TRANSPOWER

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Media release
28 August 2015

Transpower releases 2014/15 annual result

Transpower New Zealand today released its annual results for the 2014/15 financial year.

Earnings before interest, tax, depreciation, amortisation, impairments, asset write-offs, and changes in the fair value of financial instruments (EBITDAIF) were $763.9 million, an increase of $47.4 million (+6.6%). The increase was driven by increased revenue and lower operating costs.

Transmission revenue increased $43.7 million to $984.2 million (+4.6%) on the prior period following the completion of our major capital build programme. Operating expenses declined by 1.9% to $281.6 million, reflecting tight cost control and initial gains from a number of business improvement and efficiency initiatives being implemented across the company.

Net profit after tax, before net changes in the fair value of financial instruments, was $194.6 million, an increase of $10.7 million (+5.8%) on the prior period. The total dividend to be paid to the Crown for the 2014/15 financial year is $188 million.

Chairman Mark Verbiest said that the company had performed strongly over the past twelve months, both financially and operationally.

“Reliability on the grid was the best performance achieved in the last ten years and the grid managed well through a number of extreme weather events throughout the year. This is due, in part, to the major investments undertaken over the last five years that have built resilience and redundancy into the grid, as well as continual improvements in our asset management practices.”

“With this major investment programme now complete, electricity consumers saw a reduction in AC transmission prices from 1 April – on average, a 3.6% reduction across the country,” he said.

“A significant milestone this year was the completion of our first regulatory control period. Our base capital expenditure programme delivered commissioned assets of almost $966 million – 97% of the regulatory allowance. Operating expenditure over the regulatory period was below our allowance due to a continual focus on reducing costs in our day-to-day operations.”

“We also completed the regulatory reset for our next five-year regulatory control period (RCP2), which started on 1 April 2015. This period brings a more challenging operating environment for our transmission business with a lower allowable rate of return, challenging efficiency targets and more comprehensive and complex incentive arrangements.”

“Our focus on transformation programmes and implementing operational efficiencies should place us in a good position to meet these challenges. However, the changes to our regulatory and operating environment are likely to result in our financial performance in 2015/16 being lower than 2014/15. We are focused on maintaining our ability to deliver reliable transmission services to our customers at an appropriate price point, while strengthening our financial position in the long term.”

Transpower’s full annual report will not be available until tabled in Parliament later this year. Our financial accounts are available at https://www.transpower.co.nz/news/transpower-releases-201415-annual-result.

For further information, please contact:
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TRANSPOWER NEW ZEALAND LIMIITED	
2014/15 full year group results for announcement to the market 28 August 2015	
Reporting Period	12 months to 30 June 2015
Previous Reporting Period	12 months to 30 June 2014

	Amount (millions)	Percentage change
Revenue from ordinary activities	$NZ 1,045.5	+4.2%
Profit (loss) from ordinary activities after tax attributable to security holder (before net changes in fair value of financial instruments)	$NZ 194.6	+5.8%
Net profit (loss) attributable to security holders	$NZ 113.3	-47.5%
Interim Dividend	Amount per security	Imputed amount per security
$75.2 million	6 cents per share	6 cents per share

Final Dividend	Amount per security	Imputed amount per security
$112.8 million	9 cents per share	9 cents per share
Total Dividend	Amount per security	Imputed amount per security
$188.0 million	15 cents per share	15 cents per share

Record Date	September 2015
Dividend Payment Date	September 2015

Comments:	Chairman Mark Verbiest said that the company had performed strongly over the past twelve months, both financially and operationally. Net profit after tax, before net changes in the fair value of financial

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	instruments, increased 5.8 per cent to $194.6 million (June 2014: $183.9 million). The increase reflects higher transmission revenue following the completion of our major capital build programme and lower operating costs. Total revenue increased 4.2 per cent to $1,045.5 million (June 2014: $1,003.7 million) as newly commissioned assets are included in the revenue base. While transmission revenue increased $43.7 million to $984.2 million (+4.6 per cent) on the prior period, future growth in transmission revenue is expected to be flat to declining in real terms. This is due to a reduced capital expenditure programme, lower regulated allowable return on assets and the reset of a number of parameters determined by the Commerce Commission for the next five years (from 1 April 2015). In addition, demand for electricity continues to flatten. The RCP2 regulatory reset of the allowable rate of return resulted in lower transmission revenue in the last quarter of the year ($23 million below budget). Operating expenses declined by 1.9 per cent to $281.6 million (June 2014: $287.2 million) reflecting tight cost control and initial gains from a number of business improvement and efficiency initiatives being implemented across the company. While operating costs in total reduced, transmission expenses increased slightly (1.9 per cent). The principal contributor to this increase was repairs of some large assets. Offsetting some of this increase were gains from improved maintenance scheduling and delivery. Increased revenue and lower operating costs resulted in improved earnings before interest, tax, depreciation, amortisation, impairments, asset write-offs, and changes in the fair value of financial instruments (EBITDAIF) to $763.9 million (June 2014: $716.5 million), an increase of $47.4 million or 6.6 per cent. Return on capital employed of 6.8% was in line with our target and the prior period. Depreciation, amortisation, impairments and write-offs increased 5.2 per cent to $264.3 million (June 2014: $251.2 million), reflecting a higher asset base. Gross finance expenses were in line with the prior period. However, a significant reduction in capitalised interest expense, as our major projects are now operational, resulted in a $16.4 million (7.8 per cent) increase in finance expenses to $225.8 million (June 2014: $209.4 million). Capital expenditure for the year reduced 28 percent to $359.0 million (June 2014: $502.0 million), reflecting the completion of our major projects. Net profit after tax, including net changes in the fair value of financial instruments, was $113.3 million (June 2014: $215.8 million). This result is substantially impacted by the change in the fair value of financial instruments. The change in fair value of financial instruments before tax was a loss of $114.5 million, compared to a gain of $45 million in the prior period, predominantly the result of movements in market interest rates. Fair value movements are non-cash in nature and do not reflect the underlying operating performance of the business. Changes to our regulatory and operating environment are likely to result in our financial performance in 2015/16 being lower than in 2014/15.