



# DOMESTIC BOND ISSUE INVESTOR PRESENTATION



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**TRANSPOWER**

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# IMPORTANT INFORMATION

Transpower New Zealand Limited (Issuer or Transpower) is offering up to NZ\$75,000,000 fixed rate bonds (with the ability to accept up to NZ\$50,000,000 oversubscriptions) due 6 March 2025 (Bonds) in reliance upon the exclusion in clause 19 of schedule 1 of the Financial Markets Conduct Act 2013 (FMCA).

The Bonds will have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as Transpower's:

- NZ\$325,000,000 fixed rate bonds maturing on 30 November 2018 with a fixed interest rate of 5.14% and which are currently quoted on the NZX Debt Market under the ticker code TRP010,
- NZ\$200,000,000 fixed rate bonds maturing on 6 September 2019 with a fixed interest rate of 4.65% and which are currently quoted on the NZX Debt Market under the ticker code TRP020,
- NZ\$150,000,000 fixed rate bonds maturing on 30 June 2022 with a fixed interest rate of 4.30% and which are currently quoted on the NZX Debt Market under the ticker code TRP030, and
- NZ\$100,000,000 fixed rate bonds maturing on 16 September 2022 with an interest rate of 4.069% which are quoted on the NZX Debt Market under the ticker code TRP040,

(together Quoted Bonds).

Accordingly, the Bonds are of the same class as the Quoted Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

Transpower is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited (NZX) for the purpose of that information being made available to participants in the market and that information can be found by visiting <https://www.nzx.com/companies/TRP>.

Investors should look to the market price of the Quoted Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

The Bonds will be debt securities and will constitute unsecured, unsubordinated debt obligations of the Issuer. The Bonds will rank equally and without any preference among themselves and at least equally with all other unsecured and unsubordinated indebtedness of the Issuer, except indebtedness preferred by law and subject to laws affecting creditors' rights generally and equitable principles of general application. Neither the repayment of, nor the payment of interest on, the Bonds is guaranteed by the Crown or any other person.

# DISCLAIMER

This presentation does not constitute a recommendation by the Issuer, Westpac Banking Corporation (ABN 33 007 457 141), acting through its New Zealand branch (Lead Manager), The New Zealand Guardian Trust Company Limited (Supervisor), nor any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Bonds. None of the Issuer, the Lead Manager, the Supervisor or any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this presentation or its contents or otherwise arising in connection with the offer.

This presentation is for preliminary information purposes only and no part of it shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. The information in this document is given in good faith and has been obtained from sources believed to be reliable and accurate at the date of preparation, but its accuracy, correctness and completeness cannot be guaranteed. All material information in this document is derived from publicly available information, unless otherwise indicated. All of the numerical data provided in this presentation is derived from the Statement of Corporate Intent 2017/2018, the Annual Report, the audited Financial Statements for the year ended 30 June 2017 and the unaudited Financial Statements for the 6 months to 31 December 2017.

Any internet site addresses provided in this presentation are for reference only and, except as expressly stated otherwise, the content of any such internet site is not incorporated by reference into, and does not form part of, this presentation.

Pricing supplement No. 11, dated 26 February 2018 (Pricing Supplement) has been prepared in respect of the offer of the Bonds. The Pricing Supplement is an important document and should be read carefully. Investors should not purchase the Bonds until they have read the Pricing Supplement. Investors should consider the risks that are associated with an investment in the Bonds, particularly with regard to their personal circumstances (including financial and tax issues).

The Pricing Supplement sets out the applicable selling restrictions in respect of the Bonds.

# AGENDA



1. OVERVIEW
2. OPERATIONAL AND STRATEGIC UPDATE
3. REGULATORY UPDATE
4. CAPITAL EXPENDITURE UPDATE
5. FUNDING UPDATE
6. BOND ISSUE
7. QUESTIONS



# 1. OVERVIEW

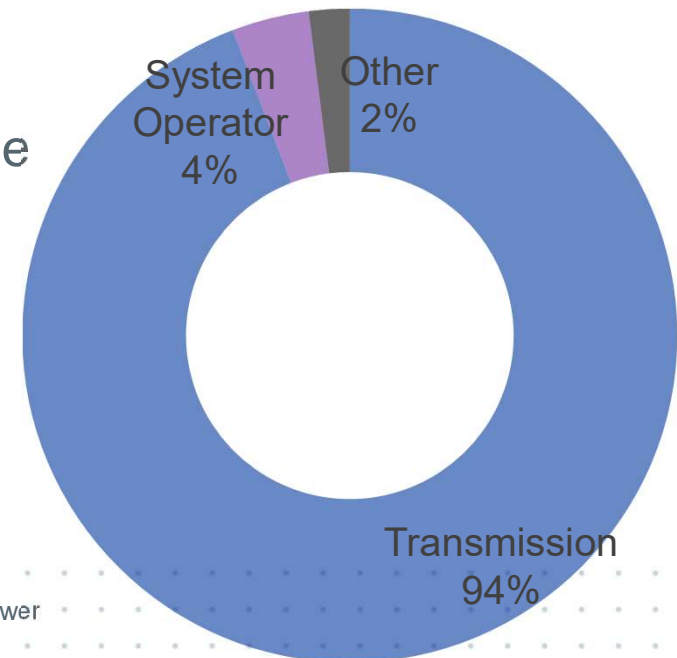


# OVERVIEW OF TRANSPOWER

- 100% state owned by New Zealand Crown<sup>1</sup>
- Provides essential utility service
  - Owner and operator of the National Grid
  - System Operator
- Substantial regulated, stable and predictable earnings

Agency	Rating	Outlook
Standard & Poor's	AA-	Stable
Moody's	Aa3	Stable

## Operating revenue breakdown

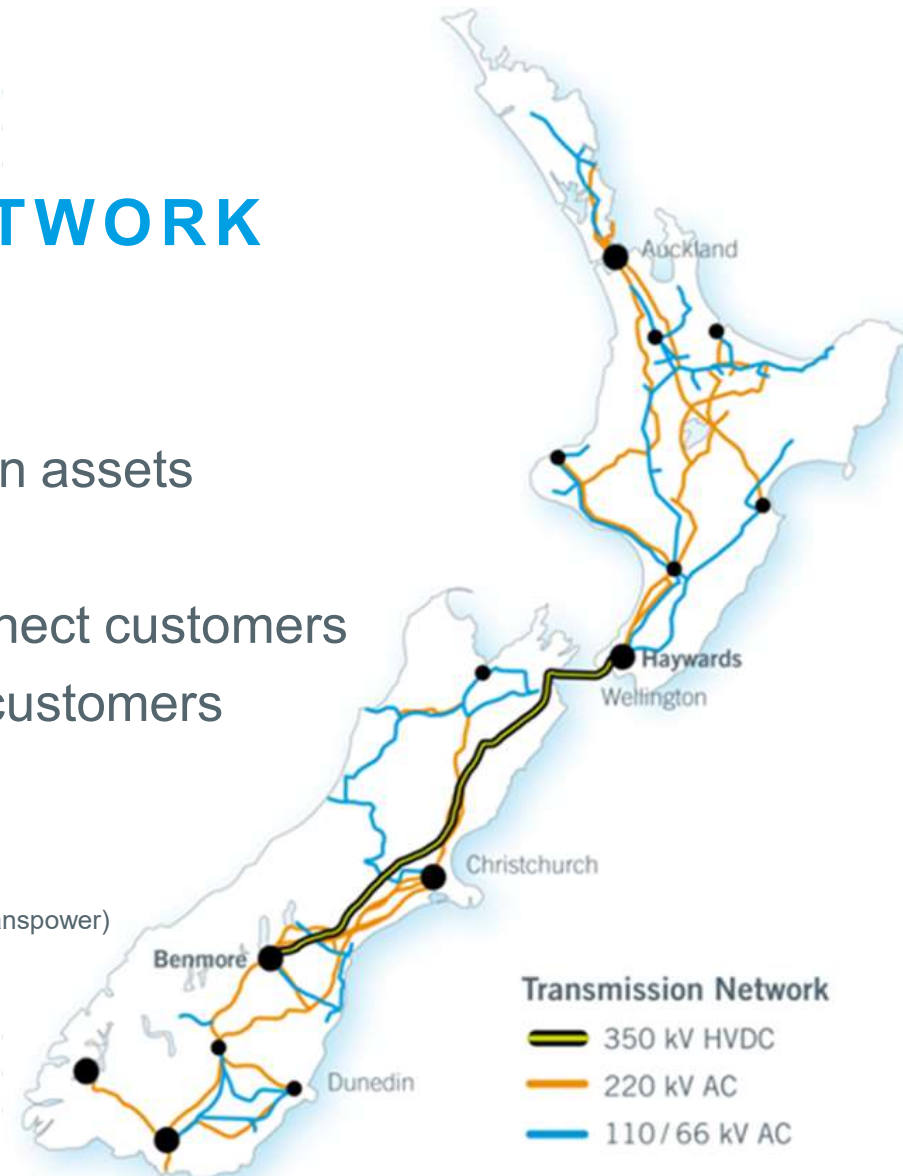


<sup>1</sup> The Crown does not guarantee bonds issued by Transpower

# TRANSMISSION NETWORK

- Over \$4.5 billion transmission assets
- 29 distribution customers
- 11 large industrial direct connect customers
- 6 grid connected generator customers

source: Integrated Transmission Plan Narrative 2017 (Transpower)



## OUR STRATEGIC PRIORITIES

- Reduce our costs and evolve our services to remain competitive
- Play an active role in shaping the industry's future
- Sustain our social licence to operate
- Match our infrastructure build to need over time
- Improve our asset management
- Develop our organisational effectiveness



## REGULATION

- Transpower is regulated by both the:
  - Commerce Commission - economic regulator; and
  - Electricity Authority - determines, monitors and enforces Electricity Industry Participation Code
- Substantial regulated revenue - ca. 98%
- Revenue cap - no volume risk
- Building block approach to determining Maximum Allowed Revenue
- Post tax WACC 6.44% in RCP2<sup>1</sup>
- Enforceable requirement on customers to pay regulated charges

<sup>1</sup> The second 5-year Regulatory Control Period – commenced 1 April 2015 and ends 31 March 2020

A wide-angle photograph of a center pivot irrigation system in operation over a lush green field. The sun is high in the sky, creating a bright lens flare. The irrigation system consists of multiple metal towers on wheels connected by long metal arms, with numerous nozzles spraying water across the field. In the background, there are rolling green hills and a clear blue sky. The text "2. OPERATIONAL AND STRATEGIC UPDATE" is overlaid in large, white, sans-serif font across the center of the image.

# 2. OPERATIONAL AND STRATEGIC UPDATE

# OPERATING RESULTS

## TOTAL REVENUE

	2016	\$M	2017	% Δ
FY <sup>2</sup>	1,035	↑	1,061	2.5
HY <sup>3</sup>	527	↑	553	5.0

## OPEX

	2016	\$M	2017	% Δ
FY <sup>2</sup>	(285)	↑	(288)	(1.1)
HY <sup>3</sup>	(138)	↑	(139)	(0.7)

## EBITDAIF<sup>1</sup>

	2016	\$M	2017	% Δ
FY <sup>2</sup>	749	↑	773	3.2
HY <sup>3</sup>	388	↑	414	6.7

## DEPRECIATION, AMORTISATION

	2016	\$M	2017	% Δ
FY <sup>2</sup>	(269)	↑	(277)	(3.0)
HY <sup>3</sup>	(141)	↑	(147)	(4.3)

## NET FINANCE COSTS

	2016	\$M	2017	% Δ
FY <sup>2</sup>	(212)	↓	(205)	3.3
HY <sup>3</sup>	(105)	↓	(99)	5.7

## NET PROFIT AFTER TAX (excluding net fair value movements)

	2016	\$M	2017	% Δ
FY <sup>2</sup>	193	↑	208	7.8
HY <sup>3</sup>	102	↑	120	17.6

<sup>1</sup> Earnings Before Interest, Tax, Depreciation, Amortisation, Asset write off and Fair value movements

<sup>2</sup> Audited Annual Reports

<sup>3</sup> Unaudited Interim Reports

## OUTLOOK

Our forward capex programme supports delivery in line with our regulatory settings during RCP2

We have embarked on a second phase of transformation to further improve our operations and efficiency

We are developing our RCP3<sup>1</sup> proposal, establishing our view of suitable performance targets and funding baselines for the grid during the 2020 to 2025 period

<sup>1</sup> RCP3 commences 1 April 2020 and ends 31 March 2025

## LONG TERM PLANNING

Transmission Tomorrow <sup>1</sup> (2016) provides context for Transpower's long term planning

Six key trends identified with particular significance to our business:

- Climate change policy
- Electrification
- Urbanisation
- Energy use changes
- Smarter grid
- Battery storage

<sup>1</sup> Transmission Tomorrow - <https://www.transpower.co.nz/about-us/transmission-tomorrow>





# 3. REGULATORY UPDATE



## ELECTRICITY PRICING REVIEW

Review to examine the electricity market announced by the new Minister of Energy and Resources in late 2017, with final report due 2019

Draft terms of reference covers three focus areas:

1. Competition - Barriers and effectiveness of regulatory structures
2. Equity - Impact of regulation on customer segments
3. Future Technologies - Emerging technologies and regulatory response

Draft scope excludes Part 4 of the Commerce Act 1986 – economic regulation of Transpower and local distribution networks. How the review will be conducted and final terms of reference are yet to be confirmed

# REGULATORY DECISIONS

## Transmission Pricing Methodology

- Electricity Authority review of transmission charge allocation. An announcement on next steps is expected before June 2018
- Will not change Transpower's business plan assumptions or total revenue

## Transpower specific Capital Expenditure Input Methodology review

- Draft decision issued by the Commerce Commission in late 2017, final decision due by the end of March 2018
- Changes to the incentive regime, base and major capex approval processes

Transpower's expenditure proposal for RCP3 is due for submission to the Commerce Commission in December 2018. The decision is due by the end of August 2019 and implementation from the start of April 2020

## INDUSTRY ISSUES

### New Zealand Aluminium Smelters

- Supply contract with generators can be terminated with 12 months' notice
- Exit would have no material impact on Transpower's revenue under the current regulatory framework, but could accelerate the need for grid upgrades to the lower South Island to relieve constraints

### Auckland Strategy Development

- Strengthen and support the Grid in and through Auckland to manage growth and stability in the region

### Technology

- Monitor and advance technological innovations that impact and enhance transmission such as distributed generation, electric vehicles, local storage and batteries to smooth peak loads

A photograph of a gravel road in a rural landscape. A tractor is parked on the left side of the road. The background features rolling green hills and a clear blue sky with a bright sun. Power lines are visible in the sky. The text "4. CAPITAL EXPENDITURE UPDATE" is overlaid in white, bold, sans-serif font across the center of the image.

# 4. CAPITAL EXPENDITURE UPDATE

## CAPITAL PROJECTS

Base capex<sup>1</sup> will average \$260 million for the next three years

Two largest major capex ongoing:

Bunnythorpe-Haywards - approved \$162 million

- Tower strengthening and lifting
- Higher capacity conductors installed
- Completion scheduled for 2019 - ahead of original schedule of 2020
- We expect to spend under our approved capex

Lower South Island Grid Reliability - approved \$62 million

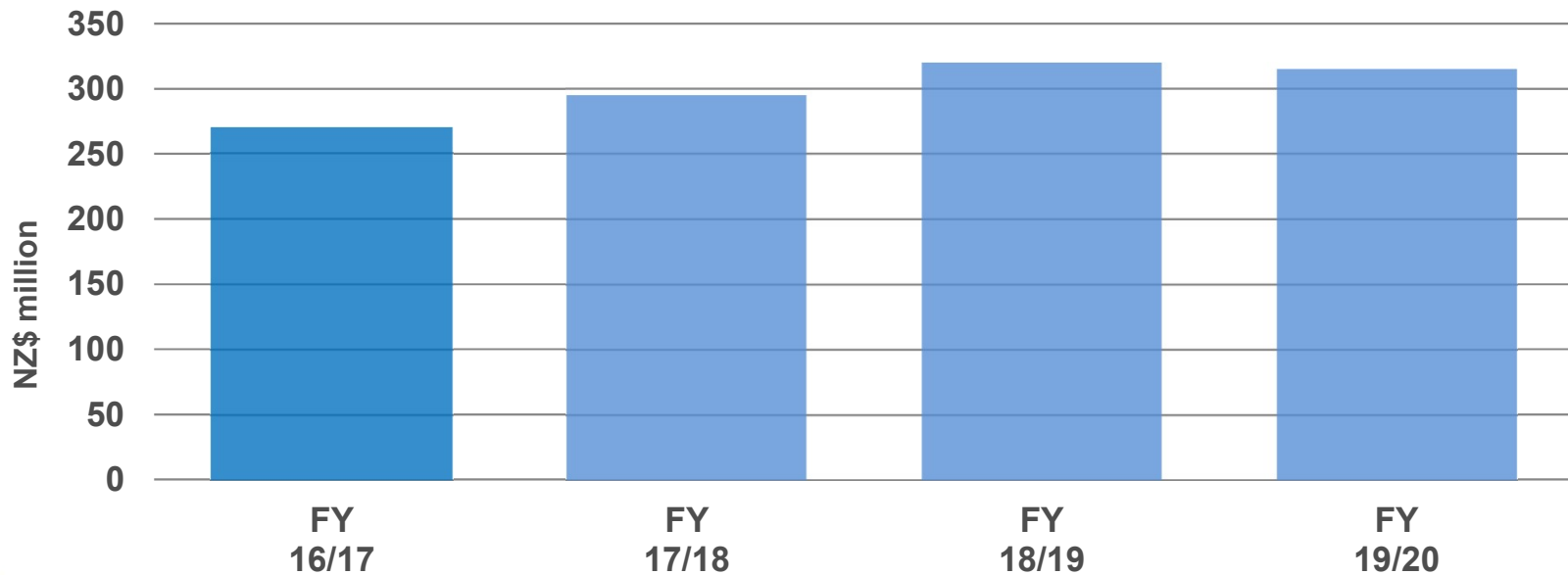
- New and replacement transformers
- New section of 220 kV transmission line

<sup>1</sup> Regulated capital expenditure of \$20 million or less, or otherwise of a type not approved as major capex

# CAPITAL EXPENDITURE

Weighted toward maintaining condition of existing assets in RCP2

ca. 90% base/10% major



We expect we will meet our capex forecast for RCP2

Source: Integrated Transmission Plan Narrative 2017





# 5. FUNDING UPDATE

# CONSERVATIVE POLICIES/TARGETS

## Liquidity & Funding

- \$500 million committed standby facility
- Multiple long term and short term funding programmes
- Dividend guidance of between 60 - 80% of cash flow after maintenance capex, subject to other Board consideration

## Interest Rate

- Align interest rate risk on debt portfolio with regulatory WACC reset
- WACC return for RCP2 set at 6.44% post tax.

## Counterparty Credit

- Regulated transmission revenue recoverable. Customer credit quality high<sup>1</sup>
- Credit protection obtained where required
- Minimum treasury counterparty credit rating requirement “A” stable

<sup>1</sup> Weighted average Customer Investment Contract customer credit score equivalent of BBB+



## FUNDING

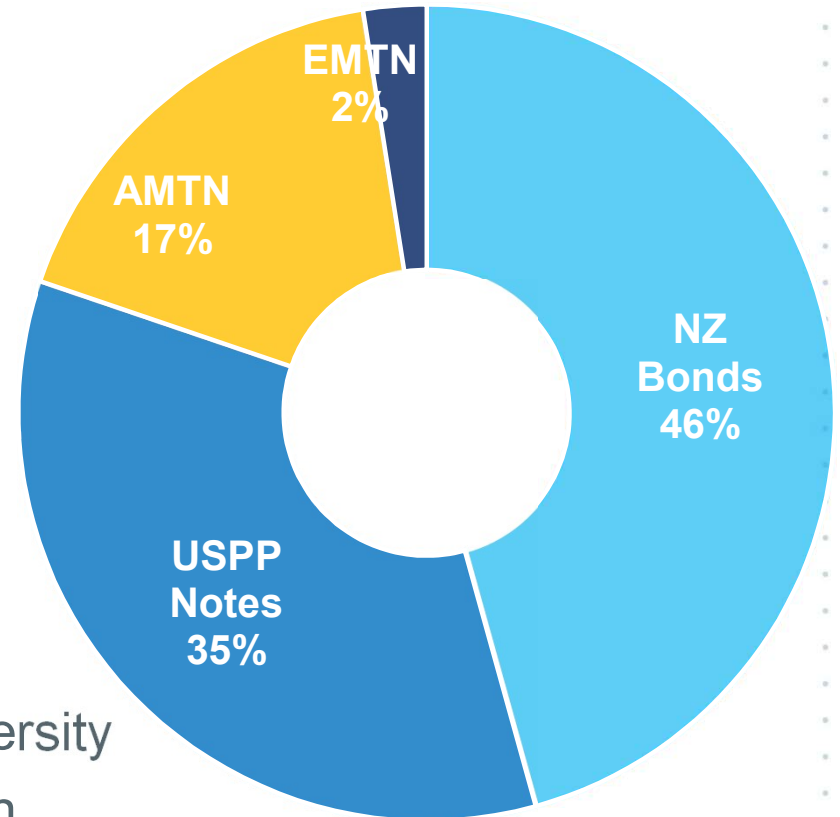
Debt ca. NZD \$3 billion

Primarily refinancing of maturing debt

Current leverage of ca. 70%

Focus on maintaining:

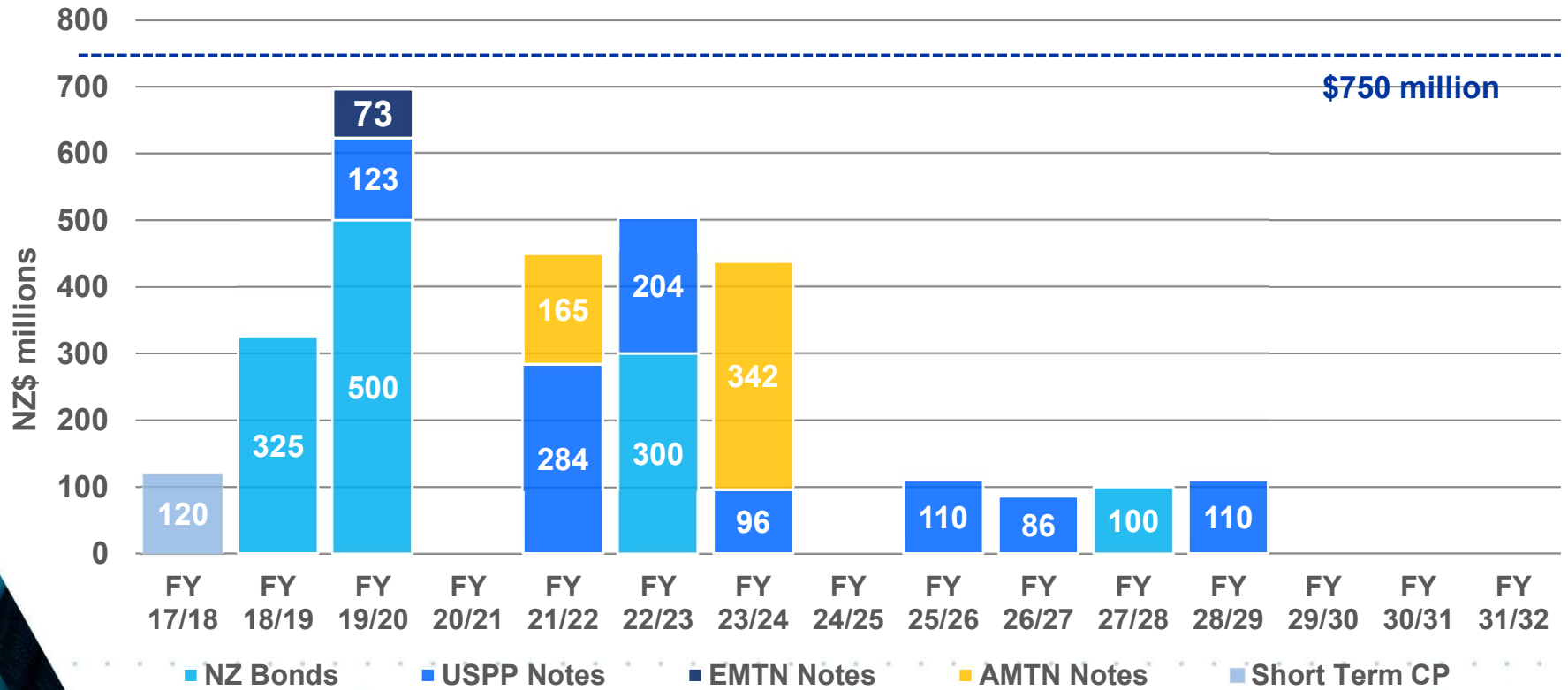
- Current financial metrics
  - FFO/Interest no less than 2.8x
  - FFO/Debt no less than 12.5%
- Current credit rating (AA-/Aa3)
- Multiple market access & investor diversity
- Maturity diversity and prudent duration



Source: Transpower's Annual Report 2017

# TERM FUNDING MATURITY PROFILE

(by financial year)



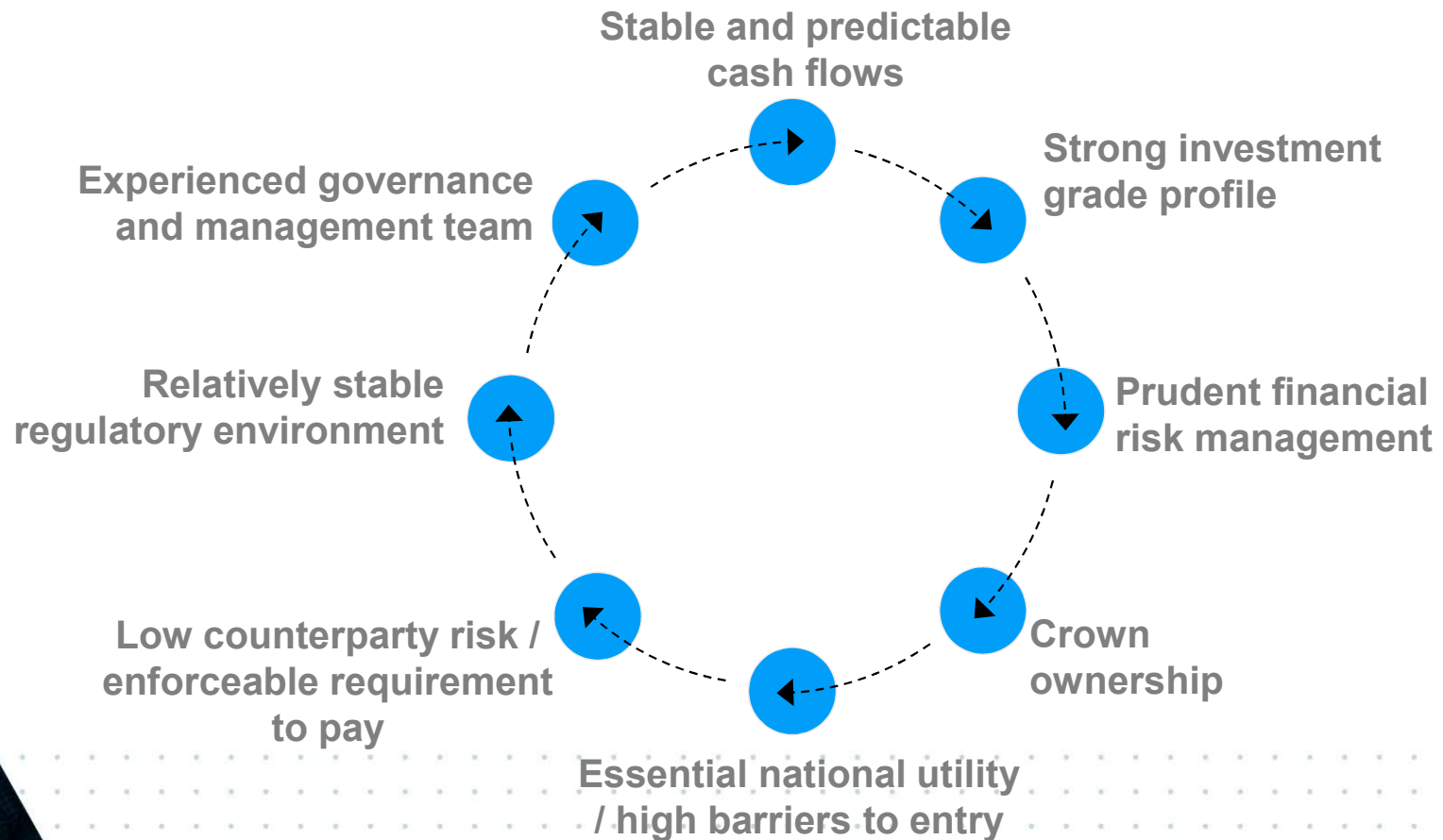
Source: Transpower's Annual Report 2017  
24

## KEY FINANCIAL METRICS - OUTLOOK

	2016/17 Actual	2017/18 Plan	2018/19 Plan	2019/20 Plan
FFO/Interest	3.4x	3.4x	3.4x	3.5x
FFO/Debt	16.7%	16.4%	15.8%	16.2%
Debt/(net debt + equity)	68%	68%	67%	67%
Return on equity	12.8%	12.4%	11.9%	10.7%
Return on capital employed	7.0%	6.8%	6.5%	6.1%
Dividend distribution	165	165	165	165

Source: Transpower's Annual Report 2016/17 (Actual) and Statement of Corporate Intent (SCI) 2017/18  
<https://www.transpower.co.nz/sites/default/files/publications/resources/SCI%202017%2018.pdf>

# INVESTMENT HIGHLIGHTS





# 6. BOND ISSUE



# SUMMARY TERMS AND CONDITIONS

<b>Issuer</b>	<b>Transpower New Zealand Limited</b>
<b>Issuer Ratings</b>	AA- (stable) / Aa3 (stable) (S&P / Moody's)
<b>Expected Issue Ratings</b>	AA- / Aa3 (S&P / Moody's)
<b>Description of Bonds</b>	Unsecured, unsubordinated debt obligations of Transpower
<b>Maturity</b>	6 March 2025
<b>Issue Amount</b>	Up to NZ\$75 million, with the ability to accept up to a further NZ\$50 million in oversubscriptions
<b>Issue Margin</b>	The Issue Margin will be determined by Transpower in consultation with the Lead Manager following the bookbuild process and announced via NZX
<b>Issue Yield</b>	Aggregate of the Issue Margin and the Base Rate
<b>Use of Proceeds</b>	For general corporate purposes of the Transpower Group
<b>Repo-eligibility</b>	Application will be made to have the Bonds accepted by the Reserve Bank of New Zealand as eligible securities for domestic market operations
<b>Principal Amount</b>	NZ\$1.00 per Bond
<b>Minimum Subscription Amount</b>	NZ\$5,000 and thereafter in multiples of NZ\$1,000
<b>Quotation</b>	The Bonds once issued will be quoted under the NZX ticker code "TRP050"
<b>Lead Manager</b>	Westpac Banking Corporation (ABN 33 007 457 141), acting through its New Zealand branch

# TIMETABLE

Key transaction dates	
Offer opens	Monday, 26 February 2018
Road show	Monday/Tuesday, 26/27 February 2018
Offer close	2 PM, Wednesday, 28 February 2018
Issue rate set	Wednesday, 28 February 2018
Issue and allotment date	Tuesday, 6 March 2018
Expected date of initial quotation and trading on the NZX Debt Market	Wednesday, 7 March 2018
Interest payments	6 September and 6 March in each year up to and including the Maturity Date

# OTHER INFORMATION

<b>Investor centre</b>	<p><a href="https://www.transpower.co.nz/keeping-you-connected/investors">https://www.transpower.co.nz/keeping-you-connected/investors</a></p> <ul style="list-style-type: none"><li>• Financial statements</li><li>• Publications webcasts &amp; resources</li><li>• Links useful information – Statement of Corporate Intent (SCI)</li></ul>
<b>NZX Debt Market (NZDX)</b>	<p><a href="https://www.nzx.com/companies/TRP">https://www.nzx.com/companies/TRP</a></p>
<b>Direct contacts</b>	<p>Alex Ball - CFO Phone: +64 277 038 919 Email: <a href="mailto:alex.ball@transpower.co.nz">alex.ball@transpower.co.nz</a></p> <p>Chris Sutherland - Treasurer Phone: +64 21 994 925 Email: <a href="mailto:chris.sutherland@transpower.co.nz">chris.sutherland@transpower.co.nz</a></p> <p>22 Boulcott St PO Box 1021, Wellington New Zealand</p>



A photograph of a white van driving away on a winding asphalt road through rolling hills. The sky is a deep blue with some light clouds. In the distance, two high-voltage power line towers are visible. The text '7. QUESTIONS' is overlaid in large white letters across the center of the image.

# 7. QUESTIONS



# APPENDICES



## SUMMARY FINANCIALS (CONTINUING ACTIVITIES)

Financial performance (NZ\$ million)	FY June 2014	FY June 2015	FY June 2016	FY June 2017	HY Dec 2017
Total operating revenue	994	1,037	1,035	1,061	553
Total operating expenses	(287)	(282)	(285)	(288)	(139)
EBITDAIF	706	755	749	773	414
Earnings Before tax	301	159	251	371	174
Net profit (loss)	216	113	181	266	125
Cash flow (NZ\$ million)	FY June 2014	FY June 2015	FY June 2016	FY June 2017	HY Dec 2017
Net cash inflows (outflows) from operations	443	539	493	522	261
Net cash inflows (outflows) from investments	(403)	(331)	(284)	(230)	(135)
Net cash inflows (outflows) from financing	161	(378)	(163)	(343)	(99)
Closing net cash carried forward	203	34	80	28	55

Source: Transpower's Audited Annual Reports / Unaudited Interim Report December 2017

## SUMMARY FINANCIALS

Financial position (NZ\$ million)	FY June 2014	FY June 2015	FY June 2016	FY June 2017	HY Dec 2017
Total assets employed	5,668	5,727	5,828	5,598	5,653
Total liabilities	4,239	4,351	4,448	4,116	4,145
Total equity	1,429	1,376	1,380	1,481	1,508
Total funds employed	5,668	5,727	5,828	5,598	5,653

Source: Transpower's Audited Annual Reports / Unaudited Interim Report December 2017