

# REPORT ON OPERATIONAL AND FINANCIAL PERFORMANCE

OF THE TRANSPOWER GROUP  
FOR THE NINE MONTH PERIOD  
ENDED 31 MARCH 2012

T R A N S P O W E R



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Transpower is the State Owned Enterprise that plans, builds, maintains and operates New Zealand's high voltage electricity transmission network – the National Grid – which links generators to distribution companies and major industrial users.

## Introduction

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The report summarises the unaudited financial results of Transpower for the nine months ended 31 March 2012, together with the results for the previous corresponding period.

The report also sets out year to date progress against Transpower's Statement of Corporate Intent (SCI) performance targets.

These quarterly reports provide readers with financial and operational information between the publication of the half yearly and annual reports.

We welcome your feedback on this report and trust that you find it useful. Please send your feedback to [communications@transpower.co.nz](mailto:communications@transpower.co.nz).

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### Financial performance

Net profit after tax before net changes in the fair value of financial instruments for the nine months ended 31 March 2012 was \$118.3 million compared with \$119.2 million for the previous corresponding period.

Transmission revenue increased by 4 per cent to \$515.9 million.

Operating expenses increased by 3 per cent to \$204.9 million.

Depreciation, amortisation and write-offs increased by 14% to \$130.6 million. The increase reflects reductions in asset lives implemented in June 2011 and a significant increase in the replacement of old assets.

Net finance costs decreased in the period by 2 per cent to \$60.9 million, reflecting an increase in capitalised interest.

After changes in the fair value of financial instruments, net profit after tax was \$26.6 million, compared with \$106.0 million for the previous corresponding period. The change in the fair value of financial instruments predominantly results from fluctuations in market interest rates. The fair value movements are non-cash in nature and do not reflect Transpower's underlying operating performance.

### Financial position

Transpower recommenced paying dividends to the Crown with a \$110 million interim dividend paid in March 2012. This is the first dividend paid by the company since 2005.

Total capital expenditure was \$615.0 million, an increase of \$215.9 million over the previous corresponding period. The increase was driven by expenditure on the North Island Grid Upgrade (NIGU) project, HVDC upgrade project (Pole 3) and North Auckland and Northland (NAaN) project.

Debt and related derivatives increased by \$1,149.6 million over the previous corresponding period to \$3,429.8m. The increase reflects new debt issues and changes in the fair value of financial instruments. The cash balance of \$288.5 million will be used to repay debt that matures in May.

### Operational update

Construction work on our three largest projects is progressing satisfactorily.

NIGU is targeted to be operational at the end of winter 2012.

Pole 3 is now expected to be commissioned in February 2013.

NAaN project commissioning is expected to occur in late calendar 2013.

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**Statement of corporate intent measures** (refer to table on page 11)

**Financial**

Year to date financial performance is ahead of plan. This is reflected in favourable financial measures for operating profit margin and interest cover.

Return on capital employed and return on equity are expected to be in line with target by year end. Transmission revenue will increase significantly from 1 April 2012 reflecting the ongoing investment program.

**Operational**

All operational performance measures are on target.

**Non-financial**

One non-financial performance target is at risk. By 31 March 2012, 26 medical treatment injuries had been recorded against an SCI target of 26 for the full year. The injuries were mostly minor and reflect the greater volume of work undertaken by Transpower staff and its contractors.

Other non-financial measures are on target.

## Consolidated statement of comprehensive income

For the nine months ended 31 March 2012

		UNAUDITED	UNAUDITED	AUDITED
	NOTES	9 MONTHS 31 MAR 2012	9 MONTHS 31 MAR 2011	YEAR 30 JUN 2011
		\$M	\$M	\$M
<b>Operating revenue</b>				
Transmission revenue	2	515.9	497.9	675.3
Other revenue	2	44.8	43.1	56.1
Finance revenue	4	5.0	3.0	5.8
		565.7	544.0	737.2
<b>Operating expenses</b>				
Transmission expenses	3	99.9	97.6	141.0
Employee benefits	3	43.5	42.3	56.4
Other operating expenses	3	61.5	58.7	81.8
		204.9	198.6	279.2
<b>Earnings before interest expense, tax, depreciation, amortisation, impairment and changes in the fair value of financial instruments</b>				
		360.8	345.4	458.0
Depreciation		113.3	101.3	146.4
Amortisation		9.6	10.4	14.3
Impairment		–	–	19.7
Asset write-offs		7.7	3.1	12.5
Finance expenses	4	65.9	65.0	87.3
<b>Earnings before changes in the fair value of financial instruments and tax</b>				
		164.3	165.6	177.8
(Gain) loss in the fair value of financial instruments		127.8	18.6	65.4
<b>Earnings before tax</b>				
		36.5	147.0	112.4
Income tax expense (credit)		9.9	41.0	33.9
<b>Net profit (loss)</b>				
		26.6	106.0	78.5
<b>Other comprehensive income for the period net of tax</b>				
		–	–	–
<b>Total comprehensive income for the period</b>				
		26.6	106.0	78.5
<i>Total comprehensive income for the period is attributable to:</i>				
Non controlling interest (NCI)		(3.6)	2.0	6.5
Owners of the parent		30.2	104.0	72.0
		26.6	106.0	78.5
<i>Reconciliation of net profit (loss) specifying the net impact of fair value movements</i>				
<b>Earnings before changes in the fair value of financial instruments and tax</b>				
		164.3	165.6	177.8
Income tax expense (credit) excluding changes in the fair value of financial instruments		46.0	46.4	51.5
<b>Earnings before net changes in fair value of financial instruments</b>				
		118.3	119.2	126.3
(Gain) loss in the fair value of financial instruments		127.8	18.6	65.4
Income tax expense (credit) on changes in the fair value of financial instruments		(36.1)	(5.4)	(17.6)
<b>Net profit (loss)</b>				
		26.6	106.0	78.5

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

## Consolidated statement of financial position

As at 31 March 2012

	UNAUDITED	UNAUDITED	AUDITED
	31 MAR 2012	31 MAR 2011	30 JUN 2011
	\$M	\$M	\$M
<b>ASSETS EMPLOYED</b>			
<b>Current assets</b>			
Cash and cash equivalents	288.5	0.8	1.6
Trade and other receivables	67.3	56.4	75.3
Other investments	65.0	64.8	65.7
Derivatives and hedge commitment in gain	48.9	55.0	52.4
Non current assets held for sale	83.0	48.3	37.5
Inventories	11.4	12.9	11.7
	564.1	238.2	244.2
<b>Non current assets</b>			
Trade and other receivables	24.1	13.7	16.3
NZPCL investment	103.8	99.2	100.4
Derivatives and hedge commitment in gain	183.8	170.7	167.7
Other financial assets	5.0	3.9	3.9
Property, plant and equipment	2,675.7	2,588.4	2,612.0
Capital work in progress	1,101.6	597.1	737.2
Intangibles	295.4	197.7	288.9
	4,389.4	3,670.7	3,926.4
<b>TOTAL ASSETS EMPLOYED</b>	<b>4,953.5</b>	<b>3,908.9</b>	<b>4,170.6</b>
<b>FUNDS EMPLOYED</b>			
<b>Current liabilities</b>			
Trade and other payables	101.8	67.6	158.0
Current tax liability	6.9	16.9	5.8
Current debt	226.5	177.0	493.5
Derivatives and hedge commitment in loss	240.4	122.1	130.9
Deferred income	41.5	34.7	34.8
Provisions	7.0	11.1	13.7
	624.1	429.4	836.7
<b>Non current liabilities</b>			
Non current payables	1.6	2.3	1.7
Finance lease liabilities	0.8	1.0	1.0
Derivatives and hedge commitment in loss	201.5	156.9	214.3
NZPCL debt	112.3	109.0	103.9
Non current debt	2,416.4	1,489.5	1,315.4
Deferred tax	137.4	152.1	155.0
Provisions	9.3	7.8	9.1
	2,879.3	1,918.6	1,800.4
<b>Total liabilities</b>	<b>3,503.4</b>	<b>2,348.0</b>	<b>2,637.1</b>
<b>Equity</b>			
Capital	1,200.0	1,200.0	1,200.0
Available for sale financial assets reserve	(0.9)	(0.9)	(0.9)
Accumulated surplus (deficit)	256.8	368.6	336.6
Non controlling interest	(5.8)	(6.8)	(2.2)
<b>Total equity</b>	<b>1,450.1</b>	<b>1,560.9</b>	<b>1,533.5</b>
<b>TOTAL FUNDS EMPLOYED</b>	<b>4,953.5</b>	<b>3,908.9</b>	<b>4,170.6</b>

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

## Consolidated cash flow statement

For the nine months ended 31 March 2012

	UNAUDITED	UNAUDITED	AUDITED
	9 MONTHS 31 MAR 2012	9 MONTHS 31 MAR 2011	YEAR 30 JUN 2011
	\$M	\$M	\$M
<b>CASH FLOW FROM OPERATIONS</b>			
<b>Cash was provided from:</b>			
Receipts from customers	569.2	551.5	724.6
Interest received	5.0	3.0	5.8
<b>Cash was applied to:</b>			
Payments to suppliers and employees	(241.7)	(232.1)	(292.7)
Tax payments	(25.2)	(23.5)	(27.2)
Interest paid	(117.7)	(90.5)	(125.1)
<b>Net cash inflows from operations</b>	<b>189.6</b>	<b>208.4</b>	<b>285.4</b>
<b>CASH FLOW FROM INVESTMENTS</b>			
<b>Cash was provided from:</b>			
Sale of property, plant and equipment	14.3	12.0	25.4
Short-term investments	118.7	301.5	437.1
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	(603.0)	(393.1)	(663.7)
Short-term investments	(118.0)	(303.1)	(432.7)
<b>Net cash outflows to investments</b>	<b>(588.0)</b>	<b>(382.7)</b>	<b>(633.9)</b>
<b>CASH FLOW FROM FINANCING</b>			
<b>Cash was provided from:</b>			
Increase in loans	1,860.5	762.1	1,171.9
<b>Cash was applied to:</b>			
Increase in long-term investments	–	–	–
Dividends paid	(110.0)	–	–
Repayment of loans	(1,065.2)	(609.9)	(844.7)
<b>Net cash inflows from financing</b>	<b>685.3</b>	<b>152.2</b>	<b>327.2</b>
Net increase (decrease) in cash held	286.9	(22.1)	(21.3)
Opening balance brought forward	1.6	22.9	22.9
<b>Closing net cash carried forward</b>	<b>288.5</b>	<b>0.8</b>	<b>1.6</b>
<b>Closing net cash carried forward comprises:</b>			
Cash and bank	288.5	0.8	1.6

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



# Notes to the financial statements

For the nine months ended 31 March 2012

## 1. STATEMENT OF ACCOUNTING POLICIES

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### Reporting entity and statutory base

Transpower New Zealand Limited 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 New Zealand Limited (Transpower or Parent) and its subsidiaries (together, the Group).

### Nature of operations

Transpower is the owner and operator of New Zealand's national electricity grid. Transpower is a profit orientated entity for the purposes of NZ IAS 1 "Presentation of Financial Statements".

### Basis of preparation

The financial statements included in this quarterly report have been prepared in a manner consistent with the financial statements and relevant notes included in the Transpower 2010/11 Annual Report.

The accounting policies used in preparation of these financial statements are consistent with those used in preparation of the Group financial statements for the year ended 30 June 2011.

Transpower's operations are not considered seasonal or cyclical in nature.

### New standards not yet adopted

There were no relevant standards issued in the period.

### New standards adopted during the period

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

### Change of presentation

Asset write offs of \$3.1 million were presented in Operating expenses (Note 3) in March 2011. This year, asset write-offs are separately disclosed on the face of the statement of comprehensive income after earnings before interest, tax, depreciation, amortisation, impairment and changes in the fair value of financial instruments.

## Notes to the financial statements continued

For the nine months ended 31 March 2012

2 OPERATING REVENUE	UNAUDITED	UNAUDITED	AUDITED
	9 MONTHS 31 MAR 2012	9 MONTHS 31 MAR 2011	YEAR 30 JUN 2011
	\$M	\$M	\$M
<b>Transmission revenue</b>			
HVAC interconnection	372.9	340.4	464.8
HVAC connection	89.5	94.2	124.0
EV (rebate) charge – HVAC	(37.7)	(30.2)	(42.8)
HVDC	52.8	57.8	83.6
EV (rebate) charge - HVDC	10.7	5.8	1.3
Customer investment agreements	19.8	20.0	26.6
Other	7.9	9.9	17.8
	515.9	497.9	675.3
<b>Other revenue</b>			
System Operator	26.1	23.5	31.4
Rental income	6.1	6.0	8.0
Risk Reinsurance investment income	2.2	2.2	2.9
d-cyphaTrade income	8.2	10.6	12.7
Other	2.2	0.8	1.1
	44.8	43.1	56.1
<b>Total operating revenue (excluding finance revenue)</b>	<b>560.7</b>	<b>541.0</b>	<b>731.4</b>

**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 agreements 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.

*d-cyphaTrade income*

d-cyphaTrade income relates to income earned by Transpower’s subsidiary d-cyphaTrade Limited (DCT). DCT earns income by providing services to the Australian electricity derivatives market.

## Notes to the financial statements continued

For the nine months ended 31 March 2012

<b>3. OPERATING EXPENSES</b>	UNAUDITED	UNAUDITED	AUDITED
	<b>9 MONTHS 31 MAR 2012</b>	<b>9 MONTHS 31 MAR 2011</b>	<b>YEAR 30 JUN 2011</b>
	\$M	\$M	\$M
<b>Transmission expenses</b>			
Maintenance of HVAC substations	37.2	36.3	52.1
Maintenance of HVDC substations and cables	7.2	7.4	11.1
Maintenance of HVAC lines	29.1	30.7	46.4
Maintenance of HVDC lines	0.5	0.8	1.3
HVDC share of reserves	4.4	4.5	4.7
Other direct transmission expenses	21.5	17.9	25.4
	<b>99.9</b>	<b>97.6</b>	<b>141.0</b>
<b>Employee benefits</b>			
Short term benefits	40.6	40.2	52.6
Defined contribution schemes	2.3	1.9	2.6
Other	0.6	0.2	1.2
	<b>43.5</b>	<b>42.3</b>	<b>56.4</b>
<b>Other operating expenditure</b>			
Information technology costs	14.5	13.9	19.5
Industry levies	4.9	5.9	7.0
Other business support costs	24.0	23.2	34.5
Operating lease and rental costs	13.9	12.0	15.8
External auditor – audit fee	0.3	0.3	0.3
External auditor – other assurance	0.2	0.2	0.3
Loss on available for sale financial assets	0.1	–	–
Insurance	3.6	3.2	4.4
	<b>61.5</b>	<b>58.7</b>	<b>81.8</b>
<b>Total operating expenses</b>	<b>204.9</b>	<b>198.6</b>	<b>279.2</b>

Maintenance includes inspection, servicing and repair costs

HVDC share of reserves – The wholesale electricity market provides reserves to cover for the loss of the largest generation unit that is dispatched in any one island (North or South) in any one trading period. If these reserve quantities are in the other island, it is expected that the HVDC link will be available to carry this quantity. The cost of these reserves is charged to the Group (as grid asset owner) as their share of the HVDC at risk quantity.

Other direct transmission expenditure includes investigations work that the Group conducts (prior to any commencement of a capital project) and the costs associated with running the Group's communications network.

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.

## Notes to the financial statements continued

For the nine months ended 31 March 2012

**4 NET FINANCE EXPENSES**

	UNAUDITED	UNAUDITED	AUDITED
	9 MONTHS 31 MAR 2012	9 MONTHS 31 MAR 2011	YEAR 30 JUN 2011
	\$M	\$M	\$M
<b>Finance revenue</b>			
Interest received	5.0	3.0	5.8
<b>Finance expenses</b>			
Interest paid and associated fees	115.8	88.1	122.0
Cross border lease expenses	0.2	0.6	0.7
Capitalised interest	(51.8)	(25.5)	(37.8)
Imputed interest	1.7	1.8	2.4
	65.9	65.0	87.3
<b>Total net finance expenses</b>	<b>60.9</b>	<b>62.0</b>	<b>81.5</b>

**Interest paid and associated fees**

All interest paid is on financial instruments designated as fair value through profit or loss.

**Imputed interest**

Imputed interest is on customer investment agreements, transmission realignment and certain other prepaid transactions.

## SCI performance targets

For the nine months ended 31 March 2012

SCI FINANCIAL AND OPERATIONAL TARGETS	ACTUAL	FULL YEAR TARGET
<b>SCI financial</b>		
Operating profit margin	63.6%	63.2%
Interest coverage (free funds from operations interest cover)	2.8	2.8
Return on capital employed	6.9%	7.3%
Return on equity	9.6%	9.9%
Average total transmission costs (c/kWh)	1.78	1.75
Estimated economic value added (\$m)	(13)	(13)
<b>SCI operational</b>		
Number of loss of supply events of greater than 0.05 system minutes	14	21
Number of loss of supply events of greater than one system minute	1	3
HVAC availability	98.8%	98.5%
HVDC pole 2 availability	84.6%	82.5%
<b>SCI non-financial</b>		
Material breaches of SO performance obligations	0	<4
ACC workplace safety audit status	Tertiary	Tertiary
Number of fatalities or injuries causing permanent disability	0	0
Number of medical treatment injuries	26	<=26

