

# TRANSPower NEW ZEALAND LIMITED INVESTMENT STATEMENT

TRANSPower



This document is an Investment Statement for the purposes of the Securities Act 1978.

It is prepared as at 17 November 2011.

## IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

### CHOOSING AN INVESTMENT

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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<i>WHO IS INVOLVED IN PROVIDING IT FOR ME?</i>	14
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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

### The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>.

### Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check –

- the type of adviser you are dealing with;
- the services the adviser can provide you with; and
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>.

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

## IMPORTANT NOTICE

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The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for the Bonds.

### Offer only in New Zealand

This Investment Statement does not constitute an offer of Bonds in any jurisdiction other than New Zealand. No action has been taken by the Issuer which would permit an offer of Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No person may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

For the avoidance of doubt, any election made by the Issuer in respect of the application of the Approved Issuer Levy provisions as described in the section headed Taxation on pages 20 to 22, is without prejudice to, and does not limit in any way whatsoever, any of the selling restrictions set out above or in the conditions for the Bonds held by that Bondholder.

By its subscription for or purchase of the Bonds, each Bondholder agrees to indemnify the Issuer, the Lead Managers for the Bonds, the Co-Managers for the Bonds and the Trustee and each of their respective directors, officers and employees for any expense, loss or liability sustained or incurred by the Issuer, those Lead Managers, those Co-Managers or the Trustee, as the case may be, as a result of the breach by that Bondholder of the above selling restrictions or in the conditions for a series of Bonds held by the Bondholder.

### Tax

You should obtain your own tax advice as the commentary contained in this Investment Statement is general in nature and may not apply to your individual circumstances.

### Definitions

Certain capitalised terms used in this Investment Statement have defined meanings which appear in the *Glossary* section on pages 30 to 31. Other capitalised terms have defined meanings given to them in the Trust Documents. All references to \$ are to New Zealand dollars unless specified otherwise.

### Non-reliance

This Investment Statement does not constitute a recommendation by the Lead Managers, the Co-Managers, the Trustee, nor any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Bonds. None of the Lead Managers, the Co-Managers, the Trustee or any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this Investment Statement or its contents or otherwise arising in connection with the Offer.

The Lead Managers, the Co-Managers and the Trustee have not independently verified the information contained in this Investment Statement. In accepting delivery of this Investment Statement, the recipient acknowledges that none of the Lead Managers, the Co-Managers, the Trustee or their respective officers, employees, agents or advisers give any warranty or representation of accuracy or reliability and they take no responsibility for it. None of them shall have any liability for any errors or omissions (including for negligence) in this Investment Statement, and each recipient waives all claims in that regard.

Each recipient of this Investment Statement must make its own independent assessment and investigation of the financial condition and affairs of the Issuer as it may deem necessary and base any investment decision upon such independent investigation.

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## SUMMARY OF MAIN TERMS OF THE OFFER

For a more complete description of the Bonds, see the Answers to Important Questions section on pages 13 to 29.

<b>Issuer:</b>	Transpower New Zealand Limited ( <b>Issuer</b> ). A description of the Issuer is set out in the <i>Profile of the Transpower Group</i> on pages 6 to 12 and under the heading <i>Who is involved in providing it for me?</i> on page 14.
<b>Description:</b>	Unsecured, unsubordinated, debt obligations of the Issuer.
<b>Type of Bonds:</b>	The Bonds will bear interest at either a fixed rate ( <b>Fixed Rate Bonds</b> ) or a floating rate ( <b>Floating Rate Bonds</b> ) as specified in the Pricing Supplement for the Bonds. One or more of the types of Bonds described in this Investment Statement may, at the discretion of the Issuer, be on offer at any time during the currency of this Investment Statement. The type(s) of Bonds on offer at any time will be referred to in the Pricing Supplement for the Bonds. The type of the Bonds to be issued from time to time will, in each case, be determined by and at the discretion of the Issuer.
<b>Opening Date:</b>	The Opening Date for the Bonds will be specified in the Pricing Supplement for the Bonds.
<b>Closing Date:</b>	The Closing Date for the Bonds will be specified in the Pricing Supplement for the Bonds.
<b>Agent:</b>	Link Market Services Limited.
<b>Aggregate Principal Amount:</b>	The Issuer may from time to time offer for subscription Bonds pursuant to this Investment Statement up to a maximum aggregate outstanding Principal Amount of NZ\$1,500,000,000.
<b>Offer amount:</b>	The aggregate Principal Amount for an offer of Bonds will be set out in the Pricing Supplement for the Bonds and the Issuer will have the ability to accept oversubscriptions up to the amount specified in the Pricing Supplement for the Bonds.
<b>Currency:</b>	NZ Dollars.
<b>Minimum subscription amount:</b>	\$5,000 with multiples of \$1,000 thereafter.
<b>Issue Price:</b>	\$1.00 per Bond (being the "Principal Amount" of each Bond).
<b>Selling Restrictions:</b>	This Investment Statement does not constitute an offer of Bonds in any jurisdiction other than New Zealand. No action has been taken by the Issuer which would permit an offer of Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No person may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.
<b>How to apply:</b>	Applications must be made on the Application Form contained at the back of this Investment Statement and must be submitted together with payment to the addresses set out on page 16 under the heading <i>Where to send your Application Form and payment</i> .

SUMMARY OF MAIN TERMS OF THE OFFER *continued*

<b>Maturity Date:</b>	The Maturity Date for the Bonds shall be set out in the Pricing Supplement for the Bonds.
<b>Status of the Bonds:</b>	The Bonds offered under this Investment Statement are debt securities and 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.
<b>Interest Rate:</b>	<p>Fixed Rate Bonds will bear interest on their respective Principal Amounts at the Interest Rate specified in the Pricing Supplement for the Bonds. Interest will be payable in arrears in equal quarterly, semi-annual, annual or other instalments as specified in the Pricing Supplement for the Bonds on the Interest Payment Dates specified in the Pricing Supplement for the Bonds. The first interest payment on Fixed Rate Bonds will be specified in the Pricing Supplement for the Bonds. If such interest period is not a full interest period, the interest payable on that first interest payment date will be adjusted accordingly.</p> <p>Floating Rate Bonds will bear interest on their respective Principal Amounts at a variable Interest Rate determined by reference to the Base Rate which may be adjusted by adding or subtracting the Margin (expressed as a percentage rate per annum) as specified in the Pricing Supplement for the Bonds. The interest on Floating Rate Bonds will be payable by reference to such interest periods, each being a period of one, two, three, four, five or six months' duration, or such other duration, as specified in the Pricing Supplement for the Bonds, in arrears on the Interest Payment Dates specified in the Pricing Supplement for the Bonds. The first Interest Payment Date on Floating Rate Bonds will be set out in the Pricing Supplement for the Bonds.</p> <p>The Interest Rate on each Floating Rate Bond will be reset on each Interest Payment Date for that Bond. The Agent will determine the Interest Rate for the Floating Rate Bonds and calculate the amount of interest payable on each Floating Rate Bond for the relevant interest period. Interest will be calculated on the Principal Amount of each Floating Rate Bond on the basis of the number of days in the relevant interest period and on the basis of a 365 day year.</p> <p>Accordingly, the Interest Rate for the Bonds is not known at the date of printing this Investment Statement.</p>
<b>Interest Payment Dates:</b>	Interest on the Bonds will be payable as set out and on the dates specified in the Pricing Supplement for the Bonds. The first Interest Payment Date will be set out in the Pricing Supplement for the Bonds. Interest will be payable on each Interest Payment Date to the Bondholders as at the Record Date immediately preceding the relevant Interest Payment Date. A more detailed description of how the Interest Rate is determined is set out under the heading <i>What returns will I get?</i> on page 17.

<b>Form of Bonds:</b>	The Bonds will be entered onto the Register maintained by the Agent. Certificates will be issued for the Bonds at the request of a Bondholder or if required by law but otherwise certificates will not be issued. Title to the Bonds passes by transfer and registration. The Issuer and the Agent will rely on the Register for the purpose of determining entitlements to interest on each Interest Payment Date, and for the repayment of the Principal Amount of the Bonds when they are redeemed.
<b>Scaling:</b>	The Lead Managers in consultation with the Issuer reserve the right to scale at their discretion.
<b>Underwriting:</b>	The Offer is not underwritten.
<b>Ratings:</b>	<p>Moody's Investors Service Pty Limited (<b>Moody's</b>) and Standard &amp; Poor's (Australia) Pty Limited (<b>S&amp;P</b>) will assign ratings to the Bonds which will be specified in the Pricing Supplement for the Bonds. Further information about the Moody's rating is available at <a href="http://www.moody.com">www.moody.com</a> and further information about the S&amp;P rating is available at <a href="http://www.standardandpoors.com">www.standardandpoors.com</a>.</p> <p>The ratings referred to in the Pricing Supplement for the Bonds are not a recommendation to buy, sell or hold the Bonds, and each rating may be subject to revision or withdrawal at any time by Moody's or S&amp;P, as the case may be. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.</p> <p>Neither Moody's nor S&amp;P have been involved in the preparation of this Investment Statement.</p>
<b>Use of proceeds:</b>	The net proceeds from the issue of Bonds are intended to be applied for general corporate purposes, including capital expenditure requirements, of the Transpower Group.
<b>Further indebtedness:</b>	The Issuer reserves the right to make further borrowings or offers of debt securities in New Zealand and/or overseas, without the consent of Bondholders, on such terms and conditions as it may from time to time determine, and while any Bonds remain outstanding.
<b>Listing:</b>	Application may be made to NZX in the future to list Bonds offered pursuant to this Investment Statement. The Pricing Supplement for the Bonds will confirm whether any such application has been made in respect of the Bonds. As at the date of this Investment Statement, no such application has been made to, nor approved by, NZX. The Bonds have not been approved for trading by NZX and accordingly, the Issuer makes no representation that any Bonds offered pursuant to this Investment Statement are, or will be, tradable on any securities market. NZX is a registered exchange as defined in the Securities Markets Act 1988.

## PROFILE OF THE ISSUER

### Description of activities of the Issuer

#### Introduction

The Issuer is a state-owned enterprise (**SOE**) as defined in the State-Owned Enterprises Act 1986 (**SOE Act**) and is 100% owned by Her Majesty the Queen in right of New Zealand (**Crown**). Crown ownership is exercised through two shareholding ministers, the Minister for State-Owned Enterprises and the Minister of Finance, who appoint the Issuer's Board of Directors. The Crown does not guarantee any of the obligations of the Issuer or the other members of the Transpower Group.

Pursuant to the SOE Act, the Issuer's Board of Directors is required annually to prepare a Statement of Corporate Intent setting out, for the next three years, the Issuer's objectives, the nature and scope of its activities to be performed and certain financial and accounting related information.

The principal objective of the Issuer, in common with other SOEs, is to operate as a successful business, and to this end, be as profitable and efficient as comparable businesses that are not owned by the Crown, be a good employer and be an organisation that exhibits a sense of social responsibility.

In addition to being an SOE, the Issuer is a limited liability company incorporated under the Companies Act. The Issuer was incorporated on 9 March 1988 under the Companies Act 1955 and was reregistered under the Companies Act on 2 October 1996. Its registration number is 372941.

The registered office and contact details of the Issuer are listed in the Directory on pages 32 to 34 of this Investment Statement.

#### Subsidiaries

As at the date of this Investment Statement, the Transpower Group, of which the Issuer is the parent company, consists of the Issuer and its subsidiaries as set out below:

SUBSIDIARIES <sup>1</sup>	30 JUNE 2011 HOLDING
Transpower Finance Limited	100%
TB and T Limited	100%
Risk Reinsurance Limited	100%
Halfway Bush Finance Limited	100%
d-cyphaTrade Limited <sup>2</sup>	100%

Notes:

- (1) NZ Power Cayman 2003-1 Limited is wholly owned by Genesis (Capital) Limited and is not owned by any member of the Transpower Group. It is consolidated into the Transpower Group for financial reporting purposes only.
- (2) Energy Market Services Limited was established in 1998, and changed its name to d-cyphaTrade Limited on 1 August 2007. Its principal activity is the promotion of exchange traded electricity derivatives in Australia.

Apart from Risk Reinsurance Limited (which is incorporated in the Cayman Islands), all subsidiaries are incorporated in New Zealand under the Companies Act. All subsidiaries are direct subsidiaries of the Issuer and are limited liability companies.

The principal activity of the subsidiaries (excluding d-cyphaTrade Limited and Risk Reinsurance Limited) is financing.

Risk Reinsurance Limited provides insurance services to the Transpower Group and d-cyphaTrade Limited promotes exchange-traded electricity derivatives in Australia. All debt financing prior to 2011 was undertaken by Transpower Finance Limited. However, consistent with a strategy to simplify the group's corporate structure and the structure of its debt documentation, future borrowing is intended to be undertaken by the Issuer.

NZ Power Cayman 2003-1 Limited (a Cayman Island company), which was established specifically in connection with a now largely terminated cross-border lease transaction, is wholly owned by Genesis (Capital) Limited (a Cayman Island company) and is not owned by any member of the Transpower Group. NZ Power Cayman 2003-1 Limited is consolidated into the Transpower Group as it is a subsidiary for financial reporting purposes.

None of the subsidiaries of the Issuer guarantees the obligations of the Issuer in respect of the Bonds.

### Business Description

The Issuer plays two complementary roles central to the operation and development of New Zealand's electricity power system. It is the owner and the operator of the high voltage electricity transmission system (**National Grid**) and the provider of co-ordination and security (**System Operator**) functions for the power system.

The National Grid – which is the physical link between generators, distributors<sup>1</sup> and direct connect customers – consists of more than 11,800 km of high voltage alternating current (**HVAC**) transmission lines and a high voltage direct current (**HVDC**) link which crosses the Cook Strait by submarine power cables, linking the South Island and the North Island electricity systems. The cables are crucial to New Zealand's electricity supply, primarily transferring electricity northward, although they also have the capability to transfer electricity southward.

The Issuer is also the System Operator responsible for the real-time co-ordination of supply and demand for the New Zealand power system. The Issuer signed a contract for System Operator services with the Electricity Authority, which commenced on 1 July 2009 and is for a minimum five year period.

All funds borrowed or to be borrowed by the Issuer (including those received on issue of the Bonds) are intended to be applied for the general corporate purposes of the Transpower Group. These general corporate purposes could include the constructing of new infrastructure, funding maintenance work, the servicing or repaying of other indebtedness, or for payment of day to day expenses.

### Competition

The Issuer is the owner of New Zealand's only national high voltage electricity transmission system. Due to the high entry cost that would face any potential competitor, the substantial economies of scale exhibited by transmission assets and the integrated nature of the National Grid, the Issuer's position in the electricity industry, as a monopoly transmission asset owner, is unlikely to change materially in the reasonably foreseeable future.

### Regulatory Framework

The Issuer is required to operate within the Commerce Commission's and the Electricity Authority's regulatory frameworks. These are described in more detail below.

#### Commerce Commission ([www.comcom.govt.nz](http://www.comcom.govt.nz))

The Commerce Commission is the New Zealand regulatory authority responsible for the supervision and administration of general competition law set out in the Commerce Act, and has been granted certain specific functions relating to electricity utilities. The Commerce Commission also enforces a number of pieces of legislation

<sup>1</sup> Also known as "distribution network service providers", "electricity distribution businesses" and "lines companies".

## PROFILE OF THE TRANSPower GROUP *continued*

that, through regulation, aim to provide the benefits of competition in markets where effective competition does not exist; these include the telecommunications, dairy, electricity, gas pipelines and airport markets. The Commerce Commission administers a price/revenue control regime applying to electricity transmission and distribution businesses.

The Commerce Commission is an independent Crown entity established under the Commerce Act. The Commerce Commission is not subject to direction from the Government when carrying out its enforcement and regulatory control activities, although it must have regard to Government economic policy statements. Its purpose is to promote economic efficiency in competitive and regulated markets for the long term benefit of New Zealanders.

The Commerce Commission regulates the Issuer's revenue and service standards. This regulation is designed to allow the Issuer to earn an economic return on its investments but to restrict the Issuer's ability to extract monopoly profits. Since 1 November 2010, the Commerce Commission has also assumed responsibility for approving substantially all of the Issuer's capital expenditure. Prior to this date, the Issuer's major capital expenditure proposals were approved by the former Electricity Commission.

Since 1 April 2011, the Issuer has been subject to individual price-quality regulation under subpart 7 of Part 4 of the Commerce Act. There are currently two Commerce Commission determinations under Part 4 of the Commerce Act applying to the Issuer: the Commerce Act (Transpower Input Methodologies) Determination 2010 (**IM Determination**) and the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 (**IPP Determination**). These determinations govern the Issuer's costs of capital, asset valuation, the allocation of costs between different business functions, the treatment of taxation, quality standards, annual compliance monitoring and information requirements and in what circumstances any individual price-quality path may be reconsidered. The terms of an incremental rolling incentive scheme for operating expenditure are also specified. These determinations can be viewed on-line at [www.comcom.govt.nz](http://www.comcom.govt.nz).

Important features of the individual price-quality path regulatory framework for electricity transmission are:

- the Issuer's maximum allowable revenue for each year of each regulatory control period (RCP) is calculated using a building blocks approach incorporating a WACC-based (as defined below) capital charge, operating expenditure, tax, depreciation and other adjustments;
- RCP1 is four years (expiring 31 March 2015) and RCP2 will be five years (expiring 31 March 2020). RCPs cannot be longer than five years or shorter than four years;
- capital projects are divided into minor and major categories. Major projects are all grid enhancements above a certain dollar threshold. Minor projects cover all other capital expenditure. For the first year of RCP1 (1 April 2011 to 31 March 2012) the threshold between the major and minor categories for grid enhancements will be \$1.5 million. For all subsequent years of RCP1, commencing 1 April 2012, the Commerce Commission has determined that the threshold will be \$5 million, although this could be amended by the Issuer's capital expenditure input methodology to be determined by the Commerce Commission by 1 February 2012;
- full substitution within the minor project category is allowed, including between years within a given RCP;
- major capital expenditure projects are subject to individual approval, and substitution of approved amounts between different projects is not allowed;
- the Commerce Commission will undertake full prior reviews of the Issuer's proposed operating expenditure and minor capital expenditure prior to the start of each RCP. The reviews are designed to approve a level of efficient expenditure for each year of the RCP, to be included when calculating its maximum allowable revenue, and against which compliance will be assessed;

- the present HVAC economic value account balance of NZ\$82.4 million as at 30 June 2011 must be returned to customers, and the present HVDC economic value account balance of NZ\$106.7 million as at 30 June 2011 must be recovered from customers, by the end of RCP2 (31 March 2020); and
- the Issuer will be subject to a penalty / reward scheme that applies to the quality standards set by the Commerce Commission from the beginning of RCP2 (1 April 2015).

On 1 November 2011, the Commerce Commission announced the forecast maximum revenues that the Issuer is permitted to earn for the three year period commencing on 1 April 2012, namely NZ\$783.8 million for the year ended 31 March 2013, NZ\$906.4 million for the year ending 31 March 2014 and NZ\$958.9 million for the year ending 31 March 2015. The level of forecast maximum revenues determines the total amount that the Issuer can charge its transmission customers.

In accordance with section 54S of the Commerce Act, the Commerce Commission must determine an input methodology for the Issuer's capital expenditure proposals by no later than 1 November 2011 (but the Minister of Commerce may, on written request from the Commerce Commission, extend this deadline once by up to three months and such an extension is expected). Until this new input methodology comes into force, the Issuer's grid upgrade plan proposals will continue to be approved in accordance with the provisions of Part F of the former Electricity Governance Rules 2003, which continue in force solely for this purpose.

The IM Determination requires the Issuer to calculate its revenue using a post tax nominal weighted average cost of capital (**WACC**) of 7.19%. The Issuer believes, based on advice from several independent experts, that this figure understates the Issuer's true cost of capital. For this reason, the Issuer is seeking judicial review of the Commerce Commission's WACC determination and has also appealed the determination on its merits under section 52Z of the Commerce Act. The judicial review hearing began on 10 October 2011. The merits appeal hearing, which will take place if the WACC determination is not declared unlawful through the judicial review, is currently scheduled for March 2012.

Every 0.1 per cent change to the allowable rate of return has approximately NZ\$3 million per annum impact on the Issuer's net profit after tax.

#### **Electricity Authority ([www.ea.govt.nz](http://www.ea.govt.nz))**

On 1 November 2010, the Electricity Industry Act created a new independent Crown entity, the Electricity Authority, to replace the former Electricity Commission and oversee the electricity sector. The Electricity Authority's objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long term benefit of consumers.

Other changes that were introduced by the Electricity Industry Act include:

- transferring most of the provisions of the former Electricity Regulations 2003 and Electricity Governance Rules 2003 to a new Electricity Industry Participation Code 2010 (Code) to be administered and amended by the Electricity Authority;
- streamlining the regulatory arrangements by transferring some functions of the former Electricity Commission to bodies other than the Electricity Authority, including:
  - transferring jurisdiction for approving the Issuer's grid investments to the Commerce Commission, and;
  - transferring responsibility for energy efficiency programmes to the Energy Efficiency and Conservation Authority; and
- placing greater responsibility on the Issuer (as System Operator) for emergency management and provision of information and forecasting on security of supply.

## PROFILE OF THE TRANSPower GROUP *continued*

### Benchmark Agreement

The benchmark agreement (**Benchmark Agreement**) is incorporated in the Code by reference and serves as a default transmission agreement between the Issuer and transmission customers when not superseded by particular agreements between the Issuer and individual transmission customers.

The Benchmark Agreement places obligations on the Issuer to make connection assets available to designated transmission customers at specified levels of capacity and service. The Benchmark Agreement ensures that the Issuer has revenue enforceability under the Code by referring to the transmission pricing methodology contained in Schedule 12.4 of the Code (**Transmission Pricing Methodology**). The Issuer's liability under the Benchmark Agreements is capped at NZ\$5 million for any single event or related set of events, and NZ\$20 million in any twelve month period irrespective of the number of events. The Code also incorporates an "Outage Protocol" which goes some way to mitigating the risk of liability resulting from unplanned loss of supply events.

### Other Government Agencies

Several other agencies have important roles in relation to the electricity sector:

- *Ministry of Economic Development (MED)* ([www.med.govt.nz](http://www.med.govt.nz)): MED is the Government's policy adviser for the energy sector, including the electricity sector. The Minister of Energy sets the Government Policy Statements which set out the Government's expectations for policy in the energy sector.
- *Energy Efficiency and Conservation Authority (EECA)* ([www.eeca.govt.nz](http://www.eeca.govt.nz)): EECA promotes energy efficiency, energy conservation and renewable energy.
- *Ministry of Consumer Affairs (MCA)* ([www.consumeraffairs.govt.nz](http://www.consumeraffairs.govt.nz)): The MCA is part of the MED. The Electricity Authority is required to consult with the MCA on issues that affect small electricity consumers.
- *Ministry for the Environment (ME)* ([www.mfe.govt.nz](http://www.mfe.govt.nz)): ME advises and assists the Minister for the Environment with his or her responsibilities under the Resource Management Act 1991. Existing and new parts of the National Grid need to meet the environmental requirements set out in this Act.

### Outlook

As a result of the IPP Determination and IM Determination, the form of the regulatory framework applying to the Issuer is now more certain than in the past. In addition, the transfer of regulatory oversight of grid investment to the Commerce Commission has, appropriately, placed accountability for the economic regulation of the Issuer under a single regulatory agency (although some areas of policy overlap remain – for example, the Electricity Authority retains responsibility for the grid reliability standards, which approved grid investments must satisfy).

The Benchmark Agreement, Transmission Pricing Methodology and related provisions of Part 12 of the Code provide for the legal enforceability of the Issuer's transmission charges, provided they are calculated in accordance with the methodology. Those of the Issuer's customers which formerly had no clearly enforceable contracts with the Issuer for the provision of transmission services (i.e. the majority of its customers) now have legally enforceable transmission agreements with the Issuer based on the Benchmark Agreement.

### Planned Grid Investment Projects

#### Reinforcing the Grid

The Issuer has embarked on a significant investment programme, both building new capacity, and refurbishing and replacing its existing asset base. Current projections are to spend approximately, NZ\$5 billion over the next decade to ensure the grid continues to provide a secure platform for New Zealand's growth, with over NZ\$3 billion of that expected to be spent in the next five years.

During 2010/2011 financial year, capital expenditure (excluding North Island Grid Upgrade Project (**NIGUP**) land purchases) was NZ\$733 million (2009/2010 financial year: NZ\$533 million), compared with a plan of NZ\$724 million. Capital investment is likely to peak in 2011/2012 at around NZ\$870 million. A summary of the Issuer's largest grid upgrade projects is provided below.

There are three key major grid enhancement upgrade projects currently underway (in addition to many smaller projects), requiring approximately NZ\$2 billion of the aforementioned capital expenditure, to ensure security of supply, as follows:

- The NZ\$824 million NIGUP – providing a more secure and diverse supply into the Auckland region (with scheduled completion by September 2012);
- The NZ\$473 million North Auckland and Northland Project – reinforcing security of supply through Auckland to Northland (commissioning mid 2013); and
- The NZ\$672 million HVDC Inter-Island Link Pole 3 (commissioning of Stage 1 in December 2012).

In addition to the major build and refurbishment programmes underway, a number of new technology platforms are being implemented that will allow more intelligent future operation of the transmission grid. The benefits include greater ability to monitor and operate grid equipment remotely and improved utilisation of transmission assets.

## Major Projects

### North Island Grid Upgrade Project

The NIGUP is one of the largest transmission projects ever undertaken in New Zealand. It is vitally important to meet the growing electricity demand in the upper North Island.

The key components of the NIGUP are:

- a new 186 km overhead transmission line between Whakamaru and Brownhill Road in southeast Auckland capable of 400 kV but initially operated at 220 kV;
- new 220 kV underground cables connecting from Brownhill Road to Pakuranga substation and, at a later date, additional cables to Otahuhu substation;
- a new substation at Brownhill Road to connect the overhead lines to the underground cables;
- a new substation at Whakamaru, 800 metres north of the existing substation;
- dismantling the 110 kV Arapuni-Pakuranga (**ARI-PAK A**) overhead transmission line; and
- a new 220 kV substation at the existing Pakuranga substation site.

Construction work began in February 2010. The first towers were erected in April 2010 with commissioning expected in September 2012.

The Issuer, as part of the NIGUP, has purchased approximately NZ\$210 million of properties along the line route. The majority of the properties were purchased to enable easements to be placed over the property. Following the registration of easements, the properties are being re-sold progressively.

Due to a downturn in the economy and the property market specifically, the Issuer is likely to sustain a loss on the sale of these property holdings and has sustained a loss on those sold to date. In the year to 30 June 2011, an impairment of NZ\$19.7 million has been made in relation to these properties. This is additional to the impairment of NZ\$30 million made in the year ended 30 June 2010.

## PROFILE OF THE TRANSPower GROUP *continued*

The properties along this route are held at approximately NZ\$100 million in the 30 June 2011 financial statements. This is net of the impairments and the easements and related costs which have been transferred to the NIGUP project. The impairments have not been charged to the project and are not recoverable from customers.

### **North Auckland and Northland Project**

The Issuer is carrying out a project to reinforce its transmission network through Auckland and into North Auckland by installing: a 220 kV underground cable connection between Pakuranga and Penrose, and between Penrose and Albany; and associated substation equipment.

The new cable link will provide an alternate electricity supply route to North Auckland and Northland, which presently relies on just one double circuit high capacity line between Otahuhu and Henderson for most of its power needs.

### **HVDC Inter-Island Link Project (Pole 3)**

The Issuer is constructing and installing new AC/DC converter equipment at Benmore (South Island) and Haywards (North Island) substations to replace obsolete plant and to support an increase in the capacity of the HVDC inter-island link.

The new converter equipment, known as Pole 3, will replace the 45-year old Pole 1 equipment at both substations with state of the art thyristor valve units, which are similar to the existing Pole 2. The HVDC Pole 3 project, costing circa NZ\$600 million, will be completed in two stages resulting in an increase in the capacity of the overall HVDC link to 1,000 MW from 2012 and 1,200 MW from 2014. Pole 3 will operate alongside Pole 2, commissioned in 1992, and will use the existing undersea cables and overland DC transmission line linking Benmore and Haywards. The major contract for the new pole has been awarded, and construction is underway.

Commissioning is scheduled in December 2012. The Issuer's engineers have managed to extend the availability of Pole 1 for northbound transfer and Pole 1 is expected to continue to be available to support Pole 2 in this limited mode until July 2012, when it will be decommissioned as part of the project.

### **Wairakei to Whakamaru Replacement Transmission Line Project**

The Issuer is carrying out a project to build a new double circuit 220 kV transmission line between Wairakei and Whakamaru to connect new generation being built in the area. This project will involve replacing, by 2013, an existing single circuit 220 kV line between Wairakei and Whakamaru with a high capacity, double circuit line. The new line will support the connection of up to 1,000 MW of new renewable geothermal generation expected in the central North Island over the next 5 to 7 years.

### **Lower South Island Development and Other Projects**

The Issuer is planning upgrades, with costs ranging up to NZ\$170 million, to increase the capacity of key transmission lines between the Clutha and Waitaki Rivers to assist with the connection of potential new renewable generation (wind) in the region. In parallel, the Lower South Island Reliability project is examining options for increasing transmission capacity south of Roxburgh, to meet increasing demand on the 110 kV regional network.

Many smaller upgrade projects are also underway to improve the capability and reliability of existing grid assets, and to meet growing load requirements.

For more information on the Issuer's existing and future investment in the National Grid go to [www.gridnewzealand.co.nz](http://www.gridnewzealand.co.nz).

## ANSWERS TO IMPORTANT QUESTIONS

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### 1. WHAT SORT OF INVESTMENT IS THIS?

#### **The Bonds**

The Bonds offered under this Investment Statement are debt securities and constitute unsecured, unsubordinated, debt obligations of the Issuer. The Bonds will rank equally and without any preference among themselves and 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.

The terms and conditions applicable to the Bonds are contained in the Prospectus and the Trust Documents and the relevant Pricing Supplement for the Bonds.

The Issuer may offer for subscription to the New Zealand public and other investors, pursuant to this Investment Statement, Bonds up to at any time a maximum aggregate outstanding Principal Amount of \$1,500,000,000.

#### **Trustee**

The Bonds are issued pursuant to the Trust Documents. The Trustee holds on trust for the benefit of Bondholders the right to enforce the Issuer's obligations under the Bonds.

The Trustee does not guarantee the payment of interest on, or the repayment of the Principal Amount of, the Bonds.

#### **Interest**

The Bonds bear interest at the Interest Rate. Interest will be paid on the Bonds as specified in the Pricing Supplement for the Bonds on each Interest Payment Date (being those dates specified in the Pricing Supplement for the Bonds) until and including the Maturity Date specified in the Pricing Supplement for the Bonds. The first Interest Payment Date for the Bonds will be set out in the Pricing Supplement for the Bonds.

A more detailed description of the Interest Rate which will apply to the Bonds and how it is determined is set out under the heading *What returns will I get?* on page 17.

#### **Redemption**

The Principal Amount of the Bonds will be repaid by the Issuer on the Maturity Date specified in the Pricing Supplement for the Bonds.

Bondholders have no right to require redemption of the Bonds, except in the case of an Event of Default. This means that Bondholders have no ability to cash in their investment before the Maturity Date for the Bonds, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

#### **Further indebtedness**

The Issuer reserves the right to make further borrowings or offers of debt securities in New Zealand and/or overseas, without the consent of Bondholders, on such terms and conditions as it may from time to time determine, and while any Bonds remain outstanding.

ANSWERS TO IMPORTANT QUESTIONS *continued***2. WHO IS INVOLVED IN PROVIDING IT FOR ME?****Issuer**

Transpower New Zealand Limited is the issuer of the Bonds offered in this Investment Statement. The Issuer's address is:

Level 7  
Transpower House  
96 The Terrace  
Wellington.

The Issuer's Directors are:

Abigail Kate Foote  
Ian Alexander Nicholson Fraser  
Donald William Huse  
Maury Jane Leyland  
Michael Eric Pohio  
Alastair Oliver Scott  
Keith Neville Tempest  
Mark John Verbiest

The Directors and the address of the Issuer are current as at the date of this Investment Statement, but are subject to change. A current list of Directors and the address of the Issuer may be accessed at

[www.business.govt.nz/companies/app/ui/pages/companies/372941/directors](http://www.business.govt.nz/companies/app/ui/pages/companies/372941/directors).

The Issuer's management team is:

Chief Executive:	Patrick Strange
General Manager Corporate Affairs:	Cynthia Brophy
General Manager Grid Projects:	Mike Carter
Chief Financial Officer:	Howard Cattermole
General Manager Grid Development:	John Clarke
General Manager System Operations:	Kieran Devine
General Manager Grid Performance:	Garth Dibley
General Counsel and Company Secretary:	David Knight
Chief Engineer:	Bob Simpson
General Manager Information Services and Technology:	Jim Tocher

The management team is current as at the date of this Investment Statement but is subject to change. A current list of the management team may be accessed at <http://www.transpower.co.nz/executive>.

**Activities of the Issuer**

The Issuer's principal activities are to own and operate the National Grid and to be System Operator for the power system. The Issuer has been carrying on these activities since 9 March 1988. Further details of the Issuer's activities are set out under the heading *Description of Activities of the Issuer* on page 6 of this Investment Statement.

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### Trustee

The New Zealand Guardian Trust Company Limited is the Trustee for the Bonds. The Trustee's address is:

Level 3  
15 Willeston Street  
Wellington.

The address of the Trustee is current as at the date of this Investment Statement, but is subject to change. The current address of the Trustee may be obtained from the Trustee's website at [www.guardiantrust.co.nz](http://www.guardiantrust.co.nz).

### Agent

The Agent of the Bonds is Link Market Services Limited. The Agent's address is:

Level 16  
Brookfield House  
19 Victoria Street West  
Auckland.

The address of the Agent is current as at the date of this Investment Statement, but is subject to change. The current address of the Agent may be obtained from the Agent's website at [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz).

### Substituted Obligor

The Trustee may, without the consent of Bondholders, agree to any wholly-owned Subsidiary of the Issuer (**Substituted Obligor**) taking the place of the Issuer under the Trust Documents in substitution for the Issuer or a previous Substituted Obligor. Such substitution may only occur if a number of requirements are met, as set out in the Master Trust Deed. Those requirements include that:

- (a) the Substituted Obligor becomes bound by all the terms and conditions of the Trust Documents;
- (b) such amendments are made to the other documents in respect of the offer of Bonds as the Trustee may reasonably deem appropriate;
- (c) two directors of the Substituted Obligor certify that the Substituted Obligor will be solvent immediately after such substitution;
- (d) any public rating assigned to the Bonds is maintained or increased;
- (e) any other reasonable requirements the Trustee may reasonably consider are in the interests of the Bondholders are met, which may include that the Issuer guarantees payment of the Bonds and/or remains bound by all or certain provisions of the Trust Documents;
- (f) the Substituted Obligor warrants and represents to the Bondholders that it has all the necessary authorisations and that the obligations assumed by it are valid, binding and enforceable; and
- (g) legal opinions are obtained confirming certain matters, such as that the Trust Documents and Bonds constitute legal, valid and binding obligations of the Substituted Obligor, the Substituted Obligor is validly incorporated, all necessary authorisations are in full force and effect and that the amounts payable to the Bondholders will not be reduced by taxes (other than taxes in respect of which the Substituted Obligor has agreed to make compensating payments to the Bondholders).

ANSWERS TO IMPORTANT QUESTIONS *continued***3. HOW MUCH DO I PAY?****Issue price and minimum investment**

The issue price of the Bonds is \$1.00 per Bond. Applications to subscribe for Bonds must be for a minimum aggregate Principal Amount of \$5,000 (and in multiples of \$1,000 thereafter) and payment of the total Subscription Moneys in full must accompany the Application Form. There is no maximum amount of Bonds you may apply for, but Applications for less than \$5,000 will not be accepted.

Applications must be made on the Application Form contained at the back of this Investment Statement.

**Payments**

Applicants who are members of the NZClear System, or who are able to have payments made on their behalf through the NZClear System, may settle their applications for Bonds, by prior arrangement, on the Issue Date for the Bonds through the NZClear System with the Agent (BKRE30).

Applicants who are not members of the NZClear System must pay for the Bonds applied for by a personal cheque, by direct debit, or if the Application is for Bonds of an aggregate Principal Amount of \$500,000 or more, by bank cheque or other method acceptable to the Lead Managers. Cheques should be in New Zealand dollars drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques should be made payable to "Transpower Bond Offer" and crossed "Not Transferable" and must not be post-dated.

**Where to send your Application Form and payment**

A completed Application Form together with your cheque, unless direct debit details have been completed, should be delivered or sent, so as to be received by no later than 5:00pm New Zealand time on the Closing Date for the Bonds, to:

Transpower New Zealand Limited  
c/-Link Market Services Limited

Postal Address:  
P O Box 91976  
Auckland 1142

Physical Address:  
Level 16, Brookfield House  
19 Victoria Street West  
Auckland 1142

Applications may also be submitted to the Lead Managers or the Co-Managers for the Bonds in time to enable the Application to be forwarded to the Agent at the address above and be received by the time noted above. The address details for the Lead Managers and the Co-Managers are set out in the *Directory* on pages 32 to 34 of this Investment Statement.

**Applications**

The Issuer reserves the right to refuse all or any part of any Application without giving any reason including (but without limitation) where an applicant has not provided account details in relation to an Application for payment by direct debit.

Any Subscription Moneys received in respect of an Application which is not accepted by the Issuer will be returned (without interest) to the applicant as soon as reasonably practicable after the Issuer decides not to accept the Application and, in any event, within 10 Business Days of the Application being declined.

If the Issuer accepts an Application in part, the balance of the Subscription Moneys (without interest) will be refunded as soon as reasonably practicable and, in any event, within 10 Business Days of the Application being declined.

Where an applicant's payment for Bonds is dishonoured, the Issuer may cancel any Bonds issued to that applicant, and may pursue the defaulting applicant for damages suffered by the Issuer.

Applications cannot be withdrawn or revoked.

#### **No cooling off period**

There is no cooling off period during which an investor can cancel his or her investment in the Bonds.

#### **4. WHAT ARE THE CHARGES?**

Applicants pay no fees or charges to the Issuer to invest in the Bonds other than the Subscription Moneys. Brokerage fees and charges are however likely to be payable on any subsequent transfer of any Bonds effected through a broker or other financial intermediary.

#### **5. WHAT RETURNS WILL I GET?**

##### **Overview**

The information set out in this section should be read in conjunction with the information set out under the heading *What are my risks?* on page 23. Certain events could reduce or eliminate the returns intended to be derived from holding the Bonds.

##### **Interest Rate**

###### *Fixed Rate Bonds*

Fixed Rate Bonds will bear interest on their respective Principal Amounts at the Interest Rate specified in the Pricing Supplement for the Bonds. Interest will be payable in arrears in equal quarterly, semi-annual, annual or other instalments as specified in the Pricing Supplement for the Bonds on the Interest Payment Dates specified in the Pricing Supplement for the Bonds. The first Interest Payment Date on Fixed Rate Bonds will be specified in the Pricing Supplement for the Bonds. If such interest period is not a full interest period, the interest payable on that first interest payment date will be adjusted accordingly.

The Interest Rate for the Fixed Rate Bonds will be the annual percentage rates specified in the Pricing Supplement for the Bonds.

###### *Floating Rate Bonds*

Floating Rate Bonds will bear interest on their respective Principal Amounts at a variable Interest Rate determined by reference to the Base Rate which may be adjusted by adding or subtracting the Margin (expressed as a percentage rate per annum) as specified in the Pricing Supplement for the Bonds. The interest on Floating Rate Bonds will be payable by reference to such interest periods, each being a period of one, two, three, four, five or six months' duration, or such other duration, as specified in the Pricing Supplement for the Bonds, in arrears on the Interest Payment Dates specified in the Pricing Supplement for the Bonds. The first Interest Payment Date on Floating Rate Bonds will be set out in the Pricing Supplement for the Bonds.

## ANSWERS TO IMPORTANT QUESTIONS *continued*

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The Interest Rate on each Floating Rate Bond will be reset on each Interest Payment Date for that Bond. The Agent will determine the Interest Rate for the Floating Rate Bonds and calculate the amount of interest payable on each Floating Rate Bond for the relevant interest period. Interest will be calculated on the Principal Amount of each Floating Rate Bond on the basis of the number of days in the relevant interest period and on the basis of a 365 day year.

### **Interest payments**

Interest will be paid by the Issuer on the Bonds as set out in the Pricing Supplement for the Bonds on each Interest Payment Date for the Bonds as specified in the Pricing Supplement for the Bonds until and including the Maturity Date for the Bonds specified in the Pricing Supplement for the Bonds, to the Bondholders as at the relevant Record Date. The first Interest Payment Date for the Bonds will be specified in the Pricing Supplement for the Bonds. If an Interest Payment Date or the Maturity Date falls on a day that is not a Business Day, the due date for any payment to be made on that date will be the next following Business Day (except that, in the case of a Floating Rate Bond, if the following Business Day falls in the next calendar month, the due date for that payment will be the first Business Day preceding that Interest Payment Date or that Maturity Date). No adjustment of interest or further payment will be made in these circumstances.

Payments (whether of interest or Principal Amount) to Bondholders will be made by direct credit to the bank account or broker cash management account specified in the Application Form or as specified by subsequent notice to the Agent. If no account is specified, payments will be made by posting a cheque to the address of the relevant Bondholder appearing in the Register at the Bondholder's risk.

### **Status**

The Bonds offered under this Investment Statement are debt securities and constitute unsecured, unsubordinated, debt obligations of the Issuer. The Bonds will rank equally and without any preference among themselves and 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.

### **Maturity Date**

The Principal Amount of the Bonds will be repaid by the Issuer on the Maturity Date specified in the Pricing Supplement for the Bonds.

### **Redemption by Bondholders**

Bondholders have no right to require the Issuer to redeem their Bonds unless an Event of Default occurs. This means the Bondholders have no ability to cash in their investment before the Maturity Date for the Bonds, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

## Events of Default

Upon the occurrence of any of the Events of Default set out in the Trust Documents, the Trustee may, and immediately upon being directed to do so by an Extraordinary Resolution of Bondholders must, declare the Bonds (together with accrued interest) to be immediately due and payable. However, none of the events listed in the definition of Event of Default in the Trust Documents will constitute an Event of Default, and the Bonds will not become immediately due and payable, unless the Event of Default is continuing unremedied and the Trustee has given notice to the Issuer declaring the Bonds to be immediately due and payable.

The Events of Default are listed in the Trust Documents. In summary, the Events of Default include the following events:

- a failure to make any repayment of the Principal Amount on its due date or within 2 business days after its due date where non-payment on its due date has arisen solely by reason of a technical, computer or similar error outside of the control of the Issuer;
- a failure to make any payment of interest on the Bonds within 2 Business Days of the due date;
- a failure to make any payment of any other amount payable under the Trust Documents within 10 Business Days of its due date;
- any breach by the Issuer of any other material obligations under the Trust Documents that, if capable of remedy, is not remedied within 30 Business Days of the Issuer becoming aware of that breach;
- any breach of a representation or warranty in a material respect which has a material adverse effect on the Issuer;
- if an application or an order is made or a resolution is passed or proposed for the dissolution of the Issuer;
- if an encumbrancer takes possession or a liquidator, provisional liquidator, trustee, receiver, receiver and manager, inspector appointed under any companies or securities legislation, administrator or similar official is appointed in respect of the Issuer and is not removed or discharged within 14 days;
- if any step is taken to appoint a statutory manager in respect of the Issuer;
- if the Issuer is declared or becomes insolvent or is deemed under any applicable law to be unable to pay its debts when they fall due or enters into dealings with any of its creditors with a view to avoiding or in expectation of insolvency or makes a general assignment or an arrangement or composition with or for the benefit of any of its creditors, or stops or threatens to stop payments generally;
- if any indebtedness of the Issuer in aggregate in excess of \$10,000,000 is not paid when due or within any applicable grace period or becomes due and payable prior to its stated maturity by reason of a default, cancellation event or similar event (however, described);
- any material provision of the Trust Documents ceases to have effect or becomes void, voidable, illegal, invalid or unenforceable; and
- if the Issuer threatens to cease to carry on all or substantially all of its business or operations.

Investors should refer to the Trust Documents for a fuller description of the acts and omissions that constitute an Event of Default.

If the Bonds are repaid prior to their Maturity Date, the returns the Bondholders will receive will be different from the returns they would have received if the Bonds are repaid on their Maturity Date.

## ANSWERS TO IMPORTANT QUESTIONS *continued*

### Key factors that determine returns

The key factors that determine the returns on a Bondholder's investment are:

- the Interest Rate for the Bonds;
- the Issuer's financial condition and credit ratings;
- any applicable taxes;
- the date on which redemption occurs;
- fluctuations in the price of the Bonds if sold on the secondary market, as described under the heading Transferring Bonds below; and
- the other risk factors described under the heading *What are my risks?* on pages 23 to 25.

### Taxation returns

Your returns will be affected by taxes. The information set out below relates solely to New Zealand taxation and does not constitute taxation advice to any Bondholder. The information is believed by the Issuer to be correct as at the date of this Investment Statement. All applicable rates of tax are prescribed by current legislation (as modified by any relevant double tax treaty to which New Zealand is a party). Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Bonds. Investors should seek qualified, independent financial and taxation advice before deciding to invest. In particular, investors should consult their tax adviser in relation to their specific circumstances.

For the purposes of this section of the Investment Statement, capitalised terms which are not defined in this section or the Glossary on pages 30 to 31 shall have the meaning set out in the Income Tax Act 2007 (as modified by any relevant double tax treaty to which New Zealand is a party) and the Stamp and Cheque Duties Act 1971.

#### *Deductions or withholdings*

All amounts payable in respect of a Bond will be paid by the Issuer (or any other person making payment on behalf of the Issuer; the Issuer and such person collectively and individually being referred to as the **Payer**) to the Bondholder less:

- (a) the amount required by law to be deducted or withheld from the amount payable on account of any present or future taxes, duties, assessments or Government charges of whatsoever nature (**Taxes**); or
- (b) an amount deducted on account of Approved Issuer Levy (as provided below),

unless the Bondholder satisfies the Payer that the Bondholder is exempt from liability in respect of, or that the payment may be made without, the withholding or deduction of an amount on account of Taxes.

If the Payer deducts or withholds an amount on account of Taxes or (if applicable) on account of Approved Issuer Levy in respect of a Bond, the Payer will promptly pay the amount withheld or deducted to the appropriate tax authority in accordance with the relevant law.

Where the Payer is required by law to deduct or withhold an amount on account of Taxes, or has deducted an amount on account of Approved Issuer Levy, in respect of a Bond, the payment by the Payer of the net amount to the Bondholder is to be in full discharge and satisfaction of the Issuer's obligation to pay the applicable gross amount to the Bondholder and no person is liable to pay the Bondholder an additional payment in respect of the amount deducted or withheld.

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For the purposes of determining the Payer's liability (if any) to make deductions or withholdings of amounts on account of Taxes in respect of a Bond, the Payer will assume that the Bondholder is Resident in New Zealand or carrying on business in New Zealand through a Fixed Establishment in New Zealand for taxation purposes, unless the Bondholder can satisfy the Payer otherwise.

#### *Resident Withholding Tax*

If the Bondholder is, or as provided above is assumed to be, Resident in New Zealand or carrying on business in New Zealand through a Fixed Establishment in New Zealand for New Zealand taxation purposes, the Payer will deduct Resident Withholding Tax at the applicable rate from all payments of Interest or any Redemption Payment payable to the Bondholder in respect of a Bond, unless the Bondholder can satisfy the Payer that the payment is not, or is deemed not to be, Resident Passive Income for New Zealand tax purposes, or the Bondholder has presented a valid exemption certificate.

#### *Taxation of Bondholders Resident in New Zealand*

Bondholders resident in New Zealand will generally be required to calculate their taxable income in relation to the Bonds under the financial arrangements rules. Under those rules, for example, where a Bondholder disposes of or redeems a Bond for an amount (measured in NZ Dollars at the time of disposal or redemption) exceeding the amount the Bondholder paid for the Bond (measured in NZ Dollars at the time of acquisition), the excess is likely to be taxable income, in addition to any interest received during the period the Bondholder held the Bond. A loss on disposal or redemption may be deductible. Such income or loss may have to be recognised annually on an unrealised basis prior to disposal or redemption under the financial arrangements rules.

#### *Non-Resident Withholding Tax and Approved Issuer Levy*

Subject to (a) and (b) below, New Zealand Non-Resident Withholding Tax will be required to be deducted from payments of interest or payments deemed by law to be interest to any Bondholder (including, if applicable, any person who beneficially derives interest under the relevant Bond) who is a person who is neither Resident in New Zealand nor carries on business in New Zealand through a Fixed Establishment in New Zealand (a **Non-Resident**). However:

- (a) If the Payer is lawfully able to make the relevant filings to enable interest (or deemed interest) to be paid to a Non-Resident Bondholder without the imposition of Approved Issuer Levy or Resident Withholding Tax, the Payer may elect to do so in respect the Bonds.
- (b) Where the Payer cannot or does not make the election under clause (a) above (for whatever reason), unless the relevant Non-Resident Bondholder notifies the Payer that it elects that Non-Resident Withholding Tax be deducted from payments to it instead of Approved Issuer Levy (which, as at the date of this Investment Statement, is 2%) if the Payer is lawfully able to pay Approved Issuer Levy in respect of any payment of interest (or deemed interest) to Non-Resident Bondholders, and elects to do so in respect of any Bonds, the Payer, or the Agent on its behalf, shall pay the Approved Issuer Levy to the appropriate authority and shall deduct the amount paid from the interest (or deemed interest) payable to those Bondholders in lieu of deducting New Zealand Non-Resident Withholding Tax from that payment at the rate otherwise applicable.

## ANSWERS TO IMPORTANT QUESTIONS *continued*

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If a Non-Resident Bondholder derives Interest or a Redemption Payment from the Bonds jointly with one or more persons, and at least one of those persons is Resident in New Zealand, Non-Resident Withholding Tax must be deducted from the Interest or Redemption Payment paid or credited to the person who is Non-Resident at the applicable rate of Resident Withholding Tax (which may be reduced by an applicable double taxation treaty). The Issuer is not entitled to make payment of Approved Issuer Levy in such cases.

### *Bondholder indemnity*

Pursuant to the Master Trust Deed, if, in respect of any Bond, the Agent or the Issuer becomes liable to make any payment of, or on account of, tax payable by any Bondholder (including, if applicable, any other person who beneficially derives interest under the relevant Bond), then the Agent and the Issuer shall be indemnified by the relevant Bondholder in respect of such liability. Any moneys paid by the Agent or the Issuer in respect of such liability may be recovered from the Bondholder as a debt due to the Agent or the Issuer and may be withheld from any further payments to that Bondholder.

### **Transferring Bonds**

If Bondholders transfer any Bonds, the price obtained for them may differ from the amount paid to purchase them. This is because changes in market interest rates can affect the market value of the Bonds (see *What are my risks?* on pages 23 to 25).

Bonds may only be transferred in multiples of \$1,000 in Principal Amount and no transfer will be registered if the transfer would result in the transferor or the transferee holding Bonds with an aggregate Principal Amount of less than \$5,000 or integral multiples other than \$1,000. You should contact your broker or financial adviser if you wish to sell or transfer Bonds.

Applicants should not attempt to sell Bonds until they know whether, and how many, Bonds have been issued to them. Neither the Issuer, the Lead Managers, the Co-Managers, the Trustee nor any of their respective directors or employees or any other person accepts any liability or responsibility should any applicant for Bonds attempt to sell or otherwise deal with any Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

### **Person legally liable to pay returns**

If you sell your Bonds, the purchaser will be legally liable to pay the purchase price of those Bonds to you.

The Issuer is legally liable for payment of all other returns on the Bonds. The interest payable on and the Principal Amount payable in respect of the Bonds are promised to, and are enforceable, by the Bondholders. No other person promises or guarantees the return of the Principal Amount or interest or any other returns in respect of the Bonds.

## 6. WHAT ARE MY RISKS?

The principal risks for you are that you do not recover the sum which you paid for the Bonds and/or you do not receive the returns on your investment described above in the section *What returns will I get?* This could happen for a number of reasons including:

- the price at which the Bonds trade may be lower than the price you paid for them;
- there may be no ready market for the Bonds;
- the Issuer may become insolvent or be placed in receivership, voluntary administration, statutory management or liquidation or cease to have sufficient assets to pay returns to Bondholders;
- the operational and financial performance of the Issuer may be worse than expected;
- the Issuer may not be able to redeem the Bonds on the Maturity Date;
- the Bonds may be redeemed before the Maturity Date (as a result of the occurrence of an Event of Default); and
- in the event of a change in company tax rates, individual income tax rates, or the way such rates affect a Bondholder's taxable income, such changes may impact on the returns to Bondholders.

Some risk factors are specific to the Issuer's business activities and some are of a more general nature. The risks set out in this section may individually, or in combination, affect the future operating performance of the Issuer and the returns on the Bonds described above in the section *What returns will I get?*

### Consequences of insolvency

A Bondholder could receive none of, or less than, the returns described under the heading *What returns will I get?* if the Issuer became insolvent for any reason. However, provided a Bondholder has fully paid for the Bonds it holds, it will not be liable to pay any money to any person as a direct consequence of holding Bonds if the Issuer becomes insolvent. As the Bonds are unsecured, unsubordinated debt obligations, in a liquidation, receivership or statutory management of the Issuer, the Bondholder's rights to payment of any moneys payable pursuant to the Bonds will rank after the claims of:

- persons to whom preferential payments must be made (including creditors of the Issuer preferred by law); and
- secured creditors.

Claims of the Bondholders will thereafter rank equally among themselves and with the claims of all other unsecured, unsubordinated creditors of the Issuer.

### Key risk factors

All investments carry risk. There are risks associated with the Bonds which could affect Bondholders' ability to recover their principal investment or impact on the returns on the Bonds described in this Investment Statement. The principal risks fall into the following categories: credit risk and interest rate risk.

### Credit risk

Bondholders are subject to the credit risk of the Issuer. Credit risk is the risk of the Issuer becoming insolvent and being placed in receivership, liquidation, statutory management or voluntary administration. If this occurs, Bondholders may not recover their principal investment or the returns contemplated.

ANSWERS TO IMPORTANT QUESTIONS *continued*

The Issuer considers its key risks relating to the Bonds to be:

- (a) *Regulatory risk*: the Issuer's business is subject to significant regulatory oversight (see the section on *Regulatory Framework* on page 7 for further detail on the regulatory framework within which the Issuer operates). Regulatory risks that could significantly affect the financial position of the Issuer include changes to the regulatory framework, determinations made pursuant to the regulatory framework or the Issuer's failure to operate in compliance with the regulatory framework and/or regulatory determinations;
- (b) *Commodity risk*: the risk associated with commodity price movements, which, along with currency risk (below), determine the NZ Dollar cost of commodity expenditure. Commodities (for example, copper, aluminium and steel) are used in the construction of the Issuer's transmission assets;
- (c) *Currency risk*: the risk associated with exchange rate movements, which determine the NZ Dollar cost of foreign currency denominated expenditures, assets and liabilities;
- (d) *Liquidity risk*: the risk associated with an inability to meet monetary obligations in an orderly and timely manner. This might result from the Issuer or other members of the Transpower Group not maintaining adequate funding facilities or being unable to renew or replace existing facilities when they mature;
- (e) *Counterparty risk*: the risk associated with counterparties, transmission customers, other debtors of the Issuer or other members of the Transpower Group failing to meet their obligations to the Issuer and other members of the Transpower Group;
- (f) *Economic downturn risk*: risks associated with adverse economic conditions or a downturn in the sectors to which the Issuer is exposed;
- (g) *Solvency risk*: the risk of not being able to pay debts as they fall due. This risk could be increased as a result of other borrowings of the Issuer;
- (h) *Interest rate risk*: the risk associated with fluctuations in present and future finance costs and revenues of the Issuer arising from the interaction of interest rate movements with the Issuer's debt portfolio and funds advanced to other members of the Transpower Group;
- (i) *Infrastructure risk*: the risks associated with a failure to ensure the security of electricity supply (which includes risks associated with a failure to ensure transmission capacity matches demand) and the risk of infrastructure assets requiring unforeseen major maintenance, or being damaged or destroyed by fire, earthquake or other event;
- (j) *Development risks*: the risks associated with the Issuer's planned grid investment projects or other infrastructure development work. These risks include the risks of defaults by contractors, cost and time overruns, including the impact of overruns on cost recovery from transmission customers, delays in obtaining resource consents or other regulatory approvals (or the risk of failing to obtain those approvals), construction works impacting on the smooth operation of the National Grid (see the section on *Planned Grid Investment Projects* on pages 10 to 11 for further detail on the planned grid investment projects) and the risk of regulatory determinations affecting the viability of planned grid upgrades because the costs of the upgrades cannot be recovered fully from transmission customers; and
- (k) *Competitive risks*: the risks associated with competition in various aspects of the Issuer's business.

To manage and mitigate some of the effects of these risks:

- The Issuer engages in consultation with the Commerce Commission, the Electricity Authority and other relevant Government agencies in order to promote an evolving regulatory regime that is consistent with the Issuer's

strategic objectives of maintaining security of supply while receiving an economic return on investment. Over time, the regulatory framework applying to transmission has moved towards the conventional arrangements used in similar overseas jurisdictions, partly in response to submissions made by the Issuer.

- In addition, the Issuer consults with its transmission customers (on both the load and generation sides) with the objective that the required capacity and load growth are factored into the Issuer's grid planning at an early stage. The Issuer has a suite of standards and specifications pertaining to equipment supply, installation and maintenance. Long-term performance and incentive based contracts with maintenance providers have been established with the objective that condition-based maintenance is consistently carried out on all infrastructure assets in accordance with the Issuer's service specifications, and within recommended timeframes.
- The Issuer and other members of the Transpower Group operate within the constraints of certain treasury policies. The liquidity risk is managed by planning that adequate liquid assets and funding sources are available at all times to meet both short and long term commitments. In addition, the Issuer avoids concentrations of debt maturing over a short period of time, and appropriate cash flow reporting mechanisms are maintained to monitor the Issuer's estimated liquidity position. The Issuer uses interest rate swaps and options to manage interest rate repricing risk, and cross currency interest rate swaps to mitigate currency risk. Counterparty risk is mitigated by only entering into financial instruments with counterparties that meet certain credit rating standards and through the use of exposure limits.
- In order to mitigate construction risk, all potential significant contractors are subject to a review of company capability, present and previous work history, financial status, key personnel, references, systems and procedures. The construction contracts entered into also often include provisions for the Issuer to claim liquidated damages as a remedy for recovering damages resulting from delays. Payment for construction work is normally based on construction progress claims or milestones being achieved. In most cases, contractors are liable for damage caused while performing contracts. In the event that this does not apply, the Issuer has its own insurance to cover potential damage. Any outages or constraints are co-ordinated with the System Operator and affected transmission customers to minimise disruption to the greatest extent possible. Safety and environmental risks are minimised as much as possible to reduce the likelihood of an incident affecting construction.
- The Issuer is the owner of New Zealand's only national high voltage electricity transmission system. The high entry cost that would face any competitor and the integrated nature of the National Grid and the Issuer's position in the electricity industry, are barriers to competitors challenging the Issuer's position as a monopoly transmission asset owner.

### Interest rate risk

If a Bondholder sells Bonds before maturity and the market interest rate that applies to investments similar to the Bonds at that time is higher than the interest rate specified for the Bonds, the Bondholder may not receive back the full amount of the initial principal investment. This occurs where market conditions have determined the return on the Bond to be less valuable than other investments which provide a higher rate of return.

In contrast, if the market interest rate at the time a Bondholder sells Bonds is lower than the interest rate at which they were purchased, that Bondholder may receive more than the initial principal investment. This will occur where market conditions have determined the return on the Bond to be more valuable than other investments which provide a lesser rate of return.

This loss or gain of capital is a function of the effect of a change in underlying market interest rates on the value of the Bond. The Issuer and the wider Transpower Group have no control over this risk.

ANSWERS TO IMPORTANT QUESTIONS *continued***7. CAN THE INVESTMENT BE ALTERED?****Terms of this Offer**

The terms of this Offer and the terms and conditions on which investors may apply for Bonds may be altered by an amendment to the Trust Documents.

**Early repayment of the Bonds**

Upon the occurrence of an Event of Default under the Trust Documents, the Trustee may, and immediately upon being directed to do so by an Extraordinary Resolution of Bondholders must, declare the Bonds to be immediately due and payable.

If the Bonds are repaid prior to their Maturity Date, the returns the Bondholders will receive will be different from the returns they would have received if the Bonds are repaid on their Maturity Date.

**Trust Documents**

The terms and conditions of the Trust Documents in relation to the affected Bonds may be altered with the approval of the affected Bondholders by an Extraordinary Resolution passed at a meeting of those Bondholders and, in limited circumstances, with the approval only of the Trustee and the Issuer as more particularly described below.

An Extraordinary Resolution is:

- a resolution passed at a meeting of Bondholders properly convened and held in accordance with the rules and procedures for meetings of Bondholders set out in the schedule to the Master Trust Deed at which at least 75% of the persons voting at the meeting vote in favour of the resolution or, if a poll is properly demanded, then at least 75% of the votes cast on such a poll, are in favour of the resolution; or
- a resolution in writing signed by not less than 75% of the Bondholders, holding not less than 75% of the aggregate Principal Amount of the Bonds and having the right to vote on that resolution.

An Extraordinary Resolution is binding on all Bondholders, whether or not they are present at such meeting or signed the resolution in writing. Any Bonds for the time being held by the Issuer or any of its Subsidiaries will not whilst so held confer any right to vote.

In addition, the Trustee and the Issuer may, without the consent of Bondholders, agree to alter the Trust Documents in the limited circumstances specified in the Master Trust Deed. These circumstances include:

- amendments of a minor, formal, administrative or technical nature;
- amendments that are to correct a manifest error;
- amendments that are to comply with the requirements or a modification of the requirements of any applicable law or the rules of any stock exchange;
- amendments that are necessary for the purpose of obtaining or maintaining a quotation of the relevant Bonds on any stock exchange;
- amendments that are in respect of any of the provisions of the Master Trust Deed, relating to the appointment of the Trustee and the fees and expenses recoverable by the Trustee, reporting to the Trustee or the exercise of the Trustee's powers.

The above circumstances are also subject to the general requirement that the Issuer and the Trustee must each be of the opinion that the amendment will not be materially prejudicial to the interests of, in the case of the Issuer, the Bondholders of the affected Bonds generally, and, in the case of the Trustee, the affected Bondholders generally.

The Trustee may also approve an amendment to the Trust Documents if it is of the reasonable opinion that such amendment will not adversely affect the interests of the affected Bondholders.

In addition, the Trustee may temporarily vary the provisions of the Trust Documents for such period and on such terms as may be deemed appropriate provided that the Trustee is of the reasonable opinion that the interests of the affected Bondholders generally will not be materially prejudiced. The Issuer and the Trustee may also alter the Trust Documents without the consent of the Bondholders where the amendments reflect an exemption granted to the Issuer, or an exemption that is applicable to the Issuer, in relation to any obligation imposed upon the Issuer by or pursuant to the Securities Act, the SOE Act, the Companies Act or the Financial Reporting Act 1993 which is materially the same as or analogous to any obligation of the Issuer under the Trust Documents or the Bonds.

Any amendment to the Trust Documents in relation to the affected Bonds will be binding on all Bondholders of those Bonds and will only be effective if it is in writing and signed by the Issuer and the Trustee.

#### **Substituted Obligor**

The ability of the Issuer to substitute an alternative obligor under the Bonds is described in the section *Who is involved in providing it for me?* on page 14.

## **8. HOW DO I CASH IN MY INVESTMENT?**

#### **Maturity Date**

The Principal Amount of the Bonds will be repaid by the Issuer on the Maturity Date specified in the Pricing Supplement for the Bonds. The Issuer does not have any right to repay the Bonds prior to the Maturity Date for the Bonds.

#### **No right of redemption**

Bondholders have no right to require redemption of the Bonds, except in the case of an Event of Default. This means that Bondholders have no ability to cash in their investment before the Maturity Date for the Bonds, except following an Event of Default or by selling their Bonds in the secondary market (if one develops).

#### **Transfer of Bonds**

Bondholders are entitled to sell or transfer their Bonds at any time subject to the terms of the Trust Documents and applicable securities laws and regulations. Bonds may be transferred using a transfer document in any commonly used form.

Applicants should not attempt to sell Bonds until they know whether, and how many, Bonds have been issued to them. None of the Issuer, the Lead Managers, the Co-Managers, the Trustee or any of their respective directors or employees or any other person accepts any liability or responsibility should any applicant for Bonds attempt to sell or otherwise deal with any Bonds before receiving a statement recording the number of Bonds (if any) issued to them.

Bonds may only be transferred in multiples of \$1,000 in Principal Amount and no transfer will be registered if the transfer would result in the transferor or the transferee holding Bonds with an aggregate Principal Amount of less than \$5,000 or integral multiples other than \$1,000.

There is currently no market for the Bonds, although it is expected that there will be a secondary market for the Bonds. However, the Issuer gives no assurances as to the existence or characteristics of such secondary market.

Brokerage at applicable rates is likely to be payable by a Bondholder on any transfer of their Bonds effected through a broker or other financial intermediary.

ANSWERS TO IMPORTANT QUESTIONS *continued*

**9. WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?**

Any enquiries can be directed to:

The Issuer at:

Treasurer  
 Transpower New Zealand Limited  
 Level 7, Transpower House  
 96 The Terrace  
 Wellington 6140  
 P O Box 1021  
 Wellington 6140

Telephone: (04) 495 7000  
 Facsimile: (04) 495 7100

The Agent for the Bonds:

Link Market Services Limited  
 Level 16, Brookfield House  
 19 Victoria Street West  
 Auckland 1142  
 P O Box 91976  
 Auckland 1142

Telephone: (09) 375 5998  
 Facsimile: (09) 375 5990  
 Email: [Lmsenquiries@linkmarketservices.com](mailto:Lmsenquiries@linkmarketservices.com)

**10. IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?**

Complaints about the Bonds can be directed to the Issuer at:

Treasurer  
 Transpower New Zealand Limited  
 Level 7, Transpower House  
 96 The Terrace  
 Wellington 6140

Telephone: (04) 495 7000  
 Facsimile: (04) 495 7100

Complaints can also be directed to the Agent of the Bonds at:

Link Market Services Limited  
 Level 16, Brookfield House  
 19 Victoria Street West  
 Auckland 1142

Telephone: (09) 375 5998  
 Facsimile: (09) 375 5990  
 Email: [Lmsenquiries@linkmarketservices.com](mailto:Lmsenquiries@linkmarketservices.com)

or the Trustee for the Bonds at:

General Manager Corporate Trusts  
 The New Zealand Guardian Trust Company Limited  
 Level 3, 15 Willeston Street  
 P O Box 913  
 Wellington 6140

Telephone: (04) 495 7914  
 Facsimile: (04) 499 1454

There is no Ombudsman to whom complaints can be made.

The Issuer is a member of the Financial Disputes Resolution Scheme (**FDR Scheme**). The FDR Scheme is operated by Dispute Resolution Services Limited (**DRSL**). If you cannot agree with the Issuer on how to resolve your issue, you can refer the matter to DRSL by directing the complaint to DRSL at:

Level 9  
109 Featherston Street  
Wellington 6011

Telephone: 0508 337 337  
Facsimile: (04) 918 4901

## 11. WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Further information about the Issuer and the Bonds is contained or referred to in the Prospectus, the relevant Trust Documents and the consolidated financial statements of the Transpower Group. Copies of the Prospectus, the relevant Trust Documents, consolidated financial statements and other documents relating to the Transpower Group may be inspected without fee during normal business hours at the Issuer's address specified above under the heading *Who do I contact with enquiries about my investment?*.

These documents, together with all documents that are required to be registered with the Prospectus, may be accessed on the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies).

Bondholders will be sent a copy of the annual report of the Issuer (together with the audited consolidated financial statements for the Transpower Group) for the relevant period and a half yearly report of the Issuer which will contain the Transpower Group's consolidated financial statements. The provision of these reports may be by electronic means.

You are also entitled to obtain copies (which may be provided electronically) of the following at no cost if you make a request in writing to the Issuer at the address specified above under *Who do I contact with enquiries about my investment?*:

- the most recent annual report of the Issuer (together with the audited consolidated financial statements of the Transpower Group for the relevant period) or the half yearly report of the Issuer which will contain the Transpower Group's consolidated financial statements for the relevant period and all documents that are required to be incorporated in, attached to, or accompany any of those financial statements, after the responsible Minister for the Issuer has laid them before the House of Representatives;
- this Investment Statement;
- the relevant Trust Documents; and
- the Prospectus in respect of the Bonds.

Bondholders can also obtain the above information, together with further information about the Issuer, from the Issuer's website [www.transpower.co.nz](http://www.transpower.co.nz).

## GLOSSARY

In this Investment Statement, unless the context otherwise requires:

**Agent** means any person or persons appointed by the Issuer from time to time and for the time being as the issue agent, paying agent, transfer agent, replacement agent, calculation agent and/or registrar in relation to Bonds (as the case may require) and who, in respect of each such capacity is, as at the date of this Investment Statement, Link Market Services Limited.

**Application** means an application for Bonds pursuant to this Offer.

**Application Form** means the application form attached to this Investment Statement.

**Base Rate** means, in relation to the Bonds, the base rate specified in the Pricing Supplement for the Bonds.

**Bonds** means the bonds to be issued by the Issuer pursuant to the Prospectus and this Investment Statement and, where the context requires, means the Bonds of a series under the relevant Trust Documents.

**Bondholder** means a person for the time being, who is a holder of Bonds and whose name is entered in the Register as the holder of Bonds, and includes their personal representatives and, in relation to a Bond lodged in NZClear, the person whose name is recorded in the records of NZClear as the person holding the beneficial interest of that Bond at that time.

**Business Day** means a day upon which registered banks are open for general banking business in Wellington and Auckland, New Zealand.

**Closing Date** means in respect of the Bonds, the date specified in the Pricing Supplement for the Bonds.

**Co-Managers** means the co-managers specified in the Pricing Supplement for the Bonds.

**Commerce Act** means the Commerce Act 1986.

**Commerce Commission** means the New Zealand Crown entity established by section 8 of the Commerce Act on 1 May 1986.

**Companies Act** means the Companies Act 1993.

**Directors** means the directors of the Issuer, and Director means any one of them.

**Electricity Industry Act** means the Electricity Industry Act 2010.

**Electricity Authority** means the New Zealand Crown entity of that name established by section 12 of the Electricity Industry Act on 1 November 2010.

**Event of Default** has the meaning given to it in the Trust Documents.

**Interest Payment Date** means, in relation to the Bonds, the dates set out in the Pricing Supplement for the Bonds.

**Interest Rate** means, in relation to the Bonds, the rate of interest per annum payable on the face value of the Bond as specified or determined in the Pricing Supplement for the Bonds.

**Interest Rate Set Date** means, in relation to the Bonds, the date specified in the Pricing Supplement for the Bonds.

**Investment Statement** means this investment statement for the Bonds.

**Issue Date** means, in relation to the Bonds, the date set out in the Pricing Supplement for the Bonds.

**Issuer** means Transpower New Zealand Limited.

**Lead Managers** means the lead managers specified in the Pricing Supplement for the Bonds.

**Margin** means, in relation to the Bonds, the margin specified in the Pricing Supplement for the Bonds.

**Master Trust Deed** means the master trust deed between the Issuer and the Trustee dated 18 March 2011, as amended from time to time.

**Maturity Date** means, in relation to the Bonds, the date set out in the Pricing Supplement for the Bonds.

**NZClear System** means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the NZClear System.

**NZ Dollars, \$ and NZ\$** means the lawful currency of New Zealand for the time being.

## GLOSSARY continued

**Offer** means the offer of Bonds under this Investment Statement and the Prospectus.

**Pricing Supplement** means, in respect of the Bonds, the pricing supplement for the Bonds issued with and forming part of, this Investment Statement which specifies, amongst other things, the important dates, Interest Rate and ratings in respect of the Bonds.

**Principal Amount** means \$1.00 per Bond.

**Prospectus** means the registered prospectus for the Bonds.

**Record Date** means, in relation to any applicable interest payment, 5.00 pm on the day which is 10 days prior to the due date for payment (or, if that day is not a Business Day, the immediately preceding Business Day).

**Register** means any register of Bonds maintained by the Agent.

**Subscription Moneys** means, in respect of a Bondholder, the moneys payable by that Bondholder in respect of subscription for the Bonds to be held by that Bondholder.

**Subsidiary** means:

- (a) a subsidiary, within the meaning of section 5 of the Companies Act, of the Issuer; or
- (b) any other entity whose financial statements are required to be consolidated with the financial statements of the Issuer in accordance with NZ GAAP.

**Supplemental Trust Deed** means the supplemental trust deed entered or to be entered into between the Issuer and the Trustee relating to a series of Bonds offered under this Investment Statement (to which the relevant Pricing Supplement is attached as a schedule).

**Transpower Group** means Transpower and its Subsidiaries. The Transpower Group as at the date of this Investment Statement is comprised of Transpower, d-cyphaTrade Limited, Halfway Bush Finance Limited, Risk Reinsurance Limited, TB and T Limited and Transpower Finance Limited. For the purposes of financial reporting only, the Transpower Group also includes NZ Power Cayman 2003-1 Limited.

**Trust Documents** means the Master Trust Deed and, in respect of a series of Bonds, the relevant Supplemental Trust Deed relating to that series of Bonds.

**Trustee** means The New Zealand Guardian Trust Company Limited.

## DIRECTORY

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### Issuer

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#### **Transpower New Zealand Limited**

Level 7

Transpower House

96 The Terrace

P O Box 1021

Wellington 6140

Telephone: (04) 495 7000

Facsimile: (04) 495 7100

Website: [www.transpower.co.nz](http://www.transpower.co.nz)

### Trustee for Bondholders

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#### **The New Zealand Guardian Trust Company Limited**

Level 3, 15 Willeston Street

P O Box 913

Wellington 6140

Telephone: (04) 495 7914

Facsimile: (04) 499 1454

### Managers of Bond Placements

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#### **ANZ National Bank Limited**

Level 7, 1 Victoria Street

Wellington 6012

Telephone: 0800 269 476

Facsimile: (04) 496 8642

[www.anz.co.nz/ipo](http://www.anz.co.nz/ipo)

#### **ASB Bank Limited**

Level 28, ASB Bank Centre

135 Albert Street

PO Box 35, Shortland Street

Auckland 1140

Telephone: 0800 272 633

Facsimile: (09) 374 8716

#### **Bank of New Zealand**

Level 6, 80 Queen Street

Private Bag 92208

Auckland 1142

Telephone: (09) 375 1391

Facsimile: (09) 976 5710

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 DIRECTORY continued
 

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**Managers of Bond Placements** – continued
 

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**Deutsche Bank AG New Zealand**

Level 36, Vero Centre  
 48 Shortland Street  
 P O Box 6900  
 Wellesley Street  
 Auckland

Telephone: (09) 351 1000

Facsimile: (09) 351 1222

**First NZ Capital Ltd**

Level 14, HP Tower  
 171 Featherston Street  
 P O Box 3394  
 Wellington

Telephone: (04) 474 4400

Facsimile: (04) 496 5311

**Westpac Institutional Bank**

Level 8,  
 16 Takutai Square  
 PO Box 934  
 Auckland 1010

Telephone: (09) 358 0836 / 352 0829

Facsimile: (09) 367 3856

**Auditors**


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**Marcus Henry, Ernst & Young,**

on behalf of The Auditor-General  
 Level 24, Majestic Centre  
 100 Willis Street  
 PO Box 490  
 Wellington 6140

Telephone: (04) 499 4888

Facsimile: (04) 495 7400

**Solicitors to the Issuer**


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**Mayne Wetherell**

Level 23, SAP Tower, 151 Queen Street  
 Auckland

Telephone: (09) 921 6000

Facsimile: (09) 921 6001

DIRECTORY continued

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**Solicitors to the Trustee**

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**Russell McVeagh**

Vodafone on the Quay

157 Lambton Quay

P O Box 10-214

Wellington

Telephone: (04) 499 9555

Facsimile: (04) 499 9556

**Agent**

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**Link Market Services Limited**

Level 16, Brookfield House

19 Victoria Street West

PO Box 91976

Auckland 1142

Telephone: (09) 375 5999

Facsimile: (09) 375 5990

## APPLICATION INSTRUCTIONS

You should read this Investment Statement carefully before completing an Application Form. An application will constitute an irrevocable offer by the applicant to subscribe for and acquire the Principal Amount of Bonds specified on the Application Form (or such lesser amount which the Issuer may determine) on the terms and conditions set out in this Investment Statement, the relevant Pricing Supplement, the Prospectus, the Trust Deed and on the Application Form. An application cannot be withdrawn or revoked by the applicant once it has been submitted. The Issuer's decision on the aggregate Principal Amount of Bonds to be allotted to an applicant and as to whether to accept or reject an Application Form, or to treat it as valid, will be final.

### THE APPLICATION FORM

#### 1 Investor Details

Insert your full name(s), address and telephone numbers. Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per application. Use the table below to see how to write your name correctly.

TYPE OF APPLICANT:	CORRECT WAY TO WRITE NAME:	INCORRECT WAY TO WRITE NAME:
Individual person	JOHN SMITH	J SMITH
More than one person	JOHN SMITH MICHELLE SMITH	J & M SMITH
Company	ABC LIMITED	ABC
Trusts	JOHN SMITH (JOHN SMITH FAMILY A/C)	SMITH FAMILY TRUST
Partnerships	JOHN SMITH MICHAEL SMITH (JOHN SMITH AND SONS A/C)	JOHN SMITH & SONS
Clubs and unincorporated associations	JANE SMITH (SMITH INVESTMENT CLUB A/C)	SMITH INVESTMENT CLUB
Superannuation funds	JOHN SMITH LIMITED (SUPERANNUATION FUND A/C)	JOHN SMITH SUPERANNUATION FUND

By supplying your mobile number you will enable the Agent to advise you by TXT Alerts (post allotment) of any changes on your holding balance, or if your bank account details or address on register change, or if a new or replacement FIN has been requested. This feature provides additional security to you as an investor.

## APPLICATION INSTRUCTIONS *continued*

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### 2 Application Payment Details

An application for Bonds must be for a minimum aggregate Principal Amount of \$5,000 and in multiples of \$1,000 thereafter. Insert the Principal Amount of Bonds applied for and the Pricing Supplement number. The Issuer will refuse to accept applications which are for less than the minimum amount.

Payment must be made by direct debit or by cheque (or, if the application is for Bonds of an aggregate Principal Amount of \$500,000 or more, by bank cheque or other method approved by the Issuer), or through the NZClear System (institutional investors only) by prior arrangement.

Please advise payment method and bank account details for future interest payments.

**Option 1:** If you choose the direct debit option you must tick the box authorising the Agent to direct debit the bank account nominated on the Application Form, on the day the Application Form is received by the Agent, for the total Principal Amount applied for on the Application Form. The bank account must be with a New Zealand registered bank. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- that sufficient funds are available in the bank account for direct debit on the day the Agent receives the Application Form;
- the person(s) giving the direct debit instruction has/have the authority to operate the account solely/jointly; and
- the bank account you nominated is a transactional account eligible for direct debit transactions. If you are uncertain you should contact your bank.

Should your direct debit fail, your application will be rejected. If requested, a direct debit authority form will be provided to you by the Agent. Refer to the contact details on the Application Form.

**Option 2:** By a personal cheque in New Zealand dollars. Cheques must be made payable to “Transpower Bond Offer”, crossed “Not Transferable” and must not be post-dated as cheques will be banked on day of receipt. If an applicant’s cheque is dishonoured, the Issuer may cancel that applicant’s allotment of Bonds and pursue any other remedies available to it at law.

**Option 3:** Applicants who are members of the NZClear System may, by prior arrangement with the Agent, settle their applications for the Bonds through the NZClear System with the Agent up to and including the allotment date.

### 3 Holder number details

If you have other investments registered under a Common Shareholder Number (CSN) you must supply your CSN in the space provided. The name and address details on your Application Form must correspond with the registration details under that CSN. If you do not provide a CSN it will be deemed that you do not have a current CSN and a base registry number and FIN will be allocated to you at allotment of the Bonds.

#### 4 Provide your IRD number

Insert your IRD number. Only one IRD number is required per joint holding.

Tick the relevant box for Resident Withholding Tax (if applicable). Complete country of tax residence and, if that is not New Zealand, tick the box if you carry on business in New Zealand through a fixed establishment (branch) in New Zealand. If you are exempt from RWT, please tick the exempt box and attach a copy of your RWT exemption certificate.

#### 5 Electronic investor correspondence

By supplying your email address your investor correspondence will be delivered to you electronically where possible. This is a much more environmentally friendly, cost effective and timely option than paper based investor mail outs and the Issuer encourages you to complete this section.

#### 6 Signing and Dating

Read this Investment Statement, the Prospectus, the relevant Pricing Supplement and the Application Form carefully and sign and date the Application Form. The Application Form must be signed by the applicant(s) personally, or by two directors if a company (or one director if there is only one director, whose signature must be witnessed), or in either case by a duly authorised attorney or agent. Joint applicants must each sign the Application Form.

If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the reverse of the Application Form. If the Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agent on the reverse of the Application Form.

#### 7 Closing Date and Delivery

Application Forms together with cheques may be mailed or delivered to the Agent so as to be received by no later than 5.00pm New Zealand time on the Closing Date for the Bonds at:

Link Market Services Limited

Postal Address:  
P O Box 91976  
Auckland 1142

OR

Physical Address:  
Level 16, Brookfield House  
19 Victoria Street West  
Auckland 1142

Applications may also be submitted to any Lead Manager or Co-Manager in time to enable the Application to be forwarded to the Agent at the address above and to be received by the time noted above.

The Issuer may accept or reject any Application without giving any reason. The Issuer will refuse to accept Applications which are for less than the minimum amount.

## APPLICATION INSTRUCTIONS *continued*

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### **Indemnity**

The Investment Statement only constitutes an offer of Bonds to the public in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered. No action has been or will be taken by the Issuer which would permit an offer of Bonds to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). Bonds may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered.

No Bondholder, or any other person, may purchase, offer, sell, distribute or deliver Bonds, or have in its possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

By applying for Bonds, each applicant indemnifies the Issuer, each Lead Manager, each Co-Manager and the Trustee and each of their respective directors, officers and employees for any loss or liability sustained or incurred by the Issuer, that Lead Manager, that Co-Manager or the Trustee, as the case may be, as a result of the breach by that applicant of the above selling restrictions.

### **Personal Information Rights**

Personal information provided by you will be held by the Issuer and the Agent at their respective addresses shown in the Directory on the inside back cover of this Prospectus or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. By signing this Application Form, you authorise the Issuer to disclose information to its related companies, and for the Issuer, its related companies and the Agent to disclose information in situations where the Issuer or any of its related companies, or the Agent are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. You have a right to access and correct any personal information about you under the Privacy Act 1993. You can also access your information on the Link Market Services website: [www.linkmarketservices.com](http://www.linkmarketservices.com). (You will be required to enter your holder number and FIN).

# APPLICATION FORM

## Transpower New Zealand Limited (Issuer)

This Application Form is issued with the Investment Statement prepared as at 17 November 2011, issued by the Issuer. Please complete this Application Form and return it together with your cheque (unless direct debit details have been provided below) to the Agent (**Link Market Services Limited**) or to the Lead Managers or the Co-Managers in time for it to be forwarded to the Agent before 5.00pm on the Closing Date for the Bonds as set out in the Pricing Supplement for the Bonds.

PRICING SUPPLEMENT NO:

BROKER STAMP
Broker code
Advisor code

FOR INSTRUCTIONS ON HOW TO COMPLETE AND DELIVER THIS FORM SEE THE ACCOMPANYING APPLICATION INSTRUCTIONS.

### 1 APPLICATION DETAILS AND INFORMATION – PLEASE PRINT IN BLOCK LETTERS

First Name(s):		Family Name:	
First Name(s):		Family Name:	
First Name(s):		Family Name:	
Corporate Name or <<On Account>> :			
Postal Address:			
Telephone mobile		Telephone daytime	

### 2 APPLICATION PAYMENT

Applications must be accompanied by payment in full and must be either by cheque or bank draft payable to “Transpower Bond Offer” and crossed “Not Transferable”, OR by direct debit by completing the bank account section below. Applications must be for a minimum of **NZ\$5,000** and, thereafter, in multiples of **NZ\$1,000**. The Issuer may accept or reject all or part of this application without giving any reason.

Total Principal Amount of Bonds applied for:

You may choose only ONE of the PAYMENT options below. Please tick the box next to your selected option (✓).

**OPTION 1** Please direct debit my bank account stated below for the Total Principal Amount of Bonds applied for above (or any lesser amount as determined by the Issuer). By ticking this box and signing this Application Form, I agree that the Agent is authorised to direct debit my account for the Total Principal Amount of Bonds applied for (or any lesser amount as determined by the Issuer). All future interest paid by the Issuer will also be credited to this account unless the Agent is advised otherwise in writing.

**PLEASE CONFIRM WITH YOUR BANK THAT THIS ACCOUNT CAN BE DIRECT DEBITED**

**OPTION 2** Please find attached my payment by cheque or bank draft. I have supplied my bank account details below for the purpose of direct crediting of any future interest paid by the Issuer.

**OPTION 3** Payment will be made through NZClear System as arranged with the Agent (authorised institutional investors only).

NZClear Mnemonic:

#### NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT AND/OR DIRECT CREDIT OF FUTURE INTEREST PAYMENTS:

Name of Bank: \_\_\_\_\_ Name of Account: \_\_\_\_\_

<input type="text"/>	<input type="text"/>	–	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	–	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bank			Branch		Account No						Suffix			

#### OR for the purpose of interest payments only: Direct credit to my Cash Management Account:

Name of NZX member firm where Cash Management Account is held: \_\_\_\_\_

Cash Management Client Account number: \_\_\_\_\_

Cash Management Client Account number:

**3 COMMON SHAREHOLDER NUMBER (CSN)**

Please note that the application must be in the same name as the CSN below otherwise the application will be deemed to be made without a CSN

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**4 IRD NUMBER or RWT EXEMPTION**

IRD number (only one IRD number is required in respect of a joint application): 



 - 



 -

Deduct **Resident Withholding Tax** from my interest earned at the following rate (tick ✓ one).

10.5%  
  17.5%  
  28%  
  30%  
  33%

(Please note that companies (other than a company which is acting as a trustee or a company which is a Maori authority) do not need to tick any box unless they hold an RWT exemption certificate. Tax will automatically be deducted at 28% provided that the company's IRD number is supplied above)

**Exempt** - please tick this box if you hold a current RWT exemption certificate from IRD and attach a copy of your RWT exemption certificate. The RWT exemption certificate must relate to the IRD number provided.

Country of tax residence: \_\_\_\_\_

Although not New Zealand tax resident, the applicant is engaged in business in New Zealand through a fixed establishment (branch) in New Zealand.

**5 ELECTRONIC CORRESPONDENCE**

By providing your email address in the section below you will ensure that you receive your investor communication by email where possible. If you do not provide an email address, your communication will be mailed to your to the postal address provide in section A of this application form.

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**6 SIGNATURE(S) OF APPLICANT(S)**

I/We hereby acknowledge that I/we have received and read the Investment Statement and the Prospectus and apply for the Total Principal Amount of Bonds as set out above and agree to accept such Bonds (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Investment Statement. All applicants on the Application Form must sign.

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Date: \_\_\_\_\_

**7 APPLICATION FORM AND CHEQUE TO BE RECEIVED BY AGENT NO LATER THAN 5.00PM ON THE CLOSING DATE FOR THE BONDS:**

**Transpower Bond Offer**  
 c/- Link Market Services Limited  
 PO Box 91976,  
 Auckland 1142

**Or deliver to:**  
 Level 16, Brookfields House, 19 Victoria Street, Auckland  
 Investor phone number: +64 9 375 5998

**CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY****Complete this section if you are an individual acting on behalf of someone for whom you hold Power of Attorney.**

I, \_\_\_\_\_ (Full name of attorney)  
 of \_\_\_\_\_ (Place and country of residence of attorney)  
 \_\_\_\_\_ (Occupation of attorney)

**CERTIFY**

1. That by deed dated \_\_\_\_\_ (DD/MM/YYYY)  
 \_\_\_\_\_ (Full name of donor of power of attorney)  
 of \_\_\_\_\_ (Place and country of residence of donor):  
 appointed me his/her/its power of attorney.

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge  
 and belief no such notice has been received by \_\_\_\_\_  
 \_\_\_\_\_ (Full name of body corporate  
 holding power of attorney).

or by any employee or agent of that body corporate.

Signed at: \_\_\_\_\_ Dated (DD/MM/YYYY): \_\_\_\_\_

Signature of Attorney: \_\_\_\_\_

**Complete this section if you are a body corporate acting on behalf of someone for whom you hold Power of Attorney.**

I, \_\_\_\_\_ (Full name of attorney)  
 of \_\_\_\_\_ (Place and country of residence of attorney)  
 \_\_\_\_\_ (Occupation of attorney)

**CERTIFY**

1. That by deed dated \_\_\_\_\_ (DD/MM/YYYY)  
 \_\_\_\_\_ (Full name of donor of power of attorney)  
 of \_\_\_\_\_ (Place and country of registered office or  
 principal place of business of donor)

appointed as attorney \_\_\_\_\_ (Full name of body corporate holding power  
 of attorney)

a body corporate having its registered office (or principal place of business) at \_\_\_\_\_ (Address of registered office or principal  
 place of business)

and I am authorised to give this certificate on its behalf. The capacity in which  
 I give this certificate for the attorney is as \_\_\_\_\_ (Director, officer or other capacity)

2. That I have not received notice of any event revoking the power of attorney.

3. (If the donor is a body corporate) That to the best of my knowledge and belief  
 no such notice has been received by \_\_\_\_\_  
 \_\_\_\_\_ (Full name of body corporate holding power  
 of attorney).

or by any employee or agent of that body corporate.

Signed at: \_\_\_\_\_ Dated (DD/MM/YYYY): \_\_\_\_\_

Signature: \_\_\_\_\_

**CERTIFICATE OF NON-REVOCATION OF AGENT**

Complete this section if you are acting as agent for someone

I, \_\_\_\_\_ (Name of Agent)  
of \_\_\_\_\_ (Address of Agent)  
Agent) \_\_\_\_\_ (Occupation of Agent)

CERTIFY

1. That, by the Agency Agreement dated: \_\_\_\_\_ (DD/MM/YYYY)  
\_\_\_\_\_ appointed me his/her/its Agent on the terms and conditions set out in the Agency Agreement. (Name of Donor)

2. That I have executed the Application for Bonds printed on this Application Form under the appointment and pursuant to the powers thereby conferred on me.

3. That I have not received any notice of any event revoking the appointment by death (or winding up) of the Donor or otherwise.

Signed at: \_\_\_\_\_ Dated (DD/MM/YYYY): \_\_\_\_\_

Signature of Agent: \_\_\_\_\_



