

TRANSPower NEW ZEALAND LIMITED



About Transpower

Transpower has two key roles. The first is to plan, build, maintain and operate New Zealand's high voltage electricity transmission network – the National Grid – which links generators to distribution companies and major industrial users. The grid, which extends from Kaikohe in the North Island down to Tiwai in the South Island, transports electricity throughout New Zealand. The second is the role of System Operator, in which Transpower manages the real-time operation of New Zealand's electricity system.

Transpower's key business activities are regulated by the Commerce Commission and the Electricity Authority. Over 90% of Transpower's revenue comes from regulated activities. The Commerce Commission sets the amount of revenue that Transpower can earn from transmission activities. The System Operator service is provided and funded under an agreement with the Electricity Authority.

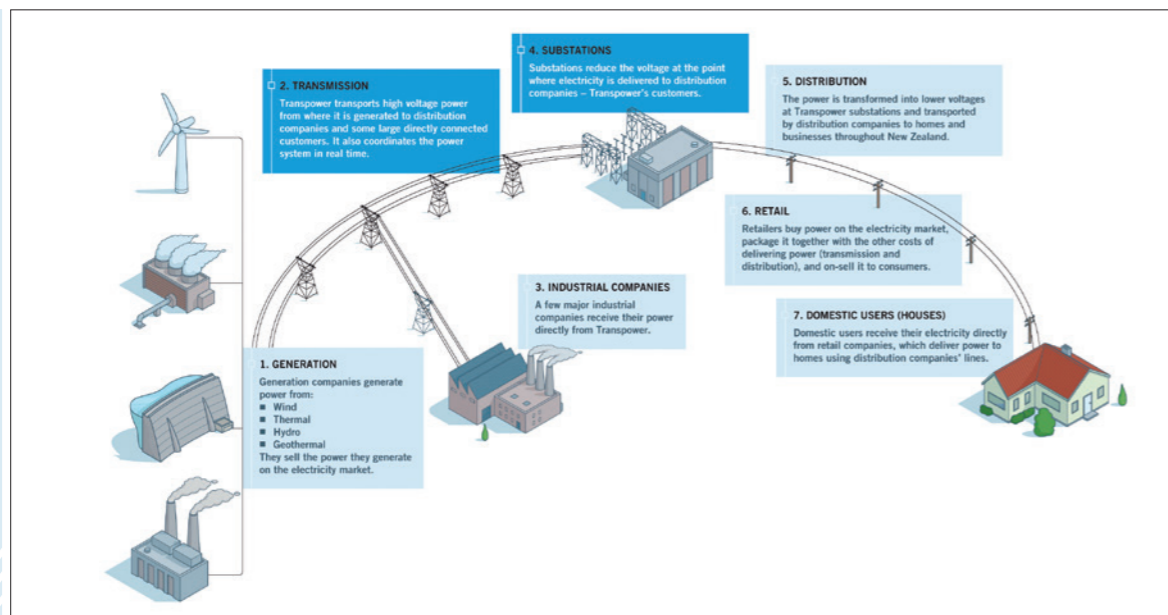
History

Transpower was formed as a wholly-owned subsidiary of the Electricity Corporation of New Zealand (ECNZ) in 1987. In 1994, it was separated from ECNZ and became a state-owned enterprise with its own Board of Directors and Ministerial shareholders including the Minister of Finance and the Minister of State Owned Enterprises. The Crown Ownership Monitoring Unit (part of the New Zealand Treasury) monitors the performance of Transpower on behalf of the shareholding Ministers.

Towers, poles, lines, cables and substations stretch and connect the length and breadth of the country to represent the National Grid. It includes:

- 11,743 route km of high voltage transmission line
- 60 route km of cable
- 40,674 supporting towers and poles
- 178 substations

Transpower's role in the electricity industry



FINANCIAL AND INVESTMENT HIGHLIGHTS

Key financials

12 MONTHS TO 30 JUNE 2012

	2012	2011	2010	2009	2008
TOTAL REVENUE* (\$M)	785	731	730	694	642
EARNINGS BEFORE NET CHANGES IN FAIR VALUES OF FINANCIAL INSTRUMENTS (\$M)	167	126	142	136	108
FUNDS FROM OPERATIONS INTEREST COVERAGE (TIMES)	3.0	3.2	3.9	4.0	4.1
TOTAL DEBT AT FACE VALUE** (\$M)	2,319	1,746	1,413	1,190	1,177
NON CURRENT ASSETS, INCLUDING HELD FOR SALE ASSETS (\$M)	4,389	3,676	3,144	2,747	2,550
TOTAL EQUITY (\$M)	1,509	1,534	1,455	1,400	1,307
RETURN ON EQUITY (%)	10	8	10	10	8
TOTAL DEBT/TOTAL CAPITAL (%)	61	53	49	46	47
DIVIDENDS***	335	0	0	0	0

* Excludes interest revenue

** After adjusting for related foreign exchange derivatives

*** Includes the interim and final dividend related to that year.

Revenue and dividends

Transpower recovers the costs of its regulated transmission business from generators and line companies. By the time the power gets to homes and businesses though, transmission charges make up a small proportion of the end consumers electricity bill – on average around 9%.

Transpower suspended paying dividends in 2005 in order to fund a large capital investment programme. This programme followed a period of low investment, and was required to ensure that New Zealanders have a reliable power supply now, and for future generations.

Transpower recommenced paying dividends in 2012 with a total dividend of \$315 million for the 2012 financial year.

Governance

Transpower is governed by a Board of Directors. Mark Verbiest has held the position of Board Chairman since August 2010. The Board is responsible for Transpower's performance, and for guiding and monitoring the company on behalf of the shareholding Ministers. The Board is appointed by, and accountable, to the Crown.

Transpower submits a Statement of Corporate Intent (SCI) to its shareholding Ministers each year. The SCI sets out the Board's overall intentions and objectives for Transpower and its subsidiary companies for the following three years. Transpower's SCI for the three years beginning 1 July 2012, along with other results and reports, can be found on the Transpower website: www.transpower.co.nz.

Transpower's General Management Team is responsible for the day-to-day operation of the company. Dr Patrick Strange leads the team and has held the position of Chief Executive Officer since November 2007.

PUBLICLY LISTED DEBT

Transpower has two Bonds listed on the New Zealand Debt Exchange.

NZDX CODE: TRP010

Maturity: 30 November 2018
Bonds on Issue: \$125,000,000
Coupon: 5.14%
Payment frequency: Semi-annually
Payment dates: 30 May, 30 Nov

NZDX CODE: TRP020

Maturity: 6 September 2019
Bonds on Issue: \$200,000,000
Coupon: 4.65%
Payment frequency: Semi-annually
Payment dates: 6 Sep, 6 Mar
Transpower also has Swiss franc denominated Bonds listed on the Swiss exchange - SIX.

REGISTRY INFORMATION

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CREDIT RATING

Transpower has a strong financial position with a Standard & Poor's AA- rating and a Moody's A1 rating. These ratings reflect the company's Government ownership, the regulated nature of cash flows from transmission activities and the high entry costs that would face any potential competitor.

SUBSIDIARY COMPANIES

Transpower NZ Ltd and its subsidiary companies are collectively called the Transpower Group. The subsidiary companies are as follows:

- Halfway Bush Finance Ltd
- TB and T Ltd
- Risk Reinsurance Ltd
- Transpower Finance Ltd
- d-Cypha Trade Ltd

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STRENGTH IN THE FUTURE GRID

Major Projects

HVDC POLE 3 PROJECT 01

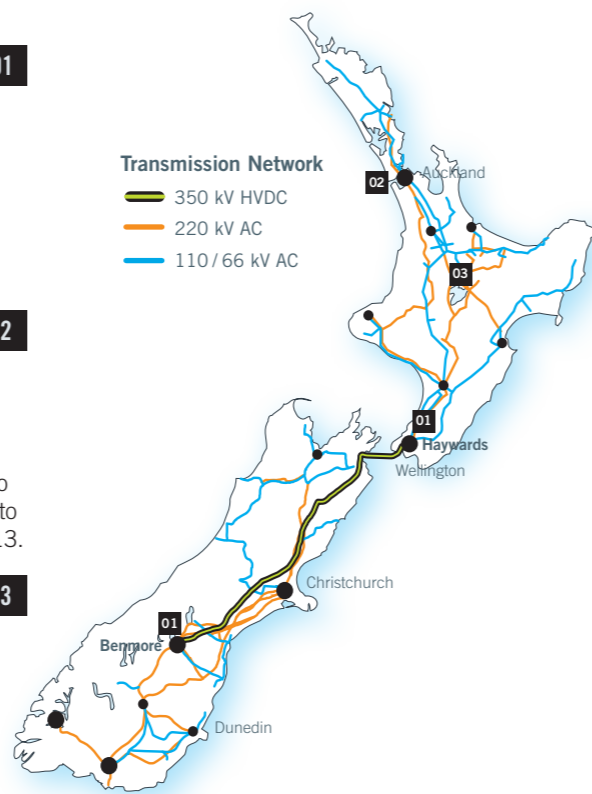
The high voltage direct current (HVDC) link joining the North and South Islands is a vital element of New Zealand's infrastructure, underpinning competition and facilitating an efficient market. Pole 3 will replace the 45-year-old Pole 1 which was decommissioned in August 2012. Transpower is in the process of testing and commissioning the replacement thyristor-based Pole 3, which is expected to be ready for full service in early 2013.

NORTH AUCKLAND AND NORTHLAND GRID UPGRADE 02

The North Auckland and Northland (NAaN) grid upgrade project reinforces transmission across Auckland and into Northland. It involves building 37 km of 220 kV underground cable between the existing Pakuranga, Penrose, and Albany substations. Auckland's population is growing rapidly and the increased capacity will help to meet these needs, while ensuring a more secure electricity supply to the Northland Region. The project is due for completion in late 2013.

WAIRAKEI TO WHAKAMARU REPLACEMENT LINE PROJECT 03

Construction has begun on a new double-circuit 220 kV line between Wairakei and Whakamaru. This will replace an existing single circuit line and ensure that despatch of the new geothermal generation being developed in the region is not constrained by the grid. The new line will help facilitate around 1000 MW of generation planned or underway in the region and is due to be commissioned in late 2013.



Maintaining the National Grid

As Transpower nears the end of its major capital investment programme, the company's focus turns to working smarter to get more out of the existing grid, and increasing productivity and efficiencies. This involves using technology to maximise existing assets in order to defer spending. Initiatives will aim to shorten response times to outages, detect issues before they become serious and streamline processes. This includes the development of comprehensive databases to identify the optimum time at which towers and transformers should be checked, to ensure that they continue to keep New Zealand's lights on in the most cost-effective way.

Transpower is in the process of implementing Maximo; a new asset management information system. Maximo will enable Transpower staff and service providers to make informed decisions by giving them access to the most accurate, comprehensive and up-to-date asset information available.

“Technology will be a key enabler for getting the most out of the grid thereby deferring the need to build new lines.”

Transmission Tomorrow

Long-term, Transpower's vision for the future of the National Grid – Transmission Tomorrow – outlines how the grid will be developed and operated over the next 20 to 30 years and beyond.

In thinking about New Zealand's future electricity needs, Transpower sees: an economy becoming ever more reliant on electricity, with increasing expectations of a reliable supply changing transmission technology to enable Transpower to utilise its existing assets better technology enabling far more interaction with and by consumers increasing amounts of remote and intermittent (e.g. wind) generation being built.

Three strategies will help Transpower deliver the grid needed over the next twenty years and beyond:

1. Lift the performance of New Zealand's grid and transmission
2. Improve the efficiency of the New Zealand electricity system and the utilisation of the grid
3. Improve the resilience and reliability of the grid.

Following these strategies will enable Transpower to respond to unexpected changes in generation or consumer demand more quickly, and to defer the need for some new lines and substations and to create better options for when new build is required.

For example, the introduction of variable line ratings on some of Transpower's transmission lines in November 2011 unlocked additional capacity from the existing transmission network. Instead of using a one-size fits all approach, individual lines were matched to environmental conditions to get the maximum capacity out of each line. Initiatives like these help to defer the need to build more lines.

Customers and stakeholders

Transpower aims to conduct work with fairness and respect for all its stakeholders including its shareholders, customers, communities and landowners. Being open about plans and projects and consulting with affected communities and individuals, and understanding and listening to their concerns, is a key focus for the company.

Community relations

Transpower recognises that the transmission network has an impact on the communities it operates in. In recognition of these impacts, programmes are in place to give something back to the communities that host Transpower assets.

Transpower's CommunityCare Fund assists communities affected by Transpower assets and projects by investing in community-based projects that add real value and benefit to the community. 56 community-based projects throughout New Zealand received funding totalling \$910,308 in 2012.

Transpower's community environmental programme, Greenline involves partnership projects with councils, such as the rehabilitation and planting of local streams and rivers and the establishment of walking paths along waterways. In the 2011/12 financial year, over 6000 plants have been supplied by Transpower on Greenline projects and these have been planted by Transpower staff volunteers.

Environment

Transpower is committed to ensuring National Grid is able to meet the Government's energy strategy target of having 90 per cent of New Zealand's electricity generated by renewable sources by 2025.

Transpower is focussed on reducing emissions in two main areas:

- Sulphur hexafluoride – because of its effect on global warming, Transpower continue to look for ways to improve its sulphur hexafluoride handling and management. In 2010-11, the company achieved its lowest sulphur hexafluoride releases, relative to total sulphur hexafluoride holdings, 0.72%.
- Office-based emissions - Transpower has set a goal to reduce office-based emissions (per full time employee) by 20% of the 2005-06 level by 2011-12. Office-based emissions include waste, vehicle emissions, air travel and office electricity.

“Transpower is committed to achieving an injury-free workplace for employees and service providers.”

Transpower has 46 customers who connect directly to the National Grid:

- 7 generation customers
- 28 lines customers
- 11 large industrial customers

