

Transpower Group 2011 Annual Results

Year ended 30 June 2011

TRANSPower





**INTRODUCTION:
PATRICK STRANGE
CHIEF EXECUTIVE**



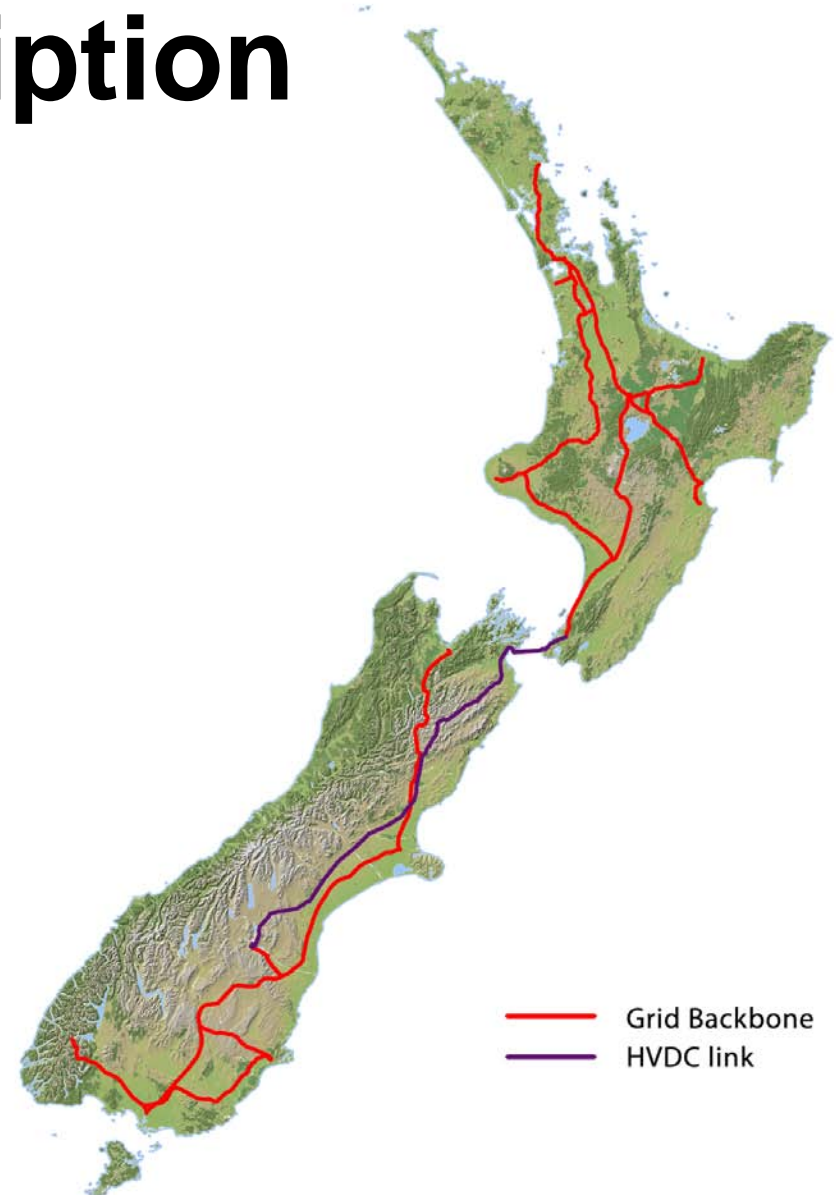
Agenda

- Introduction
- Review of 2010/11
- Financial review
- Regulatory strategy
- Capital structure and funding
- Business update
- Questions

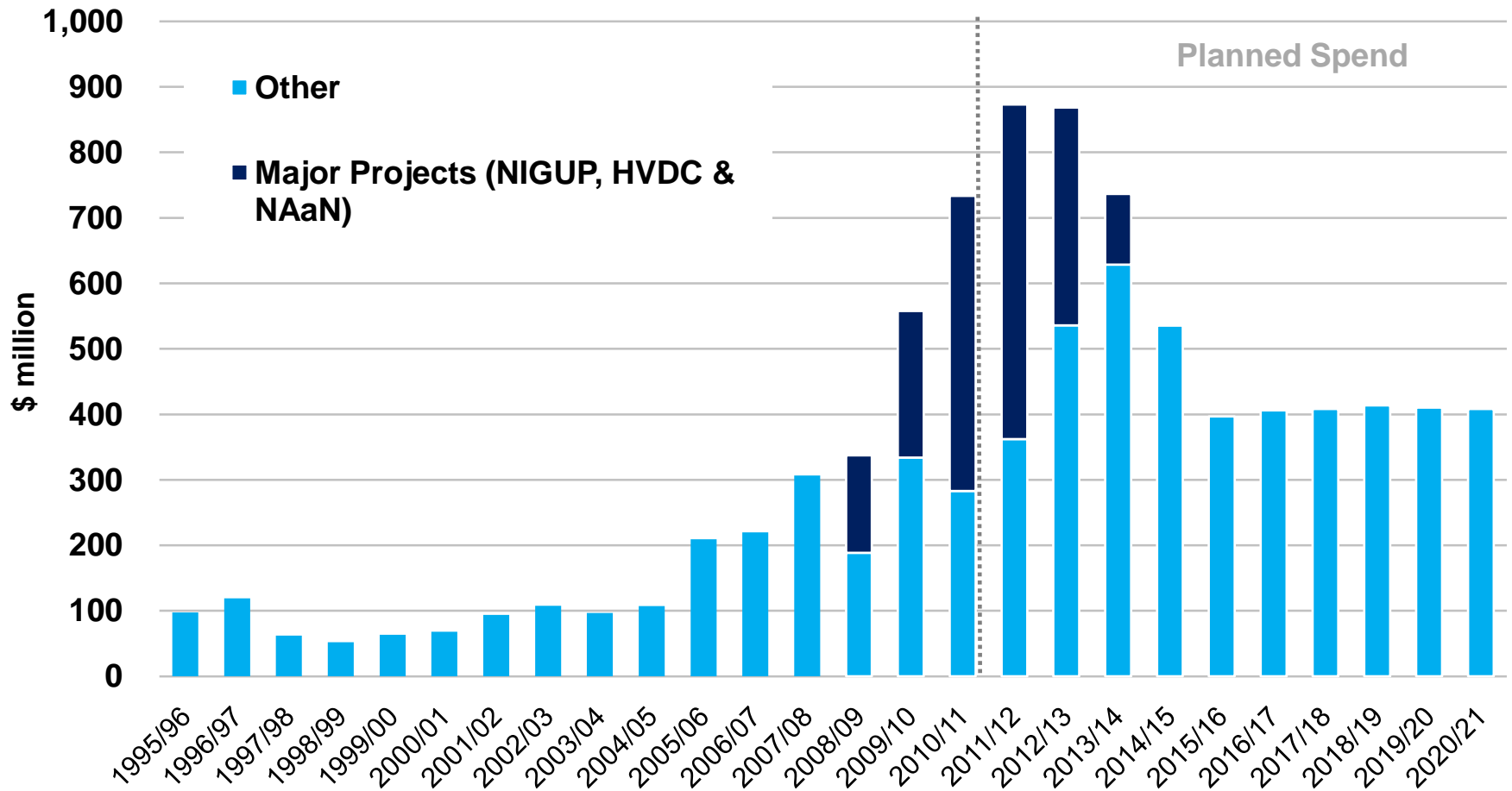


Business description

- Grid Owner
- System Operator
- Highly regulated, natural monopoly
- State-owned enterprise



Capital expenditure



Strategic objectives

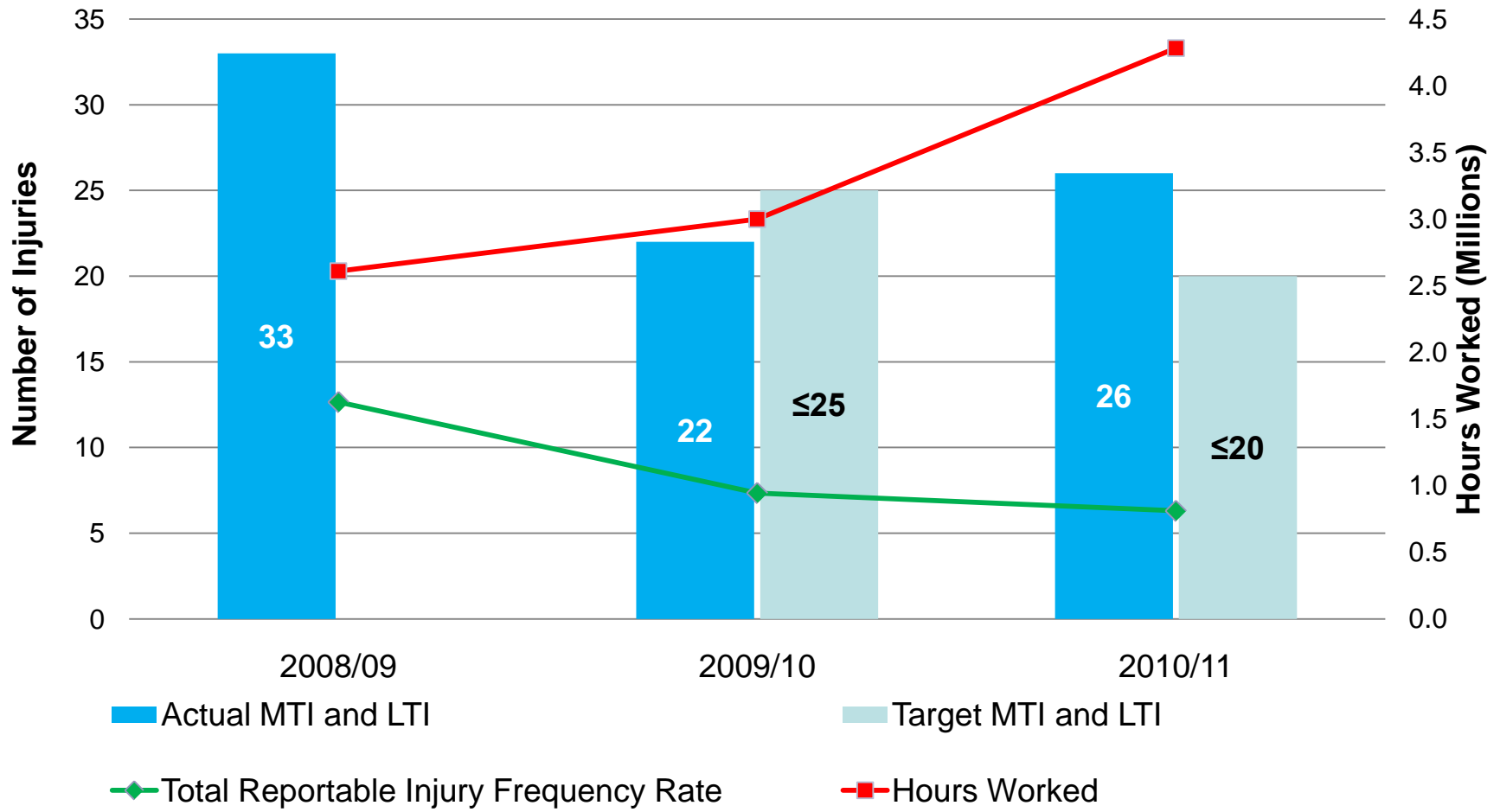
- Earn an appropriate return on equity
 - commensurate with risks
- Upgrade and enhance the National Grid
 - major projects
 - connect renewables
- Improved asset management
 - asset renewal
 - asset information
- Enhance efficiency (Transpower, sector)
 - maintenance practices
 - technology



REVIEW OF 2010/11: PATRICK STRANGE CHIEF EXECUTIVE

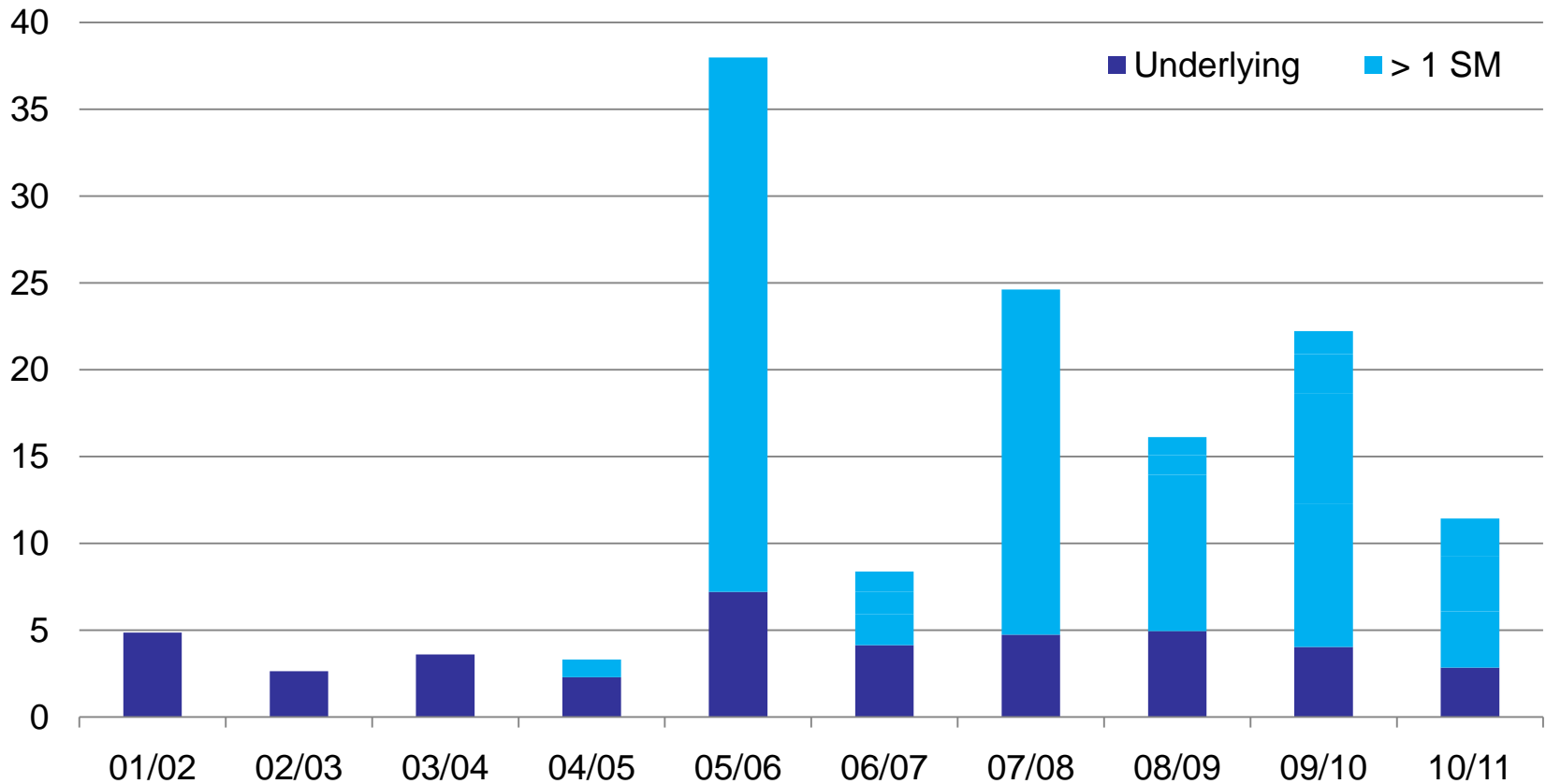


Safety



Reliability

Unplanned Interruptions (in system minutes)



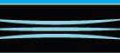
Christchurch earthquakes



- Supply fully restored within 8 hours, most restored within 4 hours

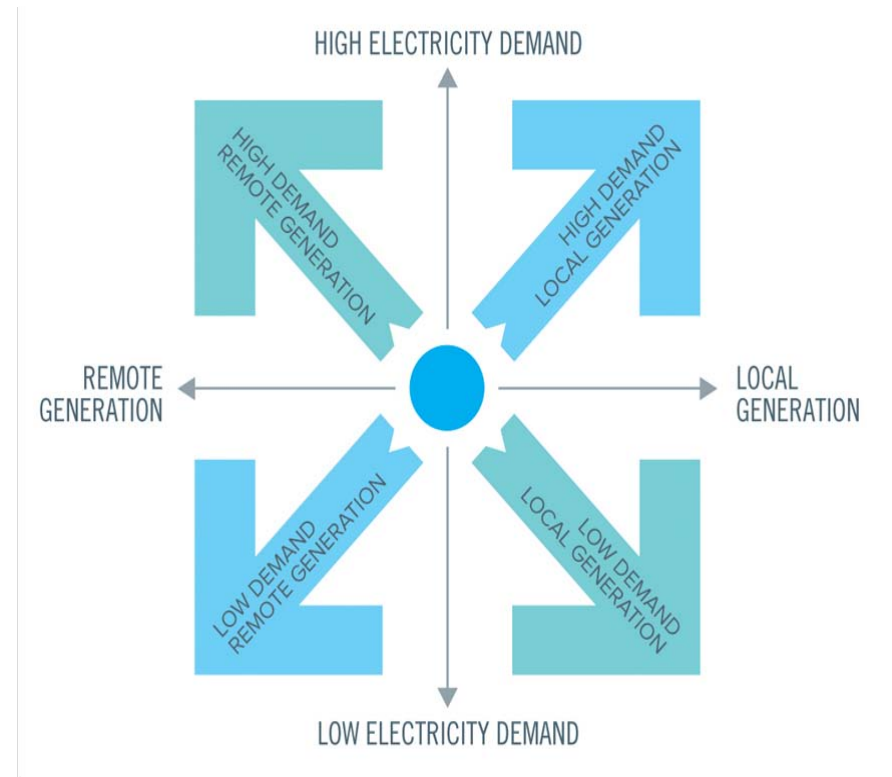


- Reward for years of attention to detail

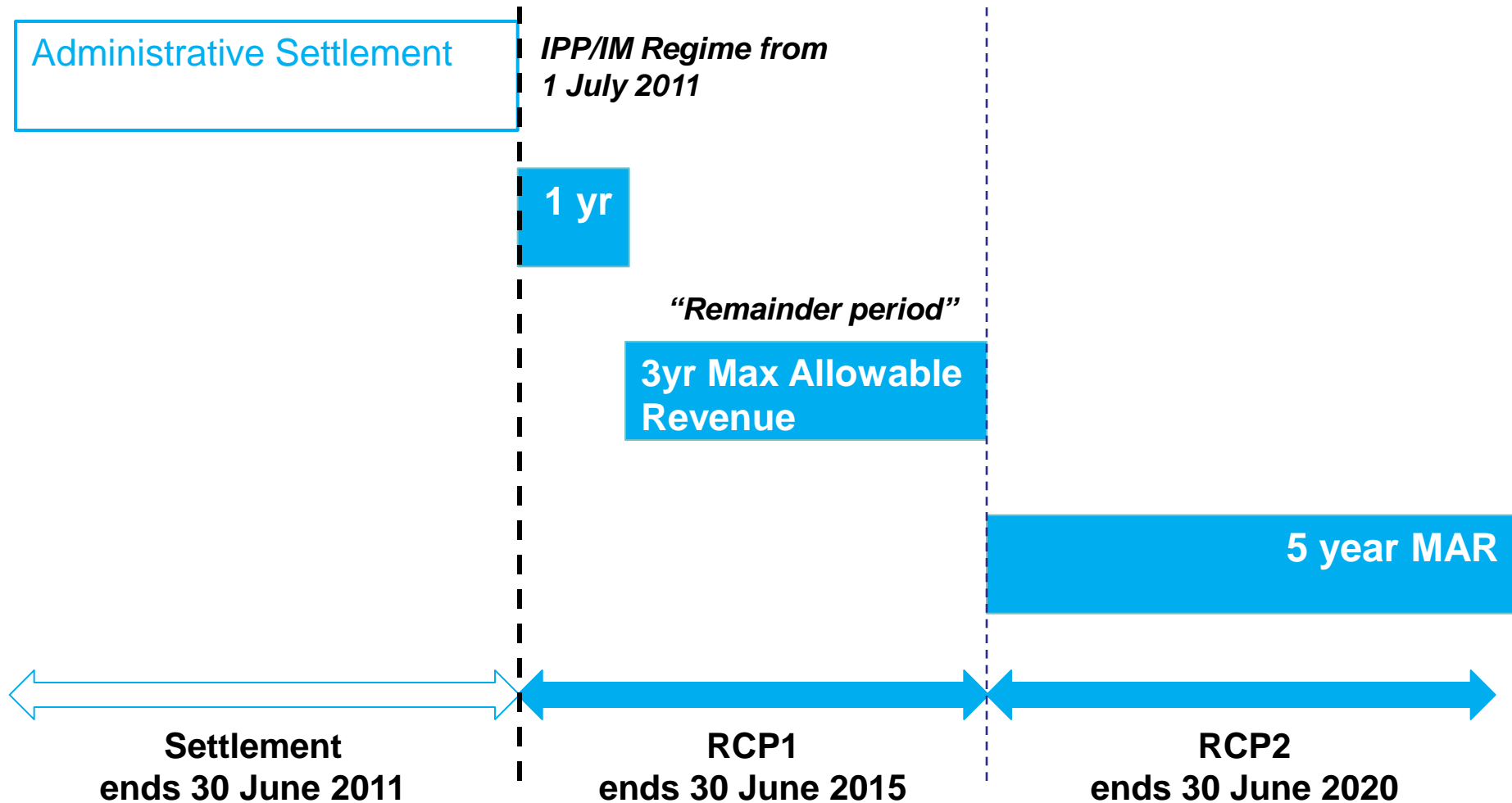


Transmission Tomorrow

- 30+ year look ahead
- Validated enduring need for National Grid
 - key flows south-north to serve Greater Auckland demand
- Greater loadings, more flexibility
- Technology deployment



Regulatory framework





**FINANCIAL REVIEW:
HOWARD CATTERMOLE
GM CORPORATE SERVICES**



Financial highlights

NZ\$ million unless otherwise stated	Jun 11	Jun 10
Revenue	737	734
EBITDAIF¹	458	470
Earnings before net changes in fair values of financial instruments	126	142
Capital expenditure (excluding NIGU property)	733	533
FFO/Interest cover (times)	3.3	4.2
Return on capital employed	6.5%	7.6%
Return on equity	8.0%	9.5%
Dividends	nil	nil

1. Earnings before interest, impairment, tax, depreciation, amortisation, and net fair value adjustments



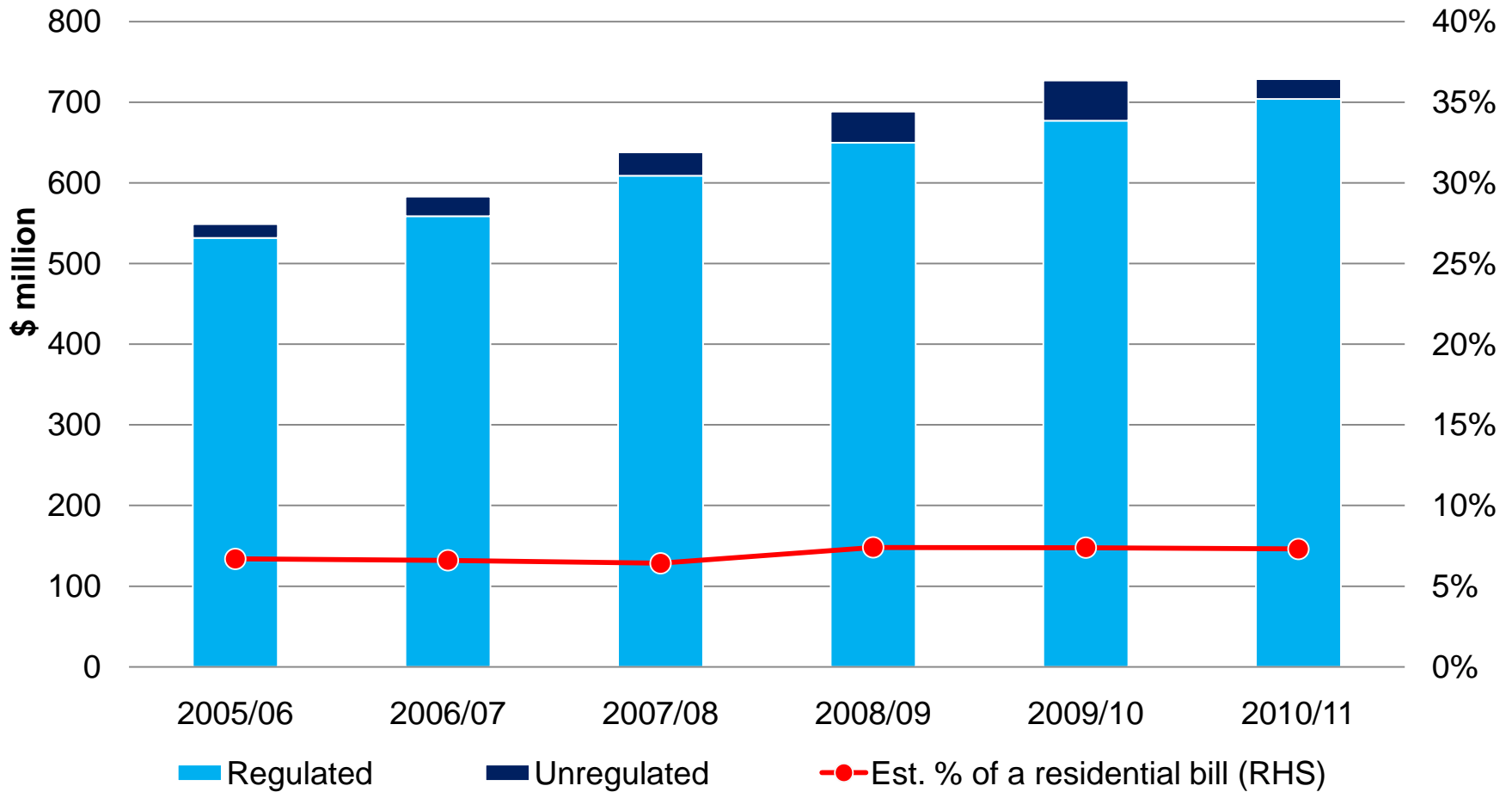
Income statement

- Sound operating performance
 - transmission revenue up 3%
 - expenses up 6%
- One-off adjustments
 - asset lives
 - NIGU property impairment
- Net fair value loss due to falling yield curve

NZ\$ million	Jun 11	Jun 10
Total revenue	737	734
Operating expenses	279	265
EBITDAIF	458	470
Depreciation, Amortis'n, Write-offs	173	145
Impairment	20	30
Net finance costs	87	76
Pre-tax profit	112	109
NPAT excl. fair value movements	126	142
Net profit after tax	79	65

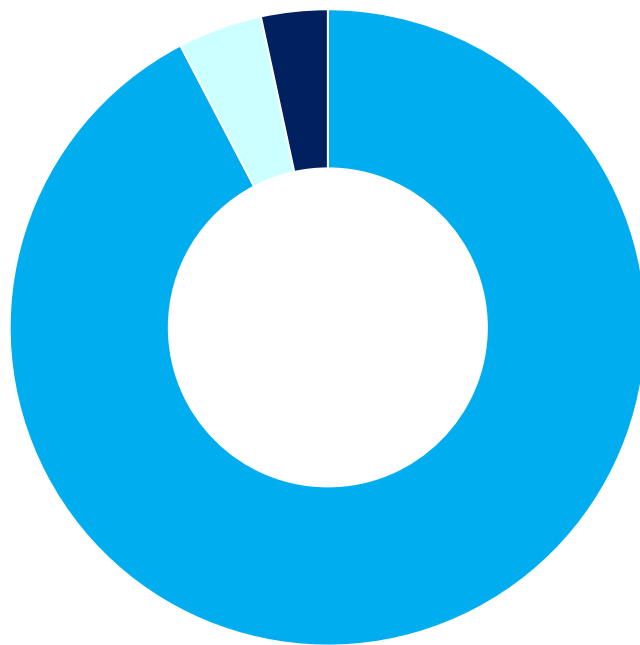


Revenue



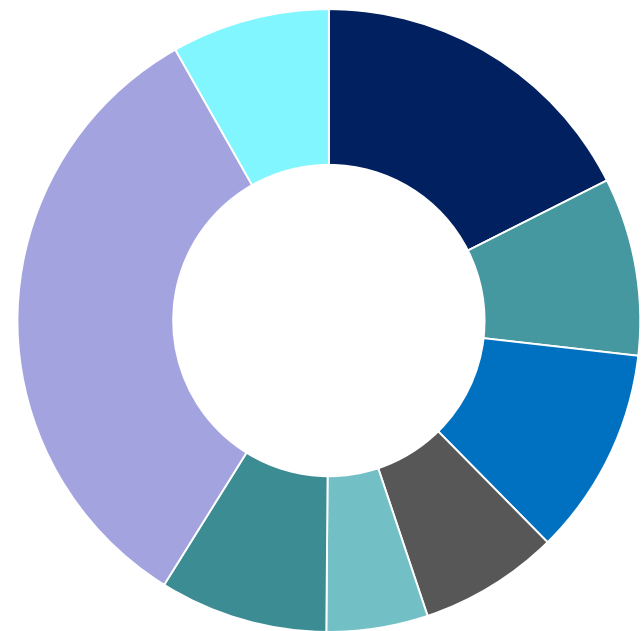
Revenue analysis

Operating revenue by line of business



- Transmission (92%)
- System Operator (4%)
- Other (4%)

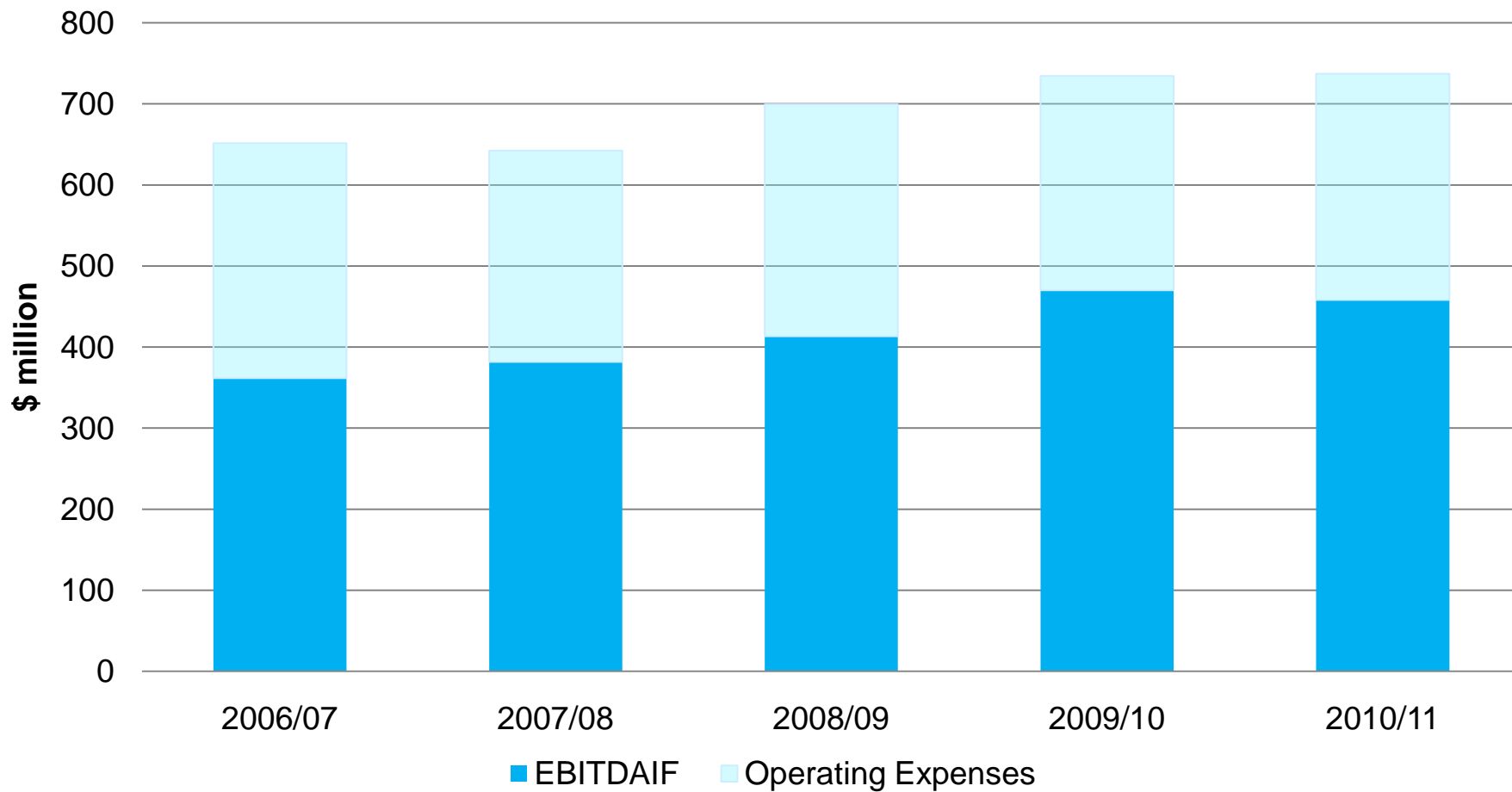
Transmission revenue by customer



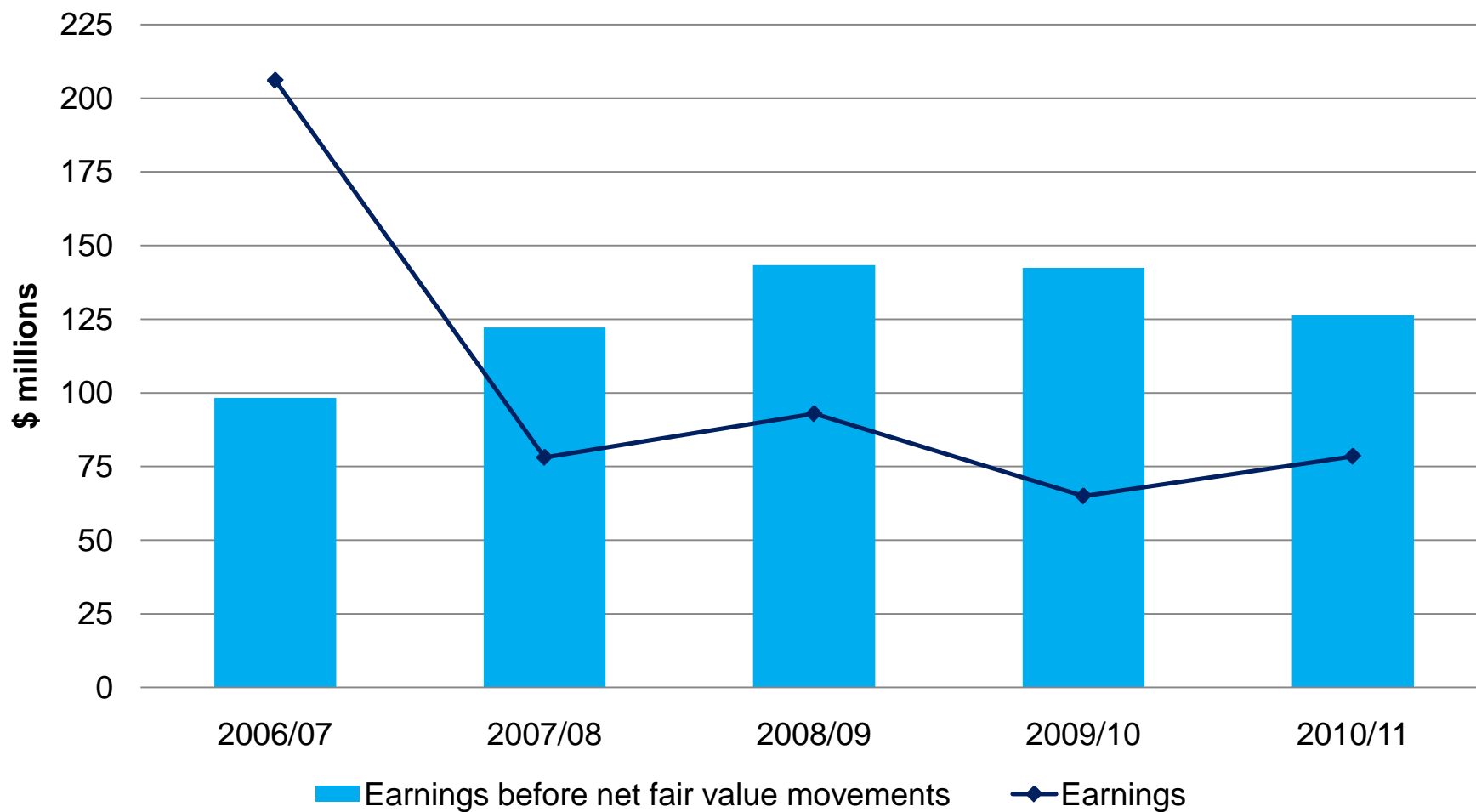
- Vector
- Meridian
- Other Generators
- Other Lines Co
- Powerco
- Orion
- Direct Connects
- Other



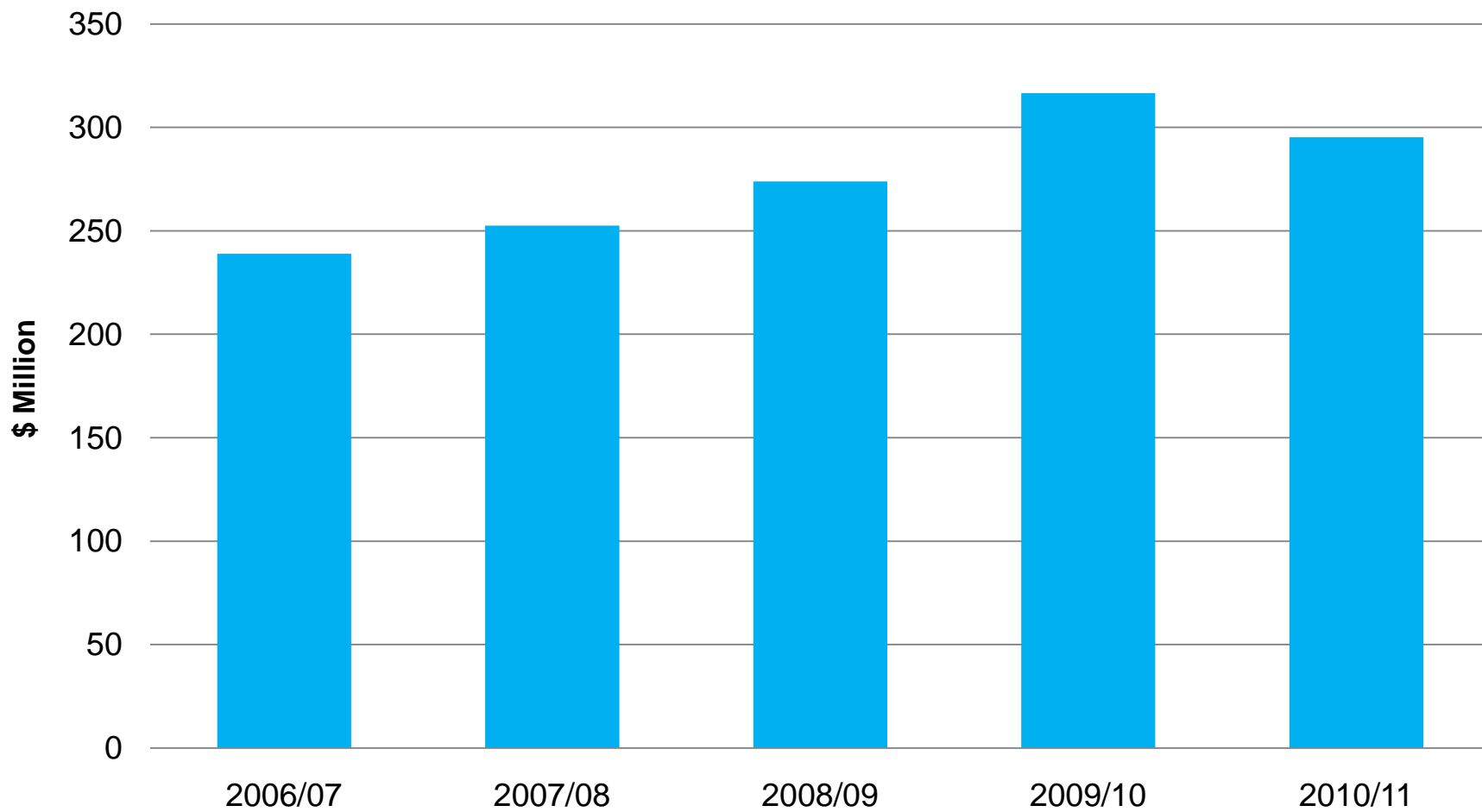
EBITDAIF



Earnings after tax

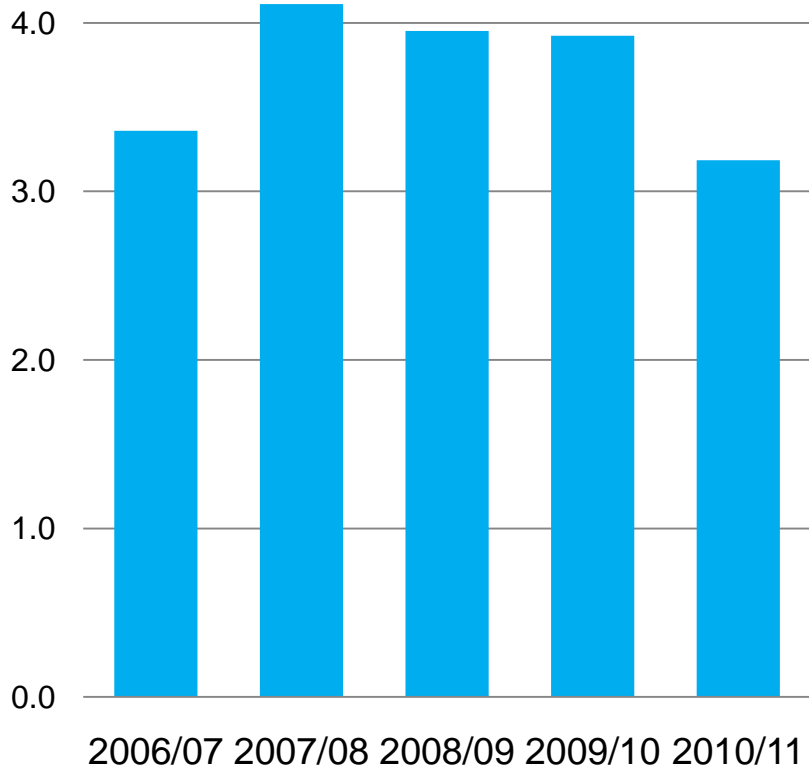


Free funds from operations

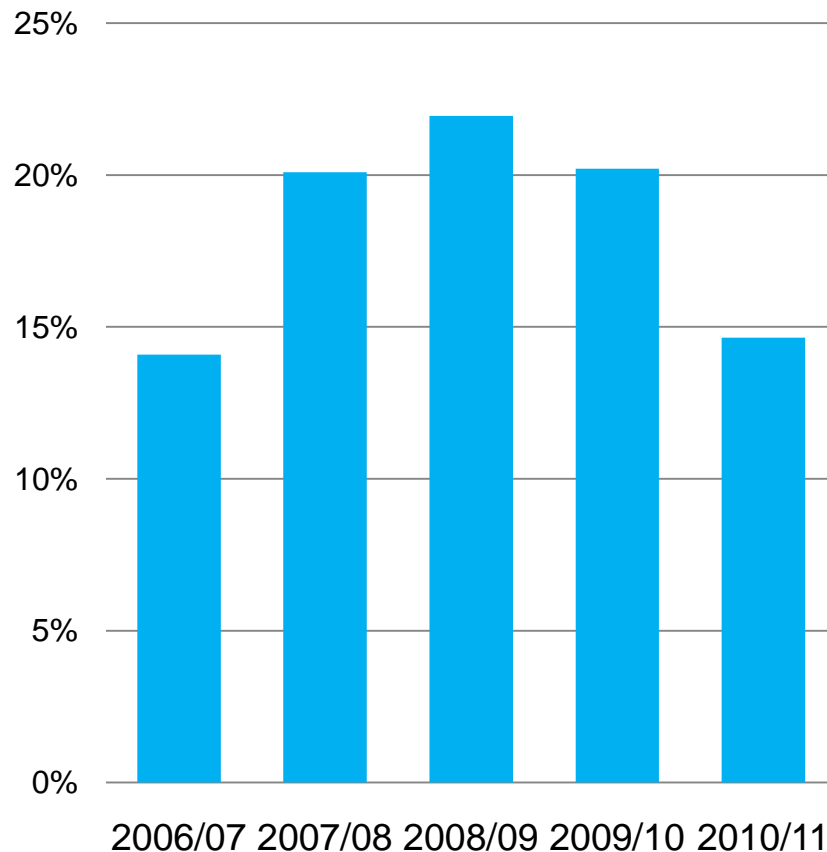


FFO ratios

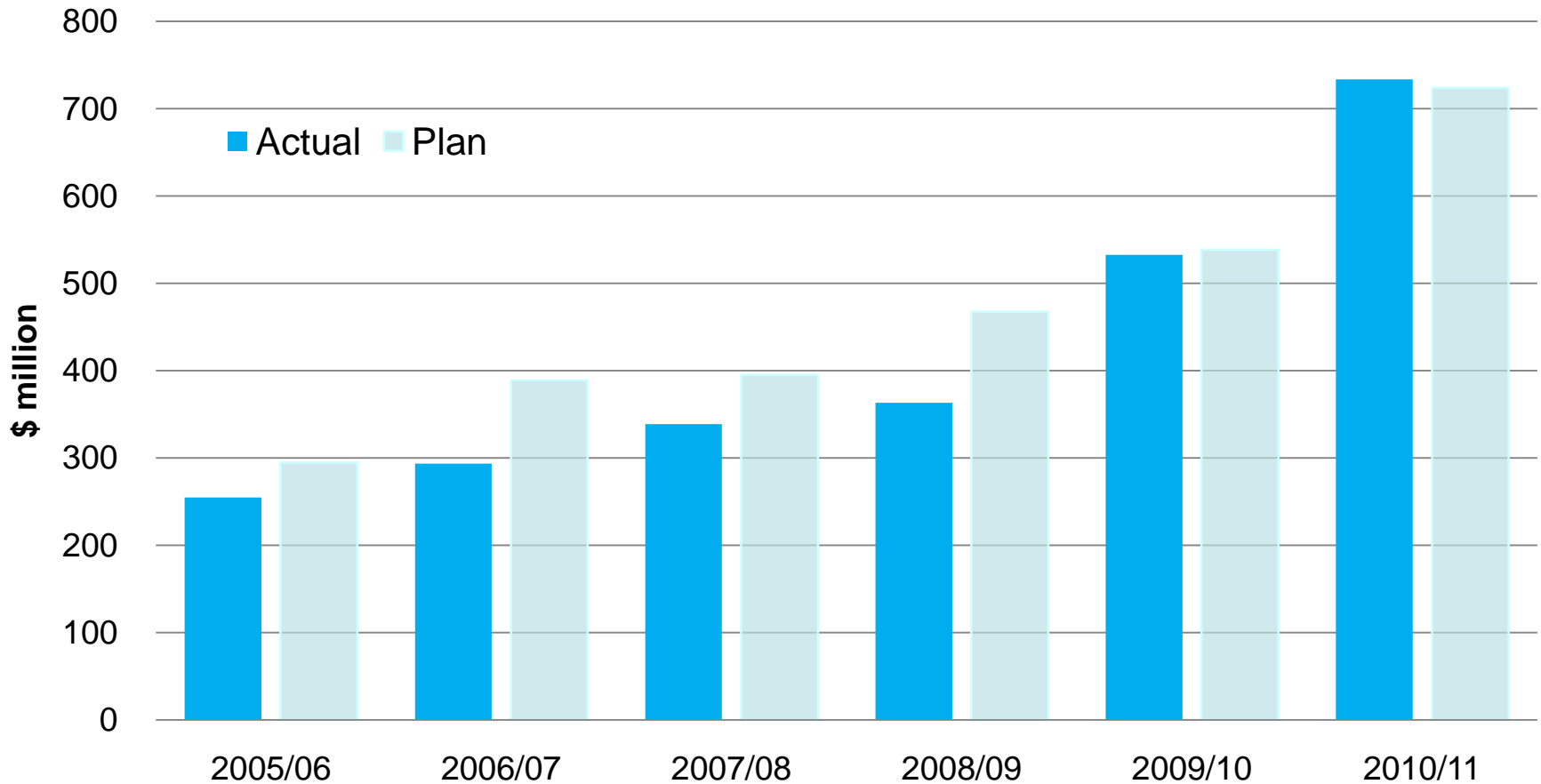
FFO/interest



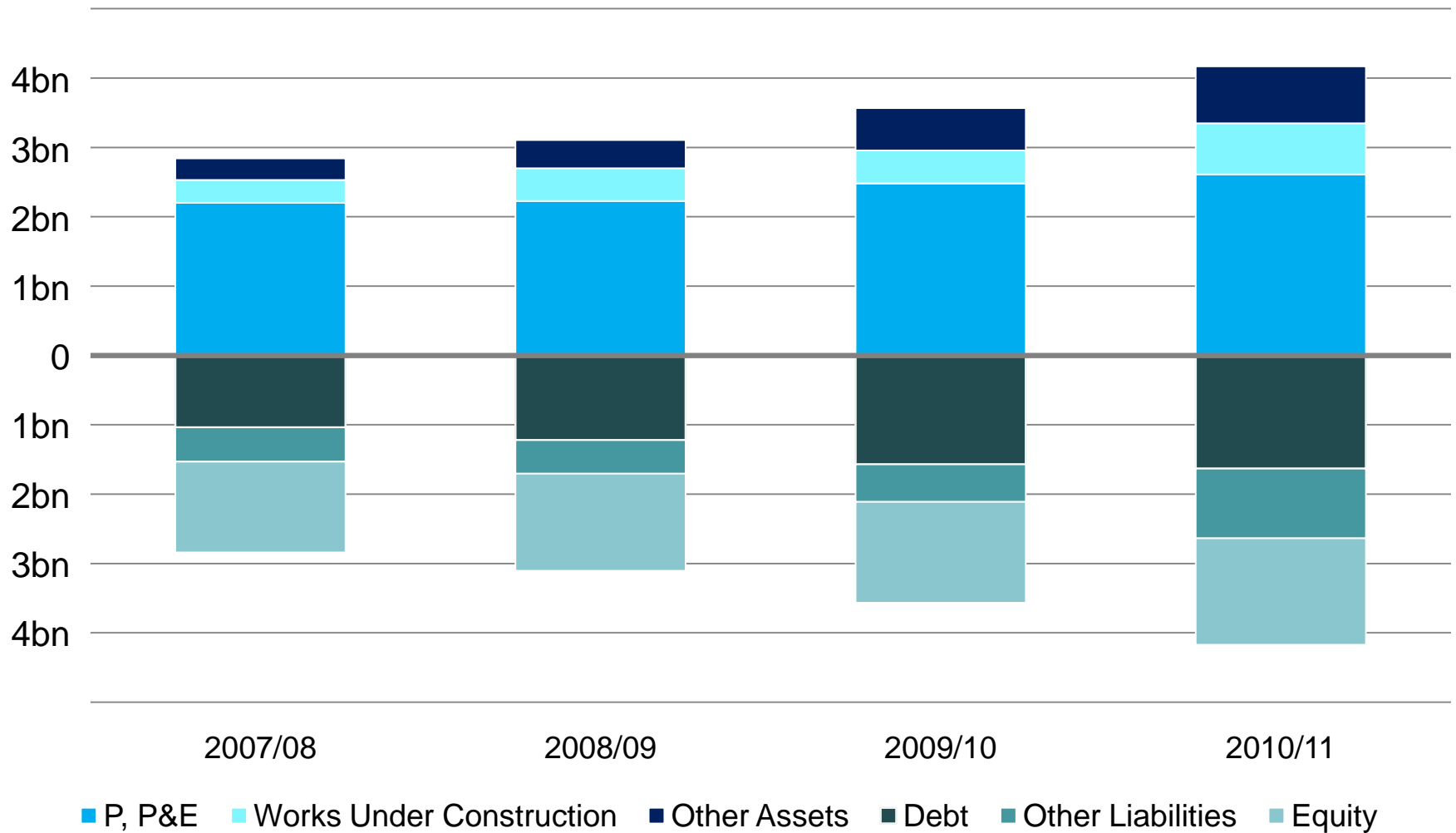
FFO/debt



Capital delivery



Balance sheet



REGULATORY STRATEGY: HOWARD CATTERMOLE GM CORPORATE SERVICES



Regulatory development

- Recent IM/IPP model is a further evolution of the “building block” approach
- Ex ante opex and capex allowances (set for 3, 5 years)
- Step toward Australian Energy Regulator (AER) model
- Key difference is approval of “Major” grid investment



Regulatory strategy

- Establish a fair regulated rate of return
- De-risk financial returns
- Deliver superior returns where possible





CAPITAL STRUCTURE & FUNDING
HOWARD CATTERMOLE
GM CORPORATE SERVICES



Review of capital structure

- Strong standalone business profile
 - highly resilient cash flows
- Government ownership
 - strategic assets
- Single A credits maintained access to global credit markets throughout GFC
- Higher leverage sustainable, more efficient



Dividend policy

- Dividends suspended 2006
- No dividend in respect of 2010/11
- Move to cash-based distribution policy
 - long-term 65-75% of cash flow (after maintenance capex)
- Maintain prudent FFO/interest cover
- Initial distributions to re-set capital structure



Long-term credit ratings

- S&P's long-term rating unchanged at AA
 - stand-alone credit rating A
- Moody's long-term rating downgraded one notch to A1
 - stand-alone credit rating Baa1
- Both on stable outlook

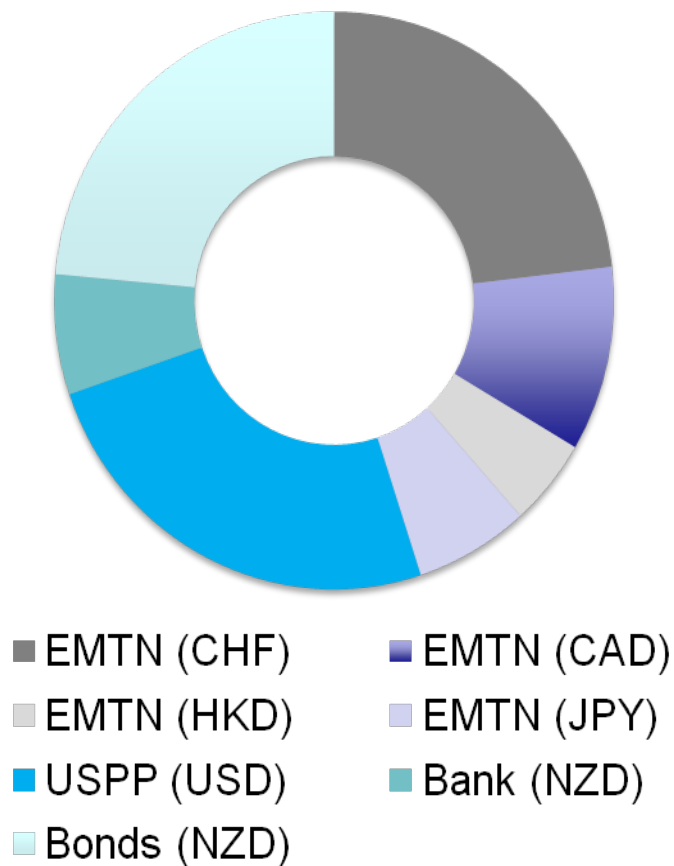
S&P	
AA+	
AA	CORP
AA-	
A+	
A	SACR
A-	
BBB+	
BBB	

Moody's	
	Aa1
	Aa2
	Aa3
CORP	A1
	A2
	A3
SACR	Baa1
	Baa2

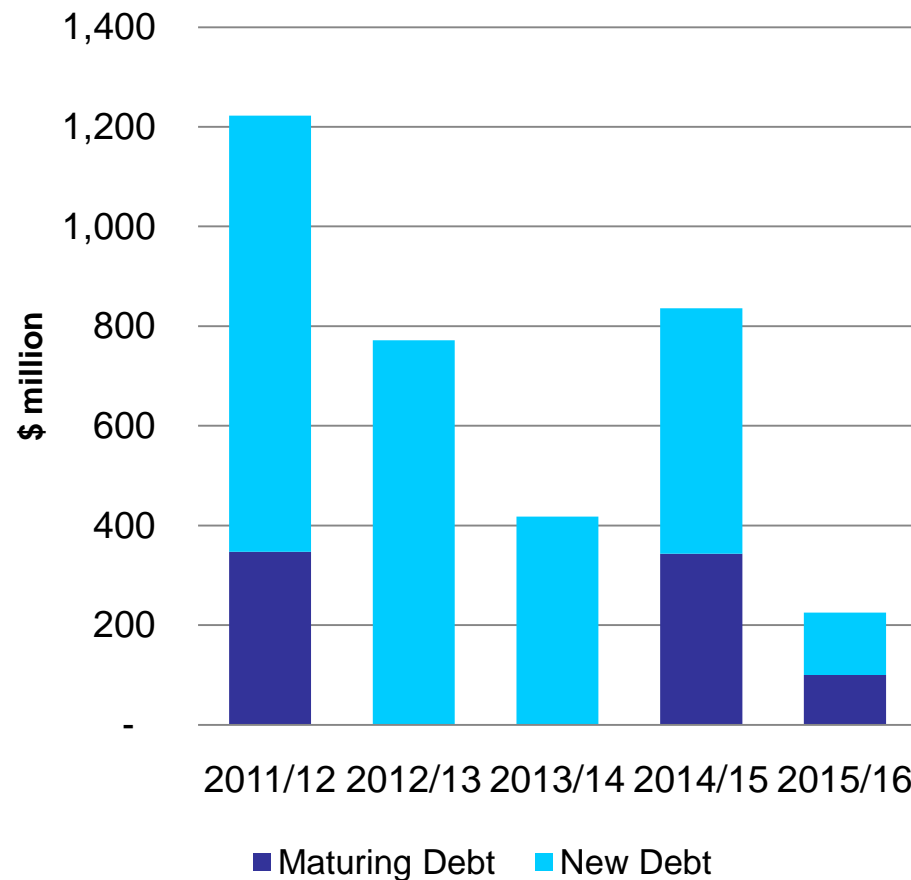


Debt funding

Sources of term debt



Funding required



Treasury policy

- Prudent policies to manage liquidity, funding, and related IR/FX risks
- Liquidity risk
 - committed facilities to cover next 6 months cash requirements
- Funding risk
 - maintain a spread of debt maturities
 - maximum maturity \$750m per annum
- Interest rate, currency risk
 - all debt swapped to NZD floating exposure on day one
 - IR hedging based on % of forecast debt out to 15 years



Disclosure

- Introduction of public quarterly reporting (from Q3 2010/11)
- Full-year results briefing 16 August
- Further questions/follow-up
 - howard.cattermole@transpower.co.nz

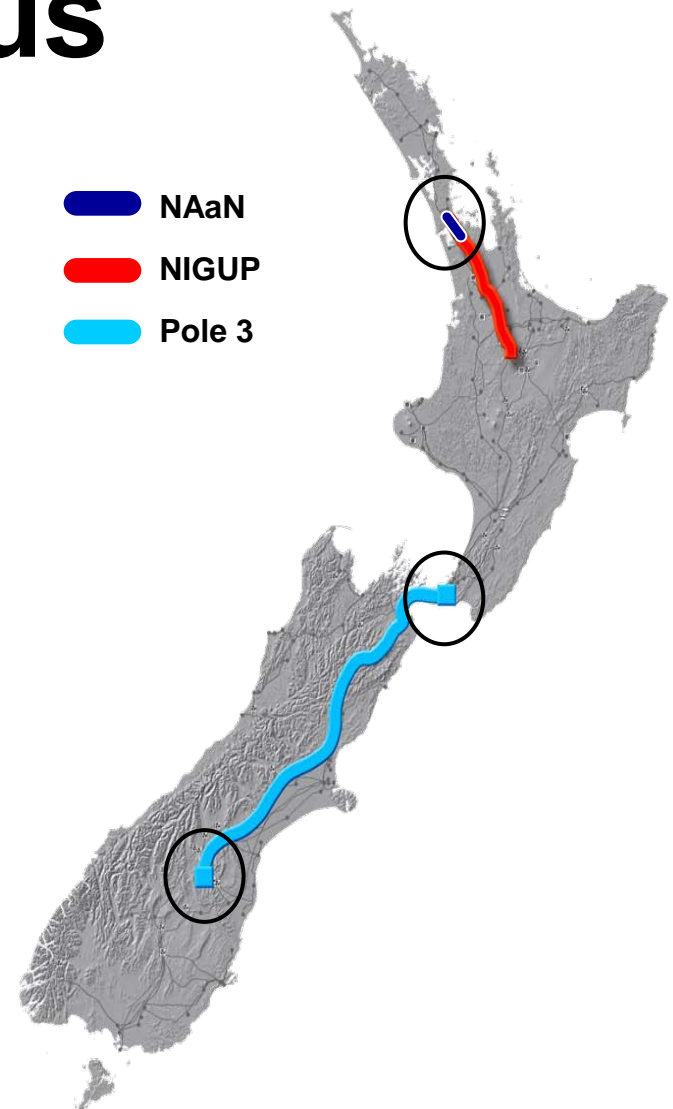


BUSINESS UPDATE: PATRICK STRANGE, CEO



Major project status

- North Island Grid Upgrade
- HVDC Upgrade (Pole 3)
- North Auckland and Northland (NAaN)



Some of our priorities in 11/12

- Substantially complete NIGUP, Pole 3 and progress NAaN
- Initiate Asset Management System replacement
- Integrate Regional Operating Centres
- Streamline grid planning processes and approach
- Commence delivery of Transmission Tomorrow milestones



QUESTIONS ?



Disclaimer

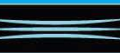
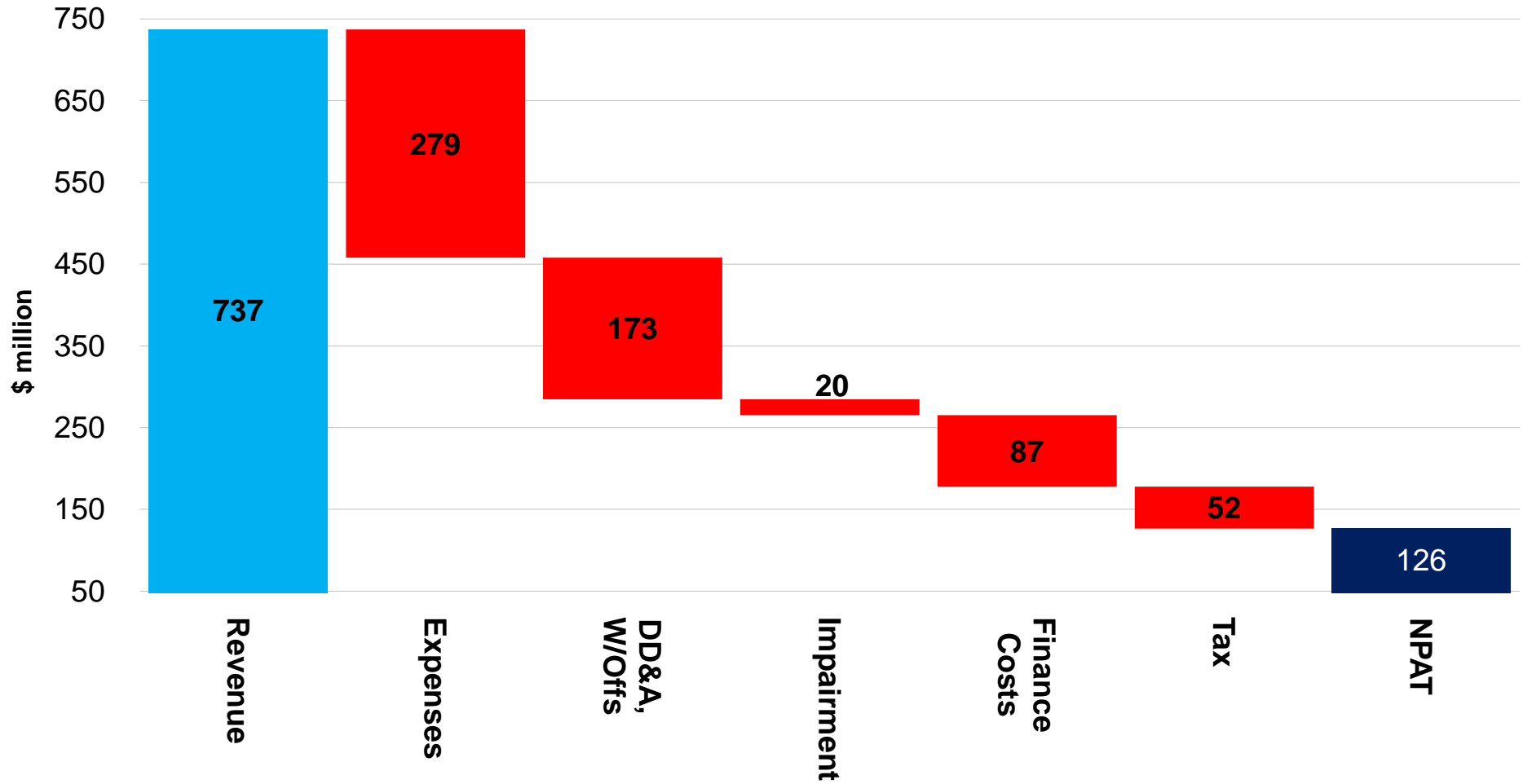
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- Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.
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- Furthermore, while all reasonable care has been taken in compiling this presentation, Transpower cannot guarantee it is free from errors.



SUPPLEMENTARY MATERIAL

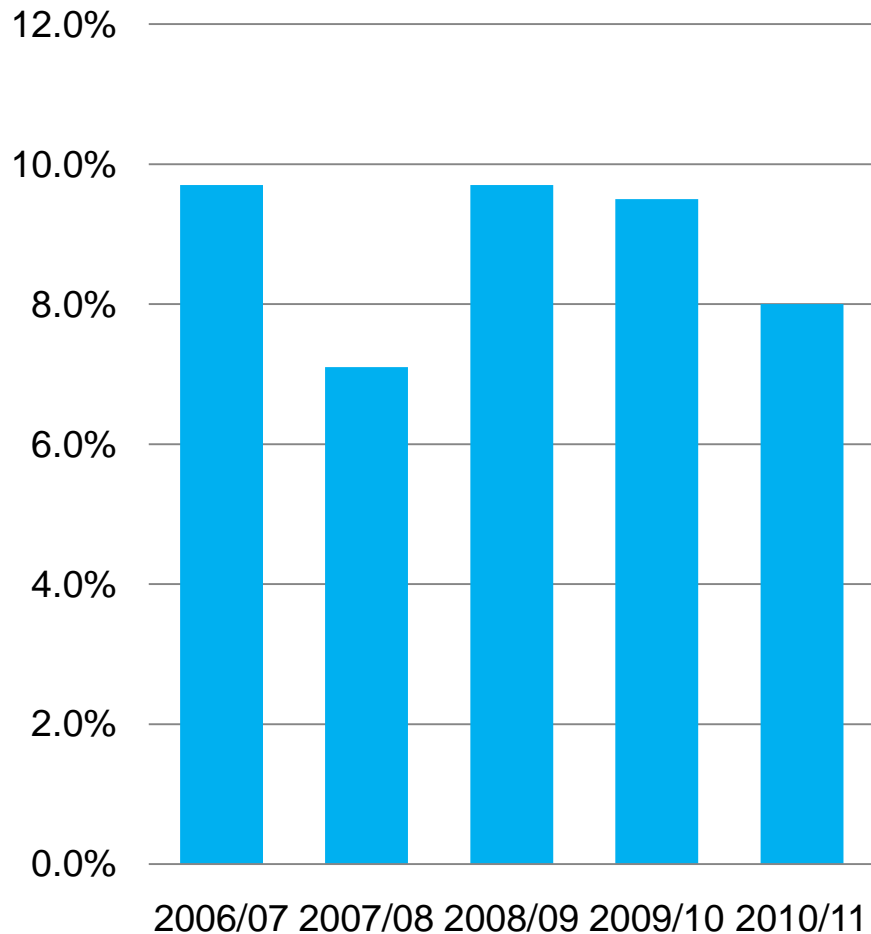


Profit analysis

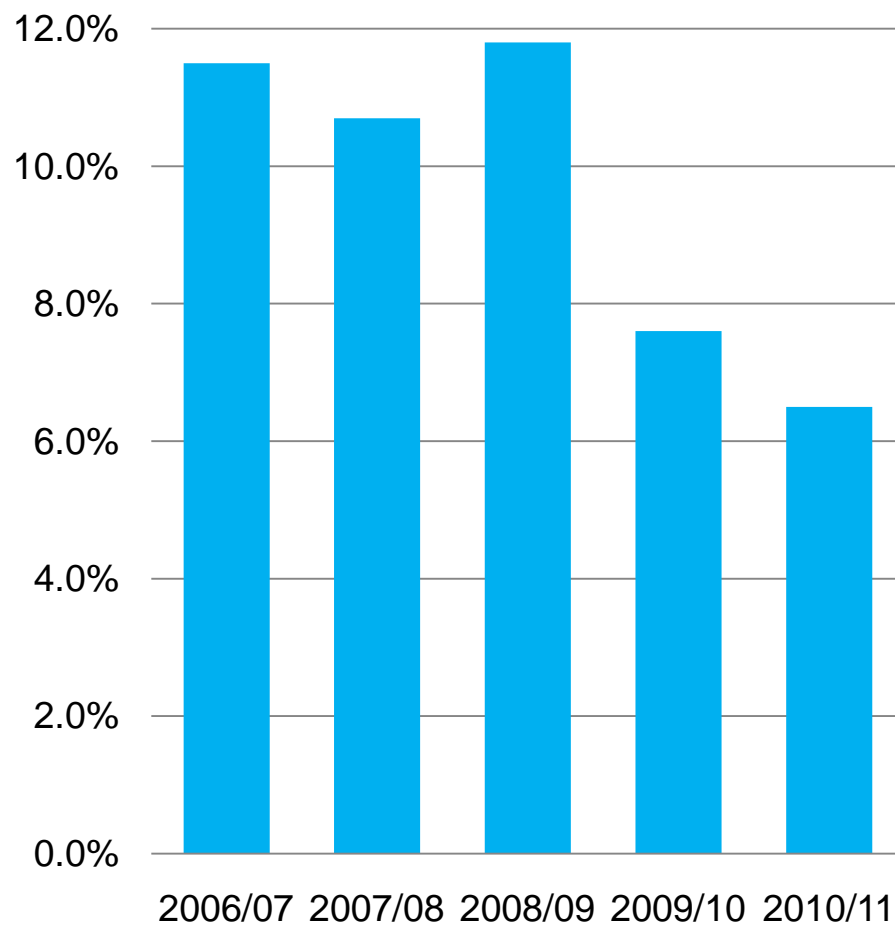


Returns

Return on equity

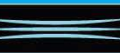


Return on capital employed



SCI targets ... 1

Financial Performance Indicators	Actual	Target
Operating profit margin	61.6%	60.4%
FFO/Interest cover (times)	3.6	3.4
Return on capital employed	6.5%	7.0%
Return on equity	8.0%	9.3%
Average total transmission costs (cents/kWh)	1.69	1.65
Estimated economic value added (\$m)	(39)	(15)



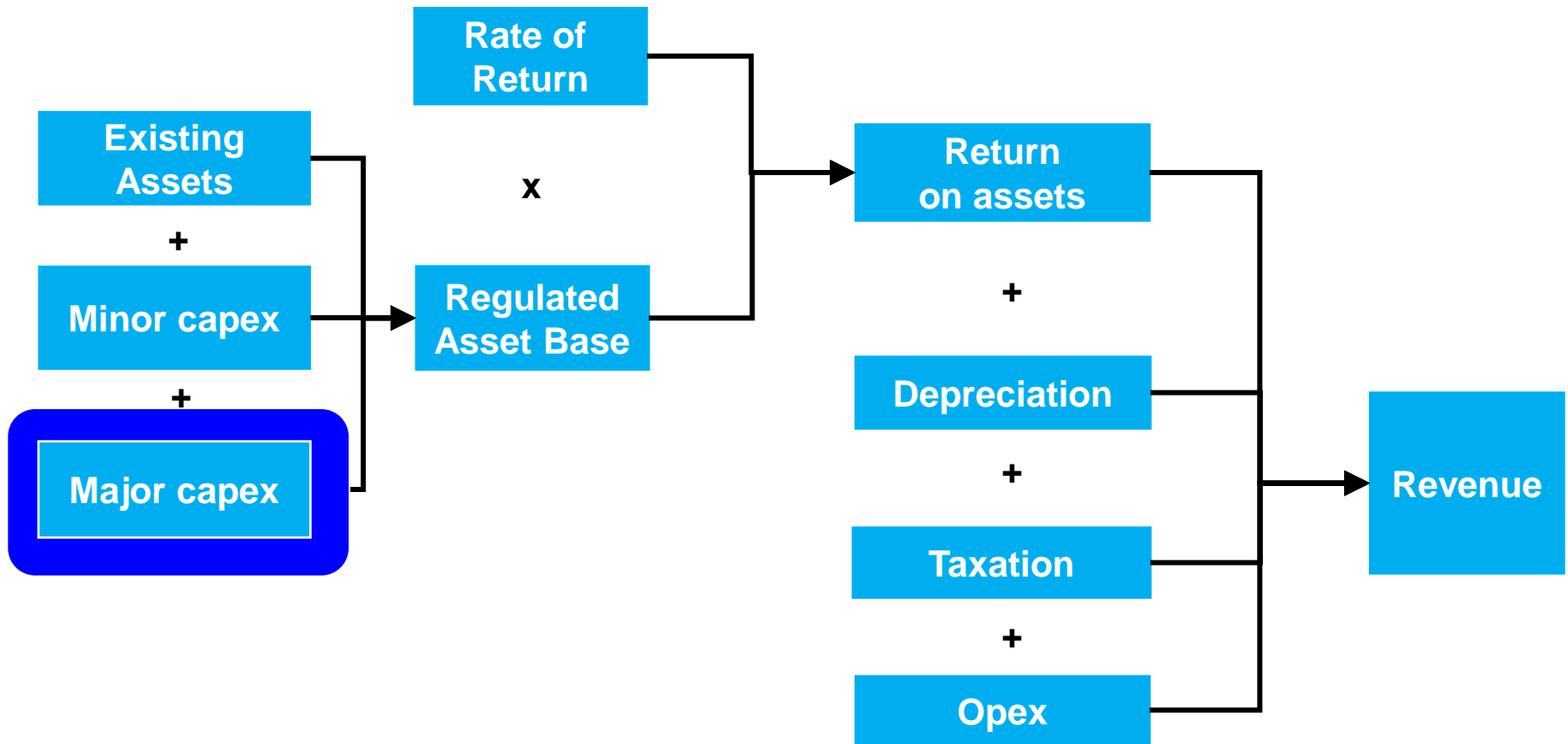
SCI targets ... 2

Operational performance indicators	Actual	Target
Number of loss of supply events of greater than 0.05 System Minutes	18	21
Number of loss of supply events of greater than one System Minute	3	3
HVAC Availability	98.4%	98.8%
HVDC Availability	84.9%	92.0%

Non-financial performance indicators	Actual	Target
Material breaches of SO performance obligations	0	<4
ACC workplace safety audit status	Tertiary	Tertiary
Number of fatalities or injuries causing permanent disability	1	0
Number of medical treatment injuries	26	<20



Revenue building blocks



Regulated rate of return

- Draft decision (June 2010)
 - 7.06% post-tax nominal
- Final decision (Dec 2010)
 - 7.19% post-tax nominal
 - 8.06% Vanilla
 - plus a term-credit spread allowance
- Allowance set on a P(75) basis
- In our view return is understated

FINAL DECISION

Risk free rate	4.6%
Asset beta	.34
Notional Leverage	44%
Market risk premium	7.0%
<u>P(50)</u>	
Cost of debt	6.98%
Cost of equity	7.58%
Vanilla WACC	7.32%
Post tax WACC	6.46%
<u>(P75) allowed</u>	
Vanilla WACC	8.06%
Post tax WACC	7.19%

