2	(4.5)	263.7
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	268.2	268.2	(4.5)	263.7
Transactions with owners	18					
Final dividend 2011/12		–	(205.0)	(205.0)	–	(205.0)
Interim dividend 2012/13		–	(92.0)	(92.0)	–	(92.0)
Special dividend 2012/13		–	(65.7)	(65.7)	–	(65.7)
Total equity at 30 June 2013		1,200.0	212.5	1,412.5	(2.3)	1,410.2
2013/14						
Equity at 1 July 2013		1,200.0	212.5	1,412.5	(2.3)	1,410.2
Profit for the period		–	214.0	214.0	1.8	215.8
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	214.0	214.0	1.8	215.8
Transactions with owners	18					
Final dividend 2012/13		–	(137.0)	(137.0)	–	(137.0)
Interim dividend 2013/14		–	(60.0)	(60.0)	–	(60.0)
Total equity at 30 June 2014		1,200.0	229.5	1,429.5	(0.5)	1,429.0

Statement of changes in equity continued

for the year ended 30 June 2014

	NOTES	PARENT ORDINARY SHARES $M	RETAINED EARNINGS $M	OWNERS OF THE PARENT $M	NON CONTROLLING INTEREST $M	TOTAL $M
2012/13						
Equity at 1 July 2012		1,200.0	370.4	1,570.4	–	1,570.4
Profit for the period		–	200.8	200.8	–	200.8
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	200.8	200.8	–	200.8
Transactions with owners	18					
Final dividend 2011/12		–	(205.0)	(205.0)	–	(205.0)
Interim dividend 2012/13		–	(92.0)	(92.0)	–	(92.0)
Special dividend 2012/13		–	(65.7)	(65.7)	–	(65.7)
Total equity at 30 June 2013		1,200.0	208.5	1,408.5	–	1,408.5
2013/14						
Equity at 1 July 2013		1,200.0	208.5	1,408.5	–	1,408.5
Amalgamation of subsidiary during the year		–	34.8	34.8	–	34.8
Profit for the period		–	140.6	140.6	–	140.6
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	140.6	140.6	–	140.6
Transactions with owners	18					
Final dividend 2012/13		–	(137.0)	(137.0)	–	(137.0)
Interim dividend 2013/14		–	(60.0)	(60.0)	–	(60.0)
Total equity at 30 June 2014		1,200.0	186.9	1,386.9	–	1,386.9

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

Cash flow statement

for the year ended 30 June 2014

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
CASH FLOW FROM OPERATIONS				
Cash was provided from:				
Receipts from customers	969.3	898.3	974.9	883.6
Dividends received from subsidiaries	–	–	33.5	5.8
Interest received	10.2	6.3	1.6	0.2
Cash was applied to:				
Payments to suppliers and employees	(284.6)	(320.4)	(291.8)	(322.0)
Tax payments	(16.7)	(32.4)	(16.6)	(31.1)
Interest paid	(234.9)	(198.4)	(266.7)	(191.2)
Net cash inflows (outflows) from operations	443.3	353.4	434.9	345.3
CASH FLOW FROM INVESTMENTS				
Cash was provided from:				
Sale of property, plant and equipment	46.6	57.3	46.6	57.3
Short term investments	45.6	224.4	–	–
Sale of d-cyphaTrade Limited	–	62.9	–	62.9
Other investments	4.7	2.3	4.7	2.3
Cash was applied to:				
Purchase of property, plant and equipment	(471.3)	(722.0)	(471.3)	(722.0)
Short term investments	(28.1)	(230.2)	–	(1.7)
Other investments	–	–	–	–
Net cash inflows (outflows) from investments	(402.5)	(605.3)	(420.0)	(601.2)
CASH FLOW FROM FINANCING				
Cash was provided from:				
Increase in loans	650.0	764.5	670.9	771.3
Cash was applied to:				
Dividends paid	(197.0)	(362.7)	(197.0)	(362.7)
Repayment of loans	(291.8)	(151.7)	(291.8)	(152.2)
Net cash inflows (outflows) from financing	161.2	250.1	182.1	256.4
Net increase (decrease) in cash held	202.0	(1.8)	197.0	0.5
Opening balance brought forward	1.0	2.8	1.4	0.9
Closing net cash carried forward	203.0	1.0	198.4	1.4
Closing net cash carried forward comprises:				
Cash and cash equivalents - asset	203.0	1.4	198.4	1.4
Cash and cash equivalents - liability	–	(0.4)	–	–

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

Cash flow statement reconciliation

for the year ended 30 June 2014

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

	GROUP		PARENT	
	2014	**2013**	**2014**	**2013**
	$M	$M	$M	$M
Net profit (loss)	215.8	263.7	140.6	200.8
Add (deduct) non-cash items:				
Change in fair value of financial instruments	(45.0)	6.6	52.6	97.5
Depreciation and amortisation	217.7	184.8	217.7	184.8
Deferred tax	60.4	49.5	29.4	27.0
Impairment	–	3.5	–	3.5
Movements in working capital items:				
(Increase) / decrease in trade and other receivables	(23.2)	(34.2)	(11.8)	(42.1)
(Increase) in prepayments	(1.7)	(4.9)	(1.7)	(4.9)
(Decrease) / increase in trade and other payables, interest payable and deferred income	(0.4)	4.8	(11.6)	(4.5)
(Decrease) / increase in taxation payable	8.2	(8.1)	8.2	(4.5)
(Decrease) / increase in provisions	3.5	(4.3)	3.5	(4.3)
Add (deduct) items classified as investing activities:				
Property, plant and equipment write-offs and loss on sale	33.5	16.8	33.5	16.8
Capitalised interest	(25.5)	(61.9)	(25.5)	(61.9)
Sale of d-cyphaTrade Limited	–	(62.9)	–	(62.9)
Net cash flow from operations	443.3	353.4	434.9	345.3

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

Notes to the financial statements

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity and statutory base

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

Nature of operations

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

Basis of preparation

The financial statements have been presented in accordance with the State-Owned Enterprise Act 1986 and are prepared in accordance with the Financial Reporting Act 1993. The financial statements have been prepared, and comply with, generally accepted accounting practice (GAAP) in New Zealand.

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

Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified for certain investments, held for sale assets, investment property, financial assets and financial liabilities as identified in specific accounting policies below.

Specific accounting policies

a) Basis of consolidation

The Group financial statements consolidate the financial statements of subsidiaries as at and for the year ended 30 June 2014. Subsidiaries are those entities controlled, directly or indirectly, by the Parent.

All significant intercompany accounts and transactions are eliminated on consolidation. In the Parent's financial statements, investment in subsidiaries is carried at cost.

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

Notes to the financial statements continued

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES continued

b) Revenue

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

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

Agreements between Transpower and third parties to underground and/or realign certain transmission line assets is recognised in two different ways. If the revenue is received from central or local government, or their agencies, then the revenue is recognised according to the Government Grants standard (NZ IAS 20) with revenue recognised over the life of the related transmission assets grossed up for an imputed interest expense. If revenue is received from non government parties then it is recognised immediately.

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

c) Goods and services tax (GST)

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

d) Accounts receivable

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

e) Inventories

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

f) Investments

Regular way financial asset purchases

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

Investment in subsidiaries

Investment in subsidiaries is accounted for in accordance with a) above.

Fair value through profit or loss

Risk Reinsurance Limited’s (Risk Reinsurance) investments are classified as fair value through profit or loss. This classification is on the basis that Risk Reinsurance has an active investment programme (held for trading). All other investments (excluding Fonterra shares (section j), investment in subsidiaries (section a), property loans (section h) and derivatives (section g)) are designated as fair value through profit or loss on the basis of preventing an “accounting mismatch”.

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

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

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

Notes to the financial statements continued

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES continued

h) *Loans and receivables*

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

i) *Trade and other payables*

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

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

j) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated as available for sale by management or not classified in any of the other categories. These investments are carried at fair value with any unrealised gains and losses arising from changes in fair value recognised directly in other comprehensive income. On sale or on impairment, the accumulated fair value adjustments are included in profit or loss. Transpower has classified Fonterra shares, which are held as part of a land portfolio, in this category.

k) *Property, plant and equipment*

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

l) *Capital work in progress and capitalised borrowing costs*

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for use. Finance costs incurred during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the total cost for capital work in progress. The finance costs capitalised are based on the Group's weighted average cost of borrowing. Assets are transferred from capital work in progress to property, plant and equipment, or intangible assets as they become operational and available for use.

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

m) *Depreciation*

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

The estimated useful lives are as follows:

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

n) *Non current assets held for sale*

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

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

Notes to the financial statements continued

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES continued

o) *Leased assets*

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

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

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

p) *Intangibles*

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

Software	5-8 years
Right to access asset	90 years

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

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

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

q) *Impairment of assets*

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

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

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

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

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

Notes to the financial statements continued

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES continued

r) Debt

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

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

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

s) Employee benefits

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

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

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

Defined contribution plans

Contributions to defined contribution plans are expensed when incurred.

t) Taxation

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

Current tax

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

Deferred tax

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

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

u) Foreign currency transactions

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

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

Notes to the financial statements continued

for the year ended 30 June 2014

1. STATEMENT OF ACCOUNTING POLICIES continued

v) Translation of foreign Group entities

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

w) Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposures to fluctuations in foreign currency exchange rates and interest rates. The Group has designated certain derivatives as hedges, which are used to reduce foreign currency exposure on purchases. These hedges are designated as fair value hedges. For fair value hedging relationships, gains or losses on hedging instruments are included in profit or loss together with any change in the fair value of the hedged purchase commitment attributable to the foreign currency risk.

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

x) Cash flow statement

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

New standards not yet adopted

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

IFRS 9 and NZ IFRS 9 Financial instruments, effective from 1 July 2017

IFRS 9 has been finalised but not all parts of NZ IFRS 9 have yet been finalised. For both IFRS 9 and NZ IFRS 9 there is no material impact on the Group's financial statements. Hedge accounting may have a material impact upon the Group financial statements in the event that Transpower chooses to adopt hedge accounting.

NZ IFRS 14 Regulatory deferral accounts, effective from 1 July 2016

This standard is not expected to have any material measurement, recognition or disclosure changes for Transpower.

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

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

New standards adopted during the period

Transpower adopted NZ IFRS 13 Fair value measurement during the period. As a result of this adoption, we reviewed our methodology for valuing and recording credit spreads on derivatives. For the year to June 2014, this resulted in a fair value gain of $20.2 million (Group and Parent).

Transpower also adopted NZ IFRS 10 Consolidated financial statements during the period. No material measurement, recognition or disclosure changes resulted from this adoption.

Notes to the financial statements continued

for the year ended 30 June 2014

2. OPERATING REVENUE

	GROUP		PARENT	
	2014 $M	2013 $M	2014 $M	2013 $M
Transmission revenue				
HVAC interconnection	652.9	579.9	652.9	579.9
HVAC connection	136.5	127.3	136.5	127.3
EV (rebate) charge - HVAC	(56.3)	(25.6)	(56.3)	(25.6)
HVDC	129.7	110.5	129.7	110.5
EV (rebate) charge - HVDC	28.4	26.7	28.4	26.7
Customer investment contracts	35.4	27.7	35.4	27.7
Other transmission	13.9	14.2	13.9	14.2
	940.5	860.7	940.5	860.7
Other revenue				
System operator	38.0	37.6	38.0	37.6
Rental income	6.5	7.4	6.5	7.4
Risk Reinsurance investment income	3.6	3.4	–	–
Other	4.9	3.0	2.7	7.1
	53.0	51.4	47.2	52.1
Intercompany transactions (included above):			(2.3)	4.1

Intercompany revenue of $(2.3) million is due to primarily insurance claims booked as revenue in 2013 being settled or withdrawn.

Revenue subject to the telecommunications development levy

Included in the above numbers is revenue subject to the telecommunications development levy. The revenue was $4.2 million in the year to June 2014 (June 2013: $4.3 million).

Transmission revenue

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

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. The balance of the accumulated gain (loss) from regulated transmission activities attributable to customers (“the EV balance”) is passed on to or claimed from customers over time as EV (rebates) or charges.

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

Other revenue

System operator

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

Rental income

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

Risk Reinsurance investment income

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

Notes to the financial statements continued

for the year ended 30 June 2014

3. DEFERRED INCOME

	GROUP 2014 $M	GROUP 2013 $M	PARENT 2014 $M	PARENT 2013 $M
Customer investment contracts	15.7	22.2	15.7	22.2
Transmission realignment	46.5	34.7	46.5	34.7
Other	3.3	6.6	3.3	6.6
Total deferred income	65.5	63.5	65.5	63.5

Customer investment contracts

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

Transmission realignments

Revenue arising from agreements between Transpower and third parties to underground and/or realign certain transmission line assets is recognised in two different ways. 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.

The significant increase in the Transmission realignment balance relates to funds received from the New Zealand Transport Agency for works associated with the Transmission Gully Project.

4. OPERATING EXPENSES

	GROUP 2014 $M	GROUP 2013 $M	PARENT 2014 $M	PARENT 2013 $M
Transmission expenses				
HVAC substations maintenance	41.8	40.2	41.8	40.2
HVDC substations and cables maintenance	9.0	8.4	9.0	8.4
HVAC lines maintenance	38.1	42.7	38.1	42.7
HVDC lines maintenance	1.7	0.8	1.7	0.8
Communications network maintenance	12.1	16.0	12.1	16.0
HVDC share of reserves	1.9	8.4	1.9	8.4
Investigations	11.6	15.1	11.6	15.1
Other direct transmission expenses	11.6	9.7	11.6	9.7
	127.8	141.3	127.8	141.3
Employee benefits				
Short term benefits	61.0	60.0	61.0	60.0
Defined contribution schemes	3.7	3.2	3.7	3.2
Other	5.3	2.0	5.3	2.0
	70.0	65.2	70.0	65.2
Other operating expenses				
Information technology costs	21.8	19.4	21.8	19.4
Industry levies	10.1	7.1	10.1	7.1
Other business support costs	30.7	36.3	31.5	37.1
Operating lease and rental costs	18.8	18.6	18.8	18.6
Fees paid to external auditor	0.6	0.6	0.6	0.6
Insurance	7.4	6.8	13.8	13.2
Bad debt write-off	–	–	–	–
	89.4	88.8	96.6	96.0
Total operating expenses	287.2	295.3	294.4	302.5
Intercompany transactions (included above):			13.5	12.8

Intercompany expenses relate primarily to insurance.

Notes to the financial statements continued

for the year ended 30 June 2014

4. OPERATING EXPENSES continued

Maintenance includes inspection, servicing and repair costs.

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

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

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

Employee Benefits: Other - includes severance or redundancy costs for a total of 60 employees. The costs relate to the disestablishment of roles following completion of major projects and other business restructuring.

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

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

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

Fees paid to external auditor

	GROUP		PARENT	
	2014	2013	2014	2013
	$000	$000	$000	$000
Audit of financial statements				
Audit and reviews of financial statements	469	468	469	468
Other services				
Regulatory audit work	22	18	22	18
Trust deed requirements	13	13	13	13
Financial model assurance	40	19	40	19
Agreed upon procedures	36	51	36	51
	111	101	111	101
Total fees paid to external auditor	580	569	580	569

5. NET FINANCE EXPENSES

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Finance revenue				
Interest received	10.2	6.3	1.6	0.2
Dividends received	–	–	33.5	5.8
	10.2	6.3	35.1	6.0
Finance expenses				
Interest paid and associated fees	231.8	201.2	263.6	188.5
Capitalised interest	(25.5)	(61.9)	(25.5)	(61.9)
Imputed interest	3.1	2.8	3.1	2.8
Other finance expenses	–	0.2	–	0.2
	209.4	142.3	241.2	129.6
Total net finance expenses	199.2	136.0	206.1	123.6

Intercompany transactions (included above):

	PARENT 2014	PARENT 2013
Interest paid and associated fees	97.9	119.0
Dividends received	33.5	5.8

In 2014, the dividend received was from Risk Reinsurance Limited. In 2013, the dividend received was from d-cyphaTrade Limited.

Interest paid and associated fees

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

Notes to the financial statements continued

for the year ended 30 June 2014

5. NET FINANCE EXPENSES continued

Capitalised interest

Interest is capitalised based on Transpower's weighted average cost of borrowing which for 2014 was 7.2% (2013: 7.4%). The significant decrease in capitalised interest follows the commissioning of the major projects (North Island Grid Upgrade, HVDC and North Auckland and Northland).

Imputed interest

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

6. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Accounting hedges				
Foreign exchange forward contracts - hedge accounted	(7.0)	(25.9)	(7.0)	(25.9)
Hedge commitment	7.0	25.9	7.0	25.9
	–	–	–	–
Other				
Foreign debt	(155.6)	30.8	(106.9)	10.4
Cross currency interest rate swaps	164.8	42.9	139.2	31.4
Foreign interest rate swaps	8.1	9.2	4.7	–
Basis swaps	(1.0)	(2.2)	(1.1)	0.9
Bond FRAs	(3.4)	–	(3.4)	–
NZD interest rate swaps	(72.9)	(37.3)	1.5	83.3
Foreign exchange forward contracts - not hedge accounted	–	–	–	–
Investments	0.3	0.2	–	–
NZD debt	13.8	(35.6)	17.7	(27.1)
FX Swaps	1.1	(1.0)	1.1	(1.0)
Available for sale assets	(0.2)	(0.4)	(0.2)	(0.4)
	(45.0)	6.6	52.6	97.5
Total fair value (gain) loss	(45.0)	6.6	52.6	97.5

Intercompany transactions (included above): none

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

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

Credit spread impact

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

Foreign purchases

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

Debt and investments

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

Notes to the financial statements continued

for the year ended 30 June 2014

7. INCOME TAX EXPENSE

	GROUP 2014 $M	GROUP 2013 $M	PARENT 2014 $M	PARENT 2013 $M
Continuing operations				
Current tax expense				
Current period	24.6	22.9	13.3	19.7
Adjustment for prior periods	0.1	(0.5)	0.1	(0.5)
	24.7	22.4	13.4	19.2
Deferred tax expense				
Origination and reversal of temporary differences	60.4	52.8	29.4	30.3
Adjustment for prior periods	–	(3.3)	–	(3.3)
	60.4	49.5	29.4	27.0
Total income tax expense (credit)	85.1	71.9	42.8	46.2
Reconciliation of effective tax				
Operating surplus before tax	300.9	269.3	183.4	184.3
Income tax at 28c	84.3	75.4	51.4	51.6
Tax effect of:				
Non deductible expenses	1.0	0.3	1.0	–
Tax exempt income	(0.3)	–	(9.7)	(1.6)
Under/(over) provided in prior periods	0.1	(3.8)	0.1	(3.8)
Total income tax expense (credit)	85.1	71.9	42.8	46.2
Discontinued operations				
Current tax expense				
Current period	–	1.5	–	–
Adjustment for prior periods	–	0.4	–	–
	–	1.9	–	–
Deferred tax expense				
Origination and reversal of temporary differences	–	–	–	–
Adjustment for prior periods	–	–	–	–
	–	–	–	–
Total income tax expense (credit)	–	1.9	–	–
Reconciliation of effective tax				
Operating surplus before tax	–	68.2	–	62.7
Income tax at 28c	–	19.1	–	17.6
Tax effect of:				
Non deductible expenses	–	0.8	–	0.8
Tax exempt income	–	(18.4)	–	(18.4)
Under/(over) provided in prior periods	–	0.4	–	–
Total income tax expense (credit)	–	1.9	–	–

Notes to the financial statements continued

for the year ended 30 June 2014

8. TRADE AND OTHER RECEIVABLES

	GROUP 2014 $M	GROUP 2013 $M	PARENT 2014 $M	PARENT 2013 $M
Current				
Trade and other receivables	96.2	108.7	96.2	120.1
Collateral posted by Transpower	35.7	–	35.7	–
Inter-company receivables	–	–	–	87.6
Prepayments	6.8	5.5	7.9	6.6
	138.7	114.2	139.8	214.3
Non current				
Prepayments	27.7	27.3	27.7	27.3
Total trade and other receivables	166.4	141.5	167.5	241.6
Intercompany balances (included above):				
Intercompany receivables			–	–
Prepayments			2.1	2.0

There was no impairment of receivables during the year (2013: none).

The prepayments predominantly relate to telecommunication lease connection fees.

The collateral posted by Transpower relates to a collateral support agreement entered into with a treasury counterparty.

Notes to the financial statements continued

for the year ended 30 June 2014

9. FINANCIAL INSTRUMENT CATEGORISATION

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

Notes to the financial statements continued

for the year ended 30 June 2014

10. NZPCL DEBT AND INVESTMENT

	GROUP 2014 $M	GROUP 2013 $M	PARENT 2014 $M	PARENT 2013 $M
Investment				
Current	–	–	–	–
Non current	104.0	111.1	–	–
	104.0	111.1	–	–
Debt				
Current	–	–	–	–
Non current	104.7	114.2	–	–
	104.7	114.2	–	–
Net investment (debt)	(0.7)	(3.1)	–	–
Non controlling interest net of tax	(0.5)	(2.3)	–	–

NZPCL debt and investment

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

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

Non controlling interest

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

Notes to the financial statements continued

for the year ended 30 June 2014

11. DERIVATIVES AND HEDGE COMMITMENT

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

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

GROUP					
2013	ST ASSET $M	LT ASSET $M	ST (LIABILITY) $M	LT (LIABILITY) $M	TOTAL ASSET (LIABILITY)
Debt related derivatives					
Cross currency interest rate swaps	–	81.3	–	(22.4)	58.9
Interest rate swaps	19.4	37.5	(96.7)	(253.0)	(292.8)
Basis swaps	–	–	–	(1.1)	(1.1)
FX swaps	129.3	–	(129.1)	–	0.2
	148.7	118.8	(225.8)	(276.5)	(234.8)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	0.9	–	(11.0)	–	(10.1)
Commitment on fair value hedges	11.0	–	(0.9)	–	10.1
Total derivatives and hedge commitment	160.6	118.8	(237.7)	(276.5)	(234.8)

PARENT					
2013	ST ASSET $M	LT ASSET $M	ST (LIABILITY) $M	LT (LIABILITY) $M	TOTAL ASSET (LIABILITY)
Debt related derivatives					
Cross currency interest rate swaps	–	5.9	–	(4.0)	1.9
Interest rate swaps	3.9	–	–	(82.5)	(78.6)
Basis swaps	–	–	–	(1.1)	(1.1)
FX swaps	129.3	–	(129.1)	–	0.2
	133.2	5.9	(129.1)	(87.6)	(77.6)
Purchasing related derivatives and hedge commitment					
Foreign exchange forward contracts	0.9	–	(11.0)	–	(10.1)
Commitment on fair value hedges	11.0	–	(0.9)	–	10.1
Total derivatives and hedge commitment	145.1	5.9	(141.0)	(87.6)	(77.6)

Notes to the financial statements continued

for the year ended 30 June 2014

11. DERIVATIVES AND HEDGE COMMITMENT continued

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

Debt and purchasing related derivatives

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

Commitment on fair value hedges

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

12. OTHER INVESTMENTS

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Risk Reinsurance investments				
– Deposits	18.7	30.5	–	–
– Floating rate notes	0.5	3.0	–	–
– Corporate bonds	34.2	27.0	–	–
– Equities	6.1	9.4	–	–
	59.5	69.9	–	–

Risk Reinsurance Investments

Investments were made in financial instruments issued by organisations with credit levels of BBB or above.

The investments were made in accordance with the policy as stated in Note 16 (c) (i). Equity investments were made in large corporates listed on the New Zealand Stock Exchange.

Notes to the financial statements continued

for the year ended 30 June 2014

13. NON CURRENT ASSETS

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

GROUP AND PARENT	HVAC TRANSMISSION LINES	HVDC TRANSMISSION LINES	HVAC SUBSTATIONS	HVDC SUBSTATIONS AND SUBMARINE CABLES
	$M	$M	$M	$M
At 30 June 2014				
Cost	2,254.1	150.4	2,103.3	811.9
Accumulated depreciation / amortisation	(403.2)	(38.2)	(475.0)	(181.0)
Net book value / carrying value	1,850.9	112.2	1,628.3	630.9
30 June 2014 reconciliation				
Opening net book value / carrying value (1 July 2013)	1,586.2	103.7	1,485.2	558.2
Additions / transfers	352.2	12.8	239.7	116.5
Disposals / transfers	(33.2)	(0.2)	(26.7)	(13.0)
Impairment	–	–	–	–
Depreciation / amortisation	(54.3)	(4.1)	(69.9)	(30.8)
Closing net book value / carrying value	1,850.9	112.2	1,628.3	630.9
Non current assets held for sale balances				
Property held for sale balance	5.2	–	–	–
Low voltage assets balance	11.7	–	21.5	–
Total non current assets held for sale	16.9	–	21.5	–
Total non current assets, including held for sale assets	1,867.8	112.2	1,649.8	630.9
At 30 June 2013				
Cost	1,941.9	137.9	1,914.3	725.6
Accumulated depreciation / amortisation	(355.7)	(34.2)	(429.1)	(167.4)
Net book value / carrying value	1,586.2	103.7	1,485.2	558.2
30 June 2013 reconciliation				
Opening net book value / carrying value (1 July 2012)	951.0	80.2	1,354.5	164.5
Additions / transfers	735.5	28.2	210.4	413.5
Disposals / transfers	(51.9)	(1.0)	(12.3)	(2.2)
Impairment	–	–	(3.5)	–
Depreciation / amortisation	(48.4)	(3.7)	(63.9)	(17.6)
Closing net book value / carrying value	1,586.2	103.7	1,485.2	558.2
Non current assets held for sale				
Property held for sale balance	28.8	–	–	–
Low voltage assets balance	5.9	–	16.3	–
Total non current assets held for sale	34.7	–	16.3	–
Total non current assets, including held for sale assets	1,620.9	103.7	1,501.5	558.2

Notes to the financial statements continued

for the year ended 30 June 2014

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
305.2	141.9	5,766.8	283.2	203.2	486.4	165.3
(127.5)	(90.6)	(1,315.5)	(1.8)	(111.3)	(113.1)	–
177.7	51.3	4,451.3	281.4	91.9	373.3	165.3
144.6	48.7	3,926.6	267.2	80.0	347.2	497.3
54.4	15.3	790.9	14.8	38.3	53.1	501.9
(0.2)	(2.1)	(75.4)	–	(0.1)	(0.1)	(833.9)
–	–	–	–	–	–	–
(21.1)	(10.6)	(190.8)	(0.6)	(26.3)	(26.9)	–
177.7	51.3	4,451.3	281.4	91.9	373.3	165.3
–	–	5.2	–	–	–	–
4.0	1.1	38.3	0.6	–	0.6	–
4.0	1.1	43.5	0.6	–	0.6	–
181.7	52.4	4,494.8	282.0	91.9	373.9	165.3
255.0	132.8	5,107.5	268.5	167.6	436.1	497.3
(110.4)	(84.1)	(1,180.9)	(1.3)	(87.6)	(88.9)	–
144.6	48.7	3,926.6	267.2	80.0	347.2	497.3
127.8	43.0	2,721.0	250.7	61.2	311.9	1,288.6
38.0	18.5	1,444.1	17.6	36.9	54.5	683.7
(0.1)	(1.1)	(68.6)	(0.5)	(0.3)	(0.8)	(1,475.0)
–	–	(3.5)	–	–	–	–
(21.1)	(11.7)	(166.4)	(0.6)	(17.8)	(18.4)	–
144.6	48.7	3,926.6	267.2	80.0	347.2	497.3
–	–	28.8	–	–	–	–
–	–	22.2	–	–	–	–
–	–	51.0	–	–	–	–
144.6	48.7	3,977.6	267.2	80.0	347.2	497.3

Notes to the financial statements continued

for the year ended 30 June 2014

13. NON CURRENT ASSETS continued

Capital work in progress can be split into the following classes:	GROUP AND PARENT 2014 $M	2013 $M
HVAC transmission lines	44.9	265.6
HVDC transmission lines	0.6	7.9
HVAC substations	71.9	156.9
HVDC substations and submarine cables	16.5	27.4
Communications	13.5	18.1
Administration assets	8.2	3.8
Software intangible assets	8.3	13.4
Other intangible assets	1.4	4.2
	165.3	497.3

During the year the following borrowing costs were capitalised:		
HVAC transmission lines	13.9	26.3
HVDC transmission lines	–	0.1
HVAC substations	7.7	10.0
HVDC substations and submarine cables	1.3	23.3
Communications	1.5	0.8
Administration assets	0.4	0.1
Software intangible assets	0.7	1.3
Other intangible assets	–	–
	25.5	61.9

These costs were capitalised at the weighted average cost of debt of 7.2% (2013: 7.4%).

Property, plant and equipment

Administration assets include computer hardware, plant, equipment, furniture and motor vehicles. Land and buildings are contained within the above classes and have a net book value of $236.5 million (2013: $182.4 million).

North Island Grid Upgrade (NIGU) Property

As at 30 June 2014, Transpower holds eight properties along the route of the line that was constructed between Whakamaru and South Auckland relating to NIGU (2013: 27 properties). The line was approved by the Electricity Commission on 5 July 2007, with designation and resource consenting being granted by the Board of Inquiry on 18 September 2009. 19 properties were sold in the period (2013: 25 properties) and no properties were purchased (2013: none). Of the eight properties held at balance date, one is under contract for sale. The remaining seven properties are not held for sale as they have substantial assets located upon them or have strategic value.

For the NIGU properties sold to 30 June:	GROUP AND PARENT 2014 $M	2013 $M
Net book value of properties sold	23.8	46.6
Sales amount	26.5	42.7
Gain (loss) on property sales	2.7	(3.9)
Previously recognised impairment	(16.1)	(18.1)
Total gain (loss) on property sales	(13.4)	(22.0)

Notes to the financial statements continued

for the year ended 30 June 2014

13. NON CURRENT ASSETS continued

For regulatory purposes, Transpower does not charge customers for losses (or rebate any gains) from movements in property values, where the property was purchased for the purposes of obtaining an easement and then re-selling. Only easements and related costs from these properties are charged to customers.

Transpower has determined that each property is an individual Cash Generating Unit and the properties are classified as "Other" for segmental reporting.

Held for sale assets

The held for sale assets comprise NIGU properties and low voltage assets.

NIGU assets are properties on the North Island Grid Upgrade (NIGU) route between Whakamaru and South Auckland purchased for the purposes of establishing easements and then on-selling.

Where Transpower classifies these properties as held for sale, they are expected to be sold within 12 months. The above section on impairment has information on past sales and gains/losses on sale.

Low voltage assets are substations and lines which are 110kV or less and which are not integral to Transpower's transmission network. Transpower may sell these assets to the local lines companies.

When Transpower classifies these properties as held for sale, they are expected to be sold within 12 months.

For the low voltage connection assets sold to 30 June:

	GROUP AND PARENT	
	2014	2013
	$M	$M
Net book value of low voltage connection assets sold	13.3	8.8
Sales amount	13.3	8.8
Gain (loss) on low voltage asset sales including impairment	–	–
Gain (loss) on low voltage asset sales excluding impairment	–	–

Intangible assets

Easements

Easements are deemed to have an indefinite useful life because:

i) There is no "expiry" date to the easement agreements

ii) Transpower is expected to use the easements indefinitely, based on past experience.

Easements also include injurious affection payments and related costs such as resource consents.
There was no impairment on easements during the year (2013: none). The costs of easements are expected to be fully recovered from transmission customers.

Right to access assets

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

Software

The amortisation of software occurs over 5-8 years.

Notes to the financial statements continued

for the year ended 30 June 2014

14. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2014	**2013**	**2014**	**2013**
	$M	$M	$M	$M
Trade creditors	84.1	80.2	84.0	80.1
Employee entitlements	12.8	12.8	12.8	12.8
Current portion finance leases	0.1	0.1	0.1	0.1
Total trade and other payables	97.0	93.1	96.9	93.0

15. PROVISIONS

	GROUP AND PARENT				
	EMPLOYEE BENEFITS	**REDUNDANCY**	**DISMANTLING**	**CONTRACTOR PROVISION**	**TOTAL**
	$M	$M	$M	$M	$M
Balance at 1 July 2013	7.6	0.8	4.9	–	13.3
Provisions made during the period	0.5	4.3	–	11.6	16.4
Provisions used during the period	(7.4)	(3.7)	(1.6)	–	(12.7)
Provisions reversed during the period	(0.2)	–	–	–	(0.2)
Balance at 30 June 2014	0.5	1.4	3.3	11.6	16.8
Current portion of provisions	0.5	1.4	1.6	–	3.5
Non current portion of provisions	–	–	1.7	11.6	13.3
Balance at 30 June 2014	0.5	1.4	3.3	11.6	16.8

Employee benefits

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

Dismantling

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

Transpower recognises site restoration and rehabilitation liabilities where it believes an obligation exists. Pole 1 contained mercury and Transpower has estimated the decommissioning cost based on engineering advice. Dismantling and disposal of Pole 1 is planned to be completed by December 2015. Actual decommissioning costs may vary from the figures indicated.

Contractor provision

Transpower has determined that a future payment to a contractor should be recognised as a provision. Accordingly the future cash flow has been discounted and recognised as a provision and also capitalised. The future payment will occur if certain assets are free from defects and meeting prescribed service levels.

Notes to the financial statements continued

for the year ended 30 June 2014

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

(a) Summary

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

The Group also uses derivatives in its purchase of goods and services.

The Group is subject to a number of financial risks which arise as a result of its business activities, including having a debt portfolio which is denominated in both NZD and foreign currencies, an investment portfolio held by a captive insurance company and from purchases of goods and services denominated in a foreign currency.

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

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

(b) Fair value and classifications

Transpower values the majority of financial instruments at fair value in the statement of financial position. For cash and cash equivalents, accounts payable and receivables, fair values are materially similar to their cost due to the short term nature of these items.

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

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

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

Notes to the financial statements continued

for the year ended 30 June 2014

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

(c) Financial risks - financing related

i. Liquidity risk

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

To smooth the Group's refinancing requirements in future periods, committed funding facilities maturing in any 12 month period are not to exceed NZD $750 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.

Term debt

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

	CURRENCY	FOREIGN CURRENCY EQUIVALENT	NZD
		$M	$M
Domestic medium term note programme	NZD	–	1,500
Australian medium term note programme	AUD	750	808
European commercial paper programme	USD	500	571
Domestic commercial paper programme	NZD	–	500
Revolving cash advance facility	NZD	–	200

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

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 which 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 NZD $250 million, maturing 7 December 2014, undrawn since inception.
- a three year Standby Facility for NZD $250 million, maturing 7 December 2015, undrawn since inception.

Investments and RRL investments

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

In addition to these investments, Transpower has a captive insurance company called Risk Reinsurance Limited (RRL). RRL makes investments from premiums received from the parent company. RRL re-insures externally and maintains sufficient investments to meet expected claims. RRL does not offer insurance to any external parties.

Notes to the financial statements continued

for the year ended 30 June 2014

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

For RRL cash and bond holdings, the counterparties have maximum limits depending on their ratings.
The limits by Standard and Poor's (or Moody's / Fitch equivalent) are as follows;

- NZD $5 million (face value), if the counterparty is rated AA- or higher
- NZD $3 million (face value), if the counterparty is rated A- or higher
- NZD $1 million (face value), if the counterparty is rated BBB or higher, or, if there is no long term rating but a short term rating of A1 or better.

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

ii. Interest rate risk

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

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

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

iii. Currency risk – debt

Currency risk on debt is the risk of an 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.

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

The following table details Transpower's debt and associated derivatives. The result after derivatives is that Transpower effectively has a debt portfolio in New Zealand dollars at predominantly fixed interest rates across multiple repayment dates. The effective net cash flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows. At 30 June 2014, BKBM was 3.64% (2013: 2.66%).

GROUP AND PARENT 2014

		DEBT			RECEIVE DERIVATIVE		
	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE M	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE RECEIVE VALUE M	NOTIONAL DERIVATIVE RECEIVE CURRENCY	DERIVATIVE RECEIVE INTEREST RATE
Bonds							
Bonds 2015	3-Dec-15	175.0	NZD	BKBM + 110bp			
Bonds 2017	15-Feb-17	50.0	NZD	6.6%	(50.0)	NZD	6.60%
Bonds 2018	30-Nov-18	125.0	NZD	5.14%			
Bonds 2018	30-Nov-18	200.0	NZD	5.14%	(200.0)	NZD	5.14%
Bonds 2019	6-Sep-19	200.0	NZD	4.65%	(200.0)	NZD	4.65%
Bonds 2019	12-Nov-19	50.0	NZD	7.19%	(50.0)	NZD	7.19%
Bonds 2020	10-Jun-20	150.0	NZD	6.95%	(150.0)	NZD	6.95%
FRN CPI linked	15-May-20	100.0	NZD	4.48%	(100.0)	NZD	4.48%
Bonds 2023	15-Mar-23	50.0	NZD	5.45%	(50.0)	NZD	5.45%
Bonds 2028	15-Mar-28	100.0	NZD	5.89%	(100.0)	NZD	5.89%
Term borrowing							
BOTM facility	5-Sep-14	100.0	NZD	BKBM + 35bp			
BOTM facility	17-May-16	100.0	NZD	BKBM + 50bp			
EMTN							
CHF EMTN	6-Aug-14	300.0	CHF	3.39%	(300.0)	CHF	3.39%
CAD EMTN	20-Mar-17	250.0	CAD	3.00%	(250.0)	CAD	3.00%
HKD EMTN	24-Mar-20	400.0	HKD	4.00%	(400.0)	HKD	4.00%
AUD EMTN	28-Aug-23	300.0	AUD	5.75%	(300.0)	AUD	5.75%
USPP							
USPP 2016	27-Sep-16	25.0	USD	5.59%	(25.0)	USD	5.59%
USPP 2019	27-Sep-19	75.0	USD	5.74%	(75.0)	USD	5.74%
USPP 2021	13-Oct-21	232.0	USD	3.43%	(232.0)	USD	3.43%
USPP 2022	15-Dec-22	150.0	USD	3.60%	(150.0)	USD	3.60%
USPP 2023	13-Oct-23	78.0	USD	3.58%	(78.0)	USD	3.58%
USPP 2026	13-Oct-26	70.0	USD	3.83%	(70.0)	USD	3.83%

Debt short term

Current portion of long term debt

Debt short term as per statement of financial position

Debt long term as per statement of financial position

Total

Debt face value (as per above)	GROUP AND PARENT
New Zealand dollar debt	1,400.0
Foreign debt after adjusting for related foreign exchange derivatives	1,899.9
	3,299.9

A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period. The table includes forward starting and some offsetting IRS. The IRS are net-settled. The table below reflects the net cash outflows comprising both IRS assets and liabilities i.e. IRS in the money are assets and out of the money are liabilities.

Value of bond FRA's – liabilities	
Within one year	
Value of interest rate swaps maturing by time banding (net settled) – liabilities	
Within one year	1,165.5
One to two years	1,078.0
Two to three years	2,276.0
Three to four years	100.0
Four to five years	1,715.0
Greater than five years	1,845.0
Net cash outflows on IRS – liabilities	
Value of bond FRA's – assets	
Within one year	
Value of interest rate swaps maturing by time banding (net settled) – assets	
Three to four years	100.0
Greater than five years	300.0
Net cash outflows on IRS – assets	

Total effective net cash flows

Total debt derivatives fair value (also, refer to note 11 for further derivatives breakdown)

Other financial liabilities

Trade and other payables

Finance lease liabilities

During the year the debt and derivatives held by Transpower Finance Limited were novated to the Parent and on 30 June 2014 Transpower Finance Limited was amalgamated into the Parent. Therefore the 2014 table below shows both Group and Parent numbers.

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

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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

The following table details Transpower's debt and associated derivatives. The result after derivatives is that Transpower effectively has a debt portfolio in New Zealand dollars at predominantly fixed interest rates across multiple repayment dates. The effective net cash

GROUP 2013

	DEBT					RECEIVE DERIVATIVE		
	ISSUING COMPANY	DEBT AND DERIVATIVE MATURITY DATE	FACE VALUE M	CURRENCY	EFFECTIVE INTEREST RATE	NOTIONAL DERIVATIVE RECEIVE VALUE M	NOTIONAL DERIVATIVE RECEIVE CURRENCY	DERIVATIVE RECEIVE INTEREST RATE
ECP & CP								
NZD Issue	TPNZ	23-Aug-13	49.8	NZD	2.79%			
USD Issue	TPNZ	27-Aug-13	100.0	USD	0.26%	(100.0)	USD	0.26%
Bonds								
Bonds 2015	TPNZ	3-Dec-15	75.0	NZD	BKBM + 110 bp			
Bonds 2015	TPNZ	3-Dec-15	100.0	NZD	BKBM + 110 bp			
Bonds 2017	TPFL	15-Feb-17	50.0	NZD	6.60%	(50.0)	NZD	6.60%
Bonds 2018	TPNZ	30-Nov-18	125.0	NZD	5.14%	(125.0)	NZD	5.14%
Bonds 2019	TPNZ	6-Sep-19	200.0	NZD	4.65%	(200.0)	NZD	4.65%
Bonds 2019	TPFL	12-Nov-19	50.0	NZD	7.19%	(50.0)	NZD	7.19%
Bonds 2020	TPFL	10-Jun-20	150.0	NZD	6.95%	(150.0)	NZD	6.95%
FRN CPI linked	TPFL	15-May-20	100.0	NZD	4.41%	(100.0)	NZD	4.41%
Bonds 2023	TPNZ	15-Mar-23	50.0	NZD	5.45%	(50.0)	NZD	5.45%
Bonds 2028	TPNZ	15-Mar-28	100.0	NZD	5.89%	(100.0)	NZD	5.89%
Term borrowing								
BOTM facility	TPNZ	5-Sep-14	100.0	NZD	BKBM bid + 35bp			
BOTM facility	TPNZ	17-May-16	100.0	NZD	BKBM bid + 50bp			
EMTN								
CHF EMTN	TPFL	6-Aug-14	300.0	CHF	3.39%	(300.0)	CHF	3.39%
CAD EMTN	TPNZ	20-Mar-17	250.0	CAD	3.00%	(250.0)	CAD	3.00%
HKD EMTN	TPFL	24-Mar-20	400.0	HKD	4.00%	(400.0)	HKD	4.00%
USPP								
USPP 2016	TPFL	27-Sep-16	25.0	USD	5.59%	(25.0)	USD	5.59%
USPP 2019	TPFL	27-Sep-19	75.0	USD	5.74%	(75.0)	USD	5.74%
USPP 2021	TPNZ	13-Oct-21	232.0	USD	3.43%	(232.0)	USD	3.43%
USPP 2022	TPFL	15-Dec-22	150.0	USD	3.60%	(150.0)	USD	3.60%
USPP 2023	TPNZ	13-Oct-23	78.0	USD	3.58%	(78.0)	USD	3.58%
USPP 2026	TPNZ	13-Oct-26	70.0	USD	3.83%	(70.0)	USD	3.83%
Debt short term								
Current portion of long term debt								
Debt short term as per statement of financial position								
Debt long term as per statement of financial position								
Total								
Debt face value (as per above)					GROUP	PARENT		
New Zealand dollar debt					1,249.8	899.8		
Foreign debt after adjusting for related foreign exchange derivatives					1,687.4	902.4		
					2,937.2	1,802.2		

A portion of the above floating rate BKBM exposure is converted to fixed rate exposure by the use of interest rate swaps (IRS) as per the Group's treasury policy. The table below shows the notional IRS maturing by time period. The table includes forward starting and some 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.

	NOTIONAL DERIVATIVE RECEIVE VALUE M	NOTIONAL DERIVATIVE RECEIVE CURRENCY
Value of resetting basis swaps (net settled) – liabilities		
Greater than five years	200.0	AUD
Value of interest rate swaps maturing by time banding (net settled) – liabilities		
Within one year	195.0	
One to two years	1,165.5	
Two to three years	1,078.0	
Three to four years	2,276.0	
Four to five years	100.0	
Greater than five years	2,910.0	
Net cash outflows on IRS – liabilities		
Value of interest rate swaps maturing by time banding (net settled) – assets		
Within one year	–	
One to two years	–	
Two to three years	–	
Three to four years	–	
Four to five years	100.0	
Greater than five years	–	
Net cash outflows on IRS – assets		
Total effective net cash flows		
Total debt derivatives fair value (also, refer to note 11 for further derivatives breakdown)		

Other financial liabilities

Trade and other payables

Finance lease liabilities

Cash and cash equivalents

flows on floating rate payments are determined by applying the applicable swap curve to determine the expected future cash flows. At 30 June 2013, BKBM was 2.66% (2012: 2.68%).

PAY DERIVATIVE		FAIR VALUE			EFFECTIVE NET NZD CASH FLOWS - (INFLOWS) / OUTFLOWS						
NOTIONAL DERIVATIVE PAY VALUE NZD $M	EFFECTIVE NZD INTEREST RATE AFTER APPLYING FINANCIAL DERIVATIVES	DEBT FAIR VALUE $M	DERIVATIVE FAIR VALUE $M	TOTAL FAIR VALUE $M	WITHIN ONE YEAR $M	ONE TO TWO YEARS $M	TWO TO THREE YEARS $M	THREE TO FOUR YEARS $M	FOUR TO FIVE YEARS $M	GREATER THAN FIVE YEARS $M	TOTAL $M
–		49.8	–	49.8	50.0	–	–	–	–	–	50.0
129.0	2.85%	129.3	(0.2)	129.1	129.7	–	–	–	–	–	129.7
		75.3		75.3	2.9	3.5	76.9	–	–	–	83.3
		100.3		100.3	3.8	4.6	102.5	–	–	–	110.9
50.0	BKBM + 100 bp	53.9	(4.3)	49.6	1.9	2.2	2.5	52.0	–	–	58.6
125.0	BKBM + 162.1bp	122.9	1.7	124.6	6.4	4.3	5.7	7.5	7.9	129.1	160.9
200.0	BKBM + 126.5bp	190.8	5.5	196.3	8.1	9.6	10.7	11.3	12.0	215.7	267.4
50.0	BKBM + 77.3 bp	54.0	(6.6)	47.4	1.8	2.1	2.4	2.6	2.8	54.3	66.0
150.0	BKBM + 21 bp	158.7	(23.4)	135.3	4.5	5.6	6.4	7.0	7.4	165.7	196.6
100.0	BKBM + 107 bp	90.4	6.2	96.6	3.8	4.5	5.1	5.5	5.8	112.3	137.0
50.0	BKBM + 130.25bp	46.8	0.7	47.5	2.1	2.4	2.7	2.9	3.0	65.6	78.7
100.0	BKBM + 154.95bp	93.3	2.7	96.0	4.4	5.0	5.6	6.0	6.3	166.8	194.1
		100.1		100.1	3.0	100.5	–	–	–	–	103.5
		100.4		100.4	3.1	3.2	102.9	–	–	–	109.2
343.9	BKBM + 37.55bp	437.0	(92.6)	344.4	11.3	345.9	–	–	–	–	357.2
307.6	BKBM + 174.1bp	315.6	2.0	317.6	13.9	16.3	17.8	321.8	–	–	369.8
73.1	BKBM + 120bp	71.3	1.2	72.5	2.9	3.4	3.9	4.1	4.3	81.2	99.8
										–	
41.1	BKBM + 22.3 bp	37.2	3.1	40.3	1.2	1.6	1.8	41.6	–	–	46.2
123.4	BKBM + 20.5 bp	115.5	2.1	117.6	3.7	4.7	5.3	5.8	6.1	131.4	157.0
284.4	BKBM + 197 bp	303.7	(5.5)	298.2	13.3	15.3	17.0	18.1	18.9	355.6	438.2
203.5	BKBM + 153.6 bp	193.6	12.1	205.7	8.8	10.3	11.4	12.2	12.8	265.8	321.3
95.6	BKBM + 193.25 bp	99.3	(0.4)	98.9	4.4	5.1	5.7	6.0	6.3	133.6	161.1
85.8	BKBM + 205 bp	84.5	2.0	86.5	4.1	4.7	5.2	5.5	5.8	139.5	164.8
		3,023.7	(93.7)	2,930.0	289.1	554.8	391.5	509.9	99.4	2,016.6	3,861.3
		179.1									
		–									
		179.1									
		2,844.6									
		3,023.7	(93.7)	2,930.0							
200.0			1.1	1.1	0.1	0.2	0.2	0.2	0.2	0.3	1.2
195.0					5.7	–	–	–	–	–	5.7
1,165.5					29.9	18.0	–	–	–	–	47.9
1,078.0			327.9		19.3	15.8	6.3	–	–	–	41.4
2,276.0					20.9	17.1	33.0	18.5	–	–	89.5
100.0					–	0.1	0.7	1.0	0.6	–	2.4
2,910.0					15.7	13.8	24.6	29.6	30.5	66.8	181.0
					91.5	64.8	64.6	49.1	31.1	66.8	367.9
–					–	–	–	–	–	–	–
–					–	–	–	–	–	–	–
–					–	–	–	–	–	–	–
–											–
100.0			(0.6)		0.9	0.1	(0.4)	(0.8)	(0.5)	–	(0.7)
–					–	–	–	–	–	–	–
			–		0.9	0.1	(0.4)	(0.8)	(0.5)	–	(0.7)
					381.6	619.9	455.9	558.4	130.2	2,083.7	4,229.7
			234.8								
					93.1	0.1	–	0.1	0.1	0.6	94.0
					0.1	0.1	0.1	0.1	0.1	0.1	0.6
					0.4	–	–	–	–	–	0.4

Notes to the financial statements continued

for the year ended 30 June 2014

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

PARENT

During the year the debt and derivatives held by Transpower Finance Limited were novated to the Parent and on 30 June 2014 Transpower Finance Limited was amalgamated into the Parent. Therefore the 2014 table above shows both Group and Parent numbers.

In 2013 the Parent had $1,812.1 million of external debt. This debt is included in the Group table above, with the issuer of TPNZ. The related derivatives are also issued by TPNZ. All other debt and derivatives have been issued by Transpower Finance Limited (TPFL), a 100% owned subsidiary of the Parent.

The breakdown of Parent debt for 2013 is:

	2013
	$M
Current debt	
Intercompany	1,604.6
External debt	179.1
	1,783.7
Non current debt	
External debt	1,633.0
	1,633.0

Intercompany debt was repayable on demand and had an interest rate of 7.45%.

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. Financial instruments which subject the Group to credit risk include bank balances, receivables, investments, interest rate swaps, cross currency interest rate swaps, basis swaps, interest rate options, forward rate agreements and foreign exchange forward contracts.

The Group's policy is to establish credit limits with counterparties that are either a bank, a financial institution, special purpose derivative products company or a New Zealand corporate. These net credit limits are not to exceed the lesser of 20 per cent of Group shareholders' funds or 15 per cent of the shareholders' funds of the counterparty as shown in the most current audited annual report. In addition, if the counterparty is a New Zealand corporate, the credit limit for investments is not to exceed $40 million.

Counterparties must have a minimum long term Standard and Poor's credit rating of A or above (or Fitch, Moody's equivalent). The exception to these minimum credit ratings is for RRL investments, which are discussed in c) i. above. Credit exposures against these limits are monitored on a daily basis.

For those counterparties with which the Group has a Collateral Support Agreement (CSA), the counterparty credit limit for derivatives is defined as the maximum exposure threshold dictated by the CSA. Transpower posts collateral where the financial instruments, subject to the CSA, are out of the money and above a certain threshold. Similarly, when the instruments, subject to the CSA, are in the money and above a certain threshold, Transpower receives collateral. Any collateral that is posted by other parties is included in Note 14 Trade and other payables (2014: none; 2013: none). Collateral posted by Transpower is included in Note 8 Trade and other receivables. (2014 $35.7 and 2013: none).

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

16. 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 agreement (ISDA). Under these agreements, transactions are net settled therefore the maximum credit exposure is best represented by the net mark to market valuation by counterparty where the net valuation is positive, as follows:

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Cross currency interest rate swaps	17.4	81.4	17.4	7.1
Interest rate swaps	–	–	–	–
Bond FRA's	3.4	–	3.4	–
CP FX swaps	–	0.3	–	0.3
Foreign exchange forward contracts	–	0.4	–	0.4
Total	20.8	82.1	20.8	7.8

Credit spreads

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

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

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Fair value profit / (loss) impact	(49.1)	(43.2)	11.2	(5.3)
Statement of financial position impact – (increase)/decrease in liabilities	122.4	172.2	122.4	111.2
Statement of financial position impact – (increase)/decrease in assets	0.1	0.8	–	–

v. *Sensitivity analysis*

Currency risk – debt

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

Fair value risk

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

Notes to the financial statements continued

for the year ended 30 June 2014

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

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			
	2014	2014	2013	2013
Yield curve interest rate change:	+100bp	-100bp	+100bp	-100bp
	$M	$M	$M	$M
Yield curve impact on pre-tax profit / (loss) / equity	(66.6)	69.5	58.2	(60.1)

	PARENT			
	2014	2014	2013	2013
Yield curve interest rate change:	+100bp	-100bp	+100bp	-100bp
	$M	$M	$M	$M
Yield curve impact on pre-tax profit / (loss) / equity	(67.5)	70.5	(62.4)	69.4

(d) Financial risks – operating related

i. Currency risk – foreign purchases

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

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

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Within one year	28.7	68.9	28.7	68.9
One to two years	0.2	1.7	0.2	1.7
Two to five years	–	–	–	–
Greater than five years	–	–	–	–
Total foreign exchange forward contracts	28.9	70.6	28.9	70.6

ii. Commodity risk

Commodity risk is the risk of an adverse impact of 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.

16. DEBT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

iii. Customer credit risk

Transpower's customers comprise predominantly of electricity generators, electricity distribution companies and some large industrial users. There is a high concentration of credit risk with respect to trade receivables due to the small number of significant customers from which the majority of revenue is received. It is the Group's policy to perform credit evaluations on customers requiring credit and the Group may in some circumstances require collateral. No collateral is held at 30 June 2014 (2013: none).

Significant receivables at balance date were:

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Vector Limited	19.6	16.2	19.6	16.2
Meridian Energy Limited	11.2	10.8	11.2	10.8

iv. Insurance risk

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

Transpower operates a captive insurance company through its subsidiary Risk Re-insurance Ltd (RRL). Under the material damage policy RRL is liable for the first $9 million of insurance cost for grid assets and up to $23.75 million for submarine cables. A $1 million excess applies under the material damage policy. No excess applies under the submarine cables policy.

RRL maintains an investment portfolio to meet any insurance claims.

v. Regulatory risk

Transpower is a natural monopoly and is regulated by the Commerce Commission (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 expenditure thresholds and cannot recover these costs. Refer to Note 22 Contigencies (iv) for further discussion.

Notes to the financial statements continued

for the year ended 30 June 2014

17. DEFERRED TAX

	BALANCE 1 JULY 2012 $M	RECOGNISED IN PROFIT OR LOSS $M	BALANCE 30 JUNE 2013 $M	RECOGNISED IN PROFIT OR LOSS $M	AMALGAMATION OF TRANSPOWER FINANCE LIMITED $M	BALANCE 30 JUNE 2014 $M
GROUP						
Property, plant and equipment temporary differences	267.4	42.6	310.0	40.2	–	350.2
Fair value of net debt and derivatives	(88.5)	(0.4)	(88.9)	13.6	–	(75.3)
Revenue deferral	(3.5)	(0.3)	(3.8)	0.8	–	(3.0)
Dismantling provision	(3.1)	1.2	(1.9)	0.6	–	(1.3)
Impairment	(9.9)	5.1	(4.8)	4.5	–	(0.3)
Other	(4.0)	1.3	(2.7)	0.7	–	(2.0)
Total deferred tax	158.4	49.5	207.9	60.4	–	268.3
PARENT						
Property, plant and equipment temporary differences	267.4	42.6	310.0	40.2	–	350.2
Fair value of net debt and derivatives	1.4	(23.7)	(22.3)	(14.7)	(38.8)	(75.8)
Revenue deferral	(3.5)	(0.3)	(3.8)	0.8	–	(3.0)
Dismantling provision	(3.1)	1.2	(1.9)	0.6	–	(1.3)
Impairment	(9.9)	5.1	(4.8)	4.5	–	(0.3)
Other	(1.5)	2.1	0.6	(2.0)	–	(1.4)
Total deferred tax	250.8	27.0	277.8	29.4	(38.8)	268.4

There are no unrecognised deferred tax balances (2013: nil).

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

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

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

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

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

Impairment relates to the NIGU property, refer to Note 13 Non current assets for background.

Dividend withholding payments

There were no dividend withholding payments during the year (2013: none).

18. EQUITY

Capital

Transpower has 1,200,000,000 issued and fully paid $1 ordinary shares. Transpower's authorised capital is $1,200,000,000 (2013: $1,200,000,000). The shares confer on the holders the right to vote at any annual general meeting of Transpower. The shares have no par value and rank equally.

The group manages capital to maintain its strong credit rating. Surplus capital is returned by way of dividends to shareholders.

Investment in subsidiaries

Transpower accounts for its subsidiaries at cost. The investment in subsidiaries has decreased by $250 million due to the amalgamation of Transpower Finance Limited into the Parent. See section below for more details.

Amalgamation of subsidiary

On 30 June 2014, Transpower Finance Limited, a 100% owned subsidiary, amalgamated into the Parent at book value. The net impact on the Parent financial statements was a gain of $34.8 million, shown in the statement of changes in equity. This represents the surplus of the net assets of the subsidiary over the carrying value of the investment at cost, $250 million.

Net tangible assets per share

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Net assets (equity)	1,429.0	1,410.2	1,386.9	1,408.5
Less intangibles (note 13)	(373.3)	(347.2)	(373.3)	(347.2)
Total net tangible assets	1,055.7	1,063.0	1,013.6	1,061.3
Net tangible assets per share ($)	0.88	0.89	0.84	0.88

Dividends

Dividends declared and provided by the Parent are as follows:

	2014	2014	2013	2013
	$M	CENTS PER SHARE	$M	CENTS PER SHARE
Previous year final dividend paid	137.0	11	205.0	17
Interim dividend paid	60.0	5	92.0	8
Special dividend paid	–	–	65.7	5
	197.0	16	362.7	30
Final dividend declared subsequent to balance date, refer note 27.	91.0	8	137.0	11

Imputation credits

	GROUP	PARENT
	2014	2014
	$M	$M
Balance at 1 July 2013	232.6	228.6
Net tax payments/transfers made/refunds received	16.7	16.7
Imputation credits attached to dividends paid to shareholders	(76.6)	(76.6)
Balance at 30 June 2014	172.7	168.7
Terminal tax accrued at 30 June 2014 (to pay July 2014)	9.6	9.6
	182.3	178.3

Non controlling interest

The Group recognises a non controlling interest in NZPCL. Refer to Note 10 NZPCL Debt and Investment for more information.

Notes to the financial statements continued

for the year ended 30 June 2014

19. SEGMENT REPORTING

In 2014, the Group has one reportable segment, transmission. The transmission segment activities include the transmission of electricity from the point of generation to the point of connection. This segment has external revenue derived from New Zealand customers and its assets are based in New Zealand.

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

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

1. **System operator** – the provision of real time services to ensure the short term security of the New Zealand electricity system.
2. **RRL** – established in 2001 to provide insurance services to the Group.

Segment results are determined based on information provided to the Chief Operating Decision Maker. They are calculated using the ACAM method (avoidable cost allocation methodology). This methodology is used to prepare the financial statements of the Transpower lines (transmission) business. These financial statements are required by the Commerce Commission's Electricity Information Disclosure Requirements 2004. The ACAM methodology is required by, and explained in, the Commerce Commission's "Electricity Information Disclosure Handbook".

Major customers

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

CUSTOMER	% OF GROUP REVENUE	SEGMENT
Vector Limited	18.6 (2013: 16.5)	Transmission
Meridian Energy Limited	12.6 (2013: 11.4)	Transmission

	TRANSMISSION		OTHER		ADJUSTMENTS		TOTAL	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
	$M	$M	$M	$M	$M	$M	$M	$M
External revenue	938.0	858.0	53.0	51.4	2.5	2.7	993.5	912.1
Operating expenses								
Grid maintenance	102.0	107.0	–	–	(11.4)	(14.9)	90.6	92.1
IST maintenance	40.0	37.0	4.8	4.7	(23.0)	(22.3)	21.8	19.4
Other	126.0	123.0	27.0	28.5	21.8	32.3	174.8	183.8
Total operating expenses	268.0	267.0	31.8	33.2	(12.6)	(4.9)	287.2	295.3
Capex	487.0	672.0	15.0	12.0	–	–	502.0	684.0

Notes to the financial statements continued

for the year ended 30 June 2014

19. SEGMENT REPORTING continued

The adjustments are primarily made up of:

	2014 $M	2013 $M	GROUP FINANCIAL STATEMENT CLASSIFICATION
External revenue	3.1	2.8	Imputed interest is included in "net finance expenses" (note 5)
Grid Maintenance	(2.3)	(7.2)	Communication system maintenance is included in "maintenance of communications network" (note 4)
Grid Maintenance	(3.0)	(3.0)	Grid skills training cost of sales is included in "other direct transmission expenses" (note 4)
Grid Maintenance	(6.4)	(4.4)	Maintenance support costs is included in "other direct transmission expenses" (note 4)
IST Maintenance	(13.3)	(13.3)	IST leases are included in "operating lease and rental costs" (note 4)
IST Maintenance	(7.9)	(7.6)	Maintenance on the new communications network is included in "other direct transmission expenses (note 4)
Total operating expenses	(12.6)	(11.9)	Relates to intercompany insurance premiums paid by the transmission segment to RRL.
Total operating expenses	–	7.1	Intercompany insurance revenue arising from claims against RRL

20. OPERATING LEASE COMMITMENTS

	GROUP		PARENT	
	2014	2013	2014	2013
Commitments in respect of non-cancellable operating leases payable:	$M	$M	$M	$M
Within one year	16.3	15.9	16.3	15.9
One to two years	16.6	15.2	16.6	15.2
Two to five years	37.1	35.3	37.1	35.3
Later than five years	118.3	117.1	118.3	117.1
Total operating lease commitments	188.3	183.5	188.3	183.5

The lease commitments primarily relate to the leasing of fibre optic cables for Transpower's communications network.

21. CAPITAL COMMITMENTS

	GROUP		PARENT	
Capital commitments in respect of contracts for property, plant and equipment:	2014 $M	2013 $M	2014 $M	2013 $M
Within one year	132.8	230.8	132.8	230.8
One to two years	0.1	1.2	0.1	1.2
Two to three years	–	1.9	–	1.9
Three to four years	–	5.5	–	5.5
Four to five years	–	0.8	–	0.8
Greater than five years	–	–	–	–
	132.9	240.2	132.9	240.2
Capital commitments in respect of contracts for intangible assets:				
Easements and right to access assets	1.1	–	1.1	–
Software	0.4	0.2	0.4	0.2
	1.5	0.2	1.5	0.2
Total capital commitments	134.4	240.4	134.4	240.4

Notes to the financial statements continued

for the year ended 30 June 2014

22. CONTINGENCIES

(i) Regulation and Capital Projects

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

NIGU Project

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

There is uncertainty over the extent to which the final costs of NIGU will be approved by the Commerce Commission. The Commerce Commission is required to determine whether or not the project expenditure was efficiently incurred. To the extent that the Commission determines expenditure was not reasonable or efficient, it may decline to approve that expenditure. In this event Transpower would not be able to recover the full project cost and an asset impairment may result.

On 29 November 2013, the Commerce Commission published an issues paper and is currently gathering further evidence and carrying out analysis to support a draft decision. The Commerce Commission expects to make a final decision by August 2015.

Wairakei Ring Project

The Wairakei ring project involved the construction of a new double circuit 220 kV line between Whakamaru and Wairakei to support new and existing geothermal generation developments in the central North Island.

The project cost approved by the Commerce Commission was $141 million. The final project cost is expected to be below this amount.

Under successor regulatory arrangements, for projects approved by the Commerce Commission, the original approved amount may be adjusted, retrospectively, to reflect differences between forecast and actual movements in CPI and foreign exchange inputs. Transpower's firm view is that the Commerce Commission does not have discretion to retrospectively adjust amounts originally approved by the Electricity Commission.

Were the Commission to make such an adjustment, the project allowance would decrease by approximately $20 million. If the adjustment was to apply and the Commerce Commission determined that some of Transpower's expenditure was not efficient, it may not approve this expenditure. In this event Transpower would not be able to recover the full project cost and an asset impairment may result.

(ii) Guarantees

NZPCL

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

Notes to the financial statements continued

for the year ended 30 June 2014

22. CONTINGENCIES continued

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 respective assets.

(iii) Economic gain (loss) account

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

The following are the balances and expected cash flows from the EV accounts for HVAC and HVDC customers. The balances at 30 June 2014 are not yet available.

	HVAC	HVDC	TOTAL
	$M	$M	$M
30 June 2013 balance			
Pre input methodology EV balances to be recovered (paid) 1 April 2013 to 31 March 2020	(47.1)	94.0	46.9
Post input methodology EV balances to be recovered (paid) 1 April 2013 to 31 March 2014	(39.1)	5.9	(33.2)
Post input methodology EV balances to be recovered (paid) 1 April 2014 to 31 March 2015	(11.4)	(7.5)	(18.9)
Total to be recovered (paid)	(97.6)	92.4	(5.2)
30 June 2012 balance			
Pre input methodology EV balances to be recovered (paid) 1 April 2012 to 31 March 2020	(52.1)	104.1	52.0
Post input methodology EV balances to be recovered (paid) 1 April 2013 to 31 March 2014	(36.5)	5.5	(31.0)
Total to be recovered (paid)	(88.6)	109.6	21.0

(iv) Regulated rate of return

On 23 December 2010 the Commerce Commission announced the new regulatory framework that applies to Transpower and which has been brought into effect by the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 and the Commerce Act (Transpower Input Methodologies) Determination 2010. Under this framework the Commerce Commission has determined a regulated rate of return for Transpower of 7.19 per cent.

The process leading to this decision has been subject to merits review. On 12 December 2013, the High Court upheld the Commerce Commission's processes and decisions. In its judgment the High Court questioned whether the rate of return applied should be based on a 75th percentile estimate. The Major Electricity Users Group sought leave to appeal the High Court's decision to the Court of Appeal. Subsequent to balance date, that leave to appeal was denied.

In March 2014, the Commerce Commission announced that it would review the 75th percentile assumption for its rate of return calculation. The Commerce Commission published its draft decision on 22 July 2014, which was that the 67th percentile rather than 75th percentile should apply from 1 April 2015. This draft decision is subject to consultation. A final decision will be made before the end of October 2014.

Were the Commission to move to a 67th percentile estimate, Transpower's annual transmission revenue would reduce by approximately $18 million.

(v) Various other lawsuits, claims and investigations

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

Notes to the financial statements continued

for the year ended 30 June 2014

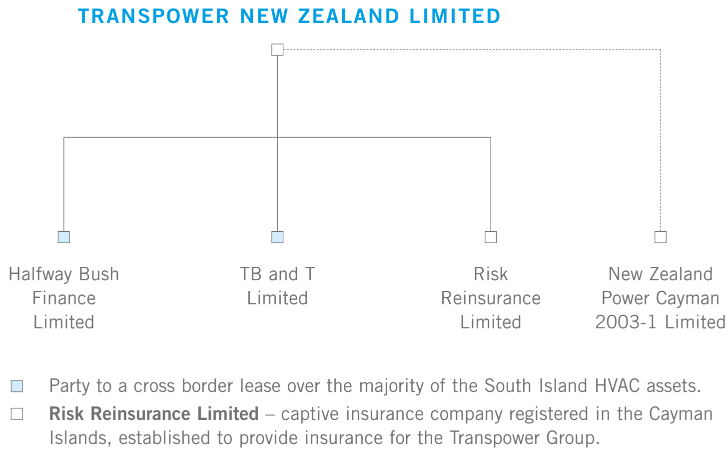
23. GROUP ENTITIES

All subsidiaries are wholly owned, are incorporated in New Zealand (except where specified otherwise) and have a balance date of 30 June 2014. Transpower has no ownership interest in NZPCL. NZPCL is a special purpose vehicle registered in the Cayman Islands and is consolidated for financial reporting, indicated by the dotted line in the diagram below. Refer to Note 10 NZPCL Debt and Investment for more detail. Risk Reinsurance Limited is registered and incorporated in the Cayman Islands.

Transpower Finance Limited (TPFL) – During the year all debt and derivatives held by TPFL were novated to the Parent. On 30 June 2014 TPFL was amalgamated into the Parent, refer to Note 18 Equity for more information.

Discontinued operations – the discontinued operations relate to d-cyphaTrade Limited which was sold to the ASX Limited on 31 May 2013.

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



24. RELATED PARTIES

Transactions with key management personnel

The Group did not conduct any business with key personnel.

Key management personnel compensation

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

	GROUP		PARENT	
	2014	2013	2014	2013
	$M	$M	$M	$M
Directors' fees	0.5	0.5	0.5	0.5
Other key management personnel	6.4	5.1	6.4	4.9
Defined contribution schemes	0.2	0.2	0.2	0.2

Included in the above are termination payments to key management personnel of $0.6 million in 2014 (2013: none). There was no long term compensation paid to key management personnel.

Intercompany transactions

The subsidiaries identified in Note 23 are related parties of Transpower. Transactions with these parties are disclosed in the relevant notes.

All of these transactions are conducted on a commercial basis. No related party debts have been written off or forgiven during the year. The balances are unsecured. Intercompany loans are repayable on demand.

24. RELATED PARTIES continued

Government-related transactions

Transpower, being a State-Owned Enterprise, transacts with other government-related entities. The most significant transactions and balances are as follows:

	GROUP and PARENT	
	2014	2013
	$M	$M
Meridian Energy Limited – revenue	124.8	102.5
Electricity Authority – revenue	38.0	38.7

Meridian Energy Limited (Meridian), is a majority State-Owned company which is an electricity generator and retailer. Meridian pays Transpower primarily for the transportation of electricity across the national electricity grid.

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

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

Some directors of the company may be directors or officers of other companies or organisations with which Transpower may transact. Such transactions are carried out at on an "arm's length" and independent commercial basis.

Insurance

RRL insures certain grid assets of the Group. RRL is a wholly owned subsidiary of the Parent and is incorporated in the Cayman Islands. RRL reinsures with parties external to the Group to reduce some of its risk. Refer to Note 16 (d) (iv) for more discussion on insurance.

Premiums

In 2014, the Parent paid $12.6 million to RRL in insurance premiums (2013: $11.9 million). In 2014, RRL reinsured some of the risk, paying external premiums of $6.2 million (2013: $5.6 million).

Current claims

At June 2014 there is no unpaid claims liability (2013: $11.3 million).
During the year, full and final settlements were made relating to the claims for the Cook Strait fibre optic cable and the Haywards Substation. The claim relating to the Benmore substation smoothing reactor was withdrawn by the Parent after the revised costing estimate indicated the loss was lower than the policy deductible.

25. SIGNIFICANT JUDGEMENTS / ESTIMATES

Regulation and the NIGU project

The NIGU project exceeded its initial approved amount by approximately $70 million. The board have made the judgement that no impairment is required in the 2014 financial statements. Note 22, Contingencies contains further details on this item.

Fair values of debt, derivatives and deposits

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

Non current assets

Transpower has exercised judgement, with assistance from independent engineers, in determining the useful life of property, plant and equipment and finite life intangible assets.

Notes to the financial statements continued

for the year ended 30 June 2014

26. ALTERNATE PROFIT MEASURE

Transpower discloses an alternate measure of profit which is earnings before net changes in fair values of financial instruments.

Transpower discloses this information as it provides a different measure of underlying performance to the IFRS mandated profit measures, which are also disclosed.

The directors consider that this additional profit measure is useful additional information for users of the financial statements.

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

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

27. SUBSEQUENT EVENTS

The directors approved the payment of a final dividend on 14 August 2014 of $91 million. The dividend will be fully imputed.

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

Independent Auditor's Report

Building a better working world

Chartered Accountants

To the readers of Transpower New Zealand Limited and Group's Financial Statements for the year ended 30 June 2014

The Auditor-General is the auditor of Transpower New Zealand Limited (the company) and group. The Auditor-General has appointed me, Marcus Henry using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the company, on her behalf.

We have audited the financial statements of the company on pages 24 to 72, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the company on pages 24 to 72:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company and group's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 14 August 2014. 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 company's and group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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 company and group's internal control.

Independent Auditor's Report continued

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 all 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.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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 preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company's and group's financial position, financial performance and cash flows.

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

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

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

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

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

BOARD OF DIRECTORS

CHAIRMAN
MARK VERBIEST

DEPUTY CHAIRMAN
IAN FRASER

DIRECTORS
ABBY FOOTE
DON HUSE
MIKE POHIO
KEITH TEMPEST
JAN EVANS-FREEMAN

GENERAL MANAGEMENT TEAM

CHIEF EXECUTIVE
ALISON ANDREW

CHIEF FINANCIAL OFFICER
HOWARD CATTERMOLE

GENERAL MANAGER SYSTEM OPERATIONS
JOHN CLARKE

GENERAL MANAGER CUSTOMERS, PEOPLE AND ENVIRONMENT
JENNIFER KERR

GENERAL COUNSEL AND COMPANY SECRETARY
DAVID KNIGHT

GENERAL MANAGER INFORMATION SERVICES AND TECHNOLOGY
COBUS NEL (ACTING)

GENERAL MANAGER GRID DEVELOPMENT
ROY NOBLE (ACTING)

GENERAL MANAGER GRID PROJECTS
KEVIN SMALL

GENERAL MANAGER GRID PERFORMANCE
JIM TOCHER (ACTING)

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
LEVEL 5, BUILDING 2
CENTRAL PARK CORPORATE CENTRE
666 GREAT SOUTH ROAD
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