



People make
the difference

Interim Report 2020

TRUSTPOWER AND SUBSIDIARIES INTERIM REPORT 2020

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Trustpower Limited (NZX: TPW) has delivered a sound half year result despite external challenges.

Proactive customer care and diversified digital customer service platforms in the retail business, together with a commitment to generation performance have contributed to increased returns with EBITDAF* up three per cent on the same period last year. This is especially pleasing considering the sub-optimal operating conditions presented by reduced generation volumes and ongoing COVID-19 Alert Level changes.

While generation EBITDAF* is down three per cent primarily due to continued dry conditions, in retail, our product and margin growth have contributed to a strong underlying result, with EBITDAF* of \$19.2 million, 38% higher than the same period last year.

Trustpower Chair Paul Ridley-Smith credits consistent and robust incident response planning for the company's performance. "Trustpower has been investing in increased levels of automation and the development of staff leadership capability for many years. I'm pleased to see our preparedness is resulting in increased business resilience and continued value for our shareholders."

Trustpower's total shareholder return over the six months was 16.3%. An interim dividend of 17 cents per share, fully imputed, has been declared and is payable on 4 December, 2020.

*EBITDAF (Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition adjustments) is a non-GAAP financial measure commonly used within the electricity industry as a measure of performance as it shows the level of earnings before the impact of gearing and non-cash charges such as depreciation and amortisation.

GENERATION

Generation volumes are down four per cent on the same period last year, as the impacts of significant and prolonged drought conditions, particularly in the North Island, are felt. Reduced avoided cost of transmission (ACOT) payments and lost ongoing revenue as a result of the sale of Trustpower's meter asset business have also contributed to a generation EBITDAF* of \$91.9 million, down from \$94.6 million for the same period last year.

Trustpower Chief Executive David Prentice said favourable wholesale market prices and a diverse generation portfolio were working in the company's favour.

"Trustpower has been well placed to withstand the impacts of drought conditions in the North Island thanks to its geographically dispersed generation schemes. In the South Island, lake levels at Cobb and Coleridge are returning to near normal level while Waipori remains at lower levels than expected at this time of year partly due to increased generation," says Dr Prentice.

Essential scheme maintenance projects pushed ahead despite changes in Alert Levels, demonstrating Trustpower's commitment to its responsibility as a lifeline utility provider. The Arnold G2 turbine refurbishment was completed with site staff becoming 'one bubble' to ensure the lights stayed on for residents on the West Coast.

Long-term, a focus on efficiency and enhancements will continue with average annual generation forecast to increase by 67GWh from FY-21 to FY-25 through targeted enhancements.

RETAIL OPERATIONS

Telco customer numbers continue to increase, with 50% of customers now taking two or more products. Higher margins reflect a shift to unlimited and high-speed fibre plans. Reduced acquisition activity over April's lockdown period has resulted in lower than forecasted costs.

A continued increase in digital service and engagement is driving optimised staffed effort and supporting growth without headcount. Seventy-eight per cent of customer service engagements now take place digitally, with virtual agent 'Toni' experiencing a 33% increase in use. Investment in digital customer support services is paying off, with re-engagement sitting at 80%.

Pleasingly, pay on time rates continue to track at circa 2019 levels. Dr Prentice puts this down to the company's thorough and targeted approach to customer support.

"Trustpower has always had a strong commitment to customer service. During the

COVID-19 lockdown we stepped it up a notch and proactively called 11,000 of our most vulnerable customers. We reached out to customers facing hardship, offering personalised payment plans and assistance with accessing budgeting support or social agencies."

GOVERNANCE AND LEADERSHIP

Trustpower welcomes two new directors to its Board, as originally announced in May. David Gibson took up his role in September, and Peter Coman joins on 6 November, 2020, contemporaneous with Geoff Swier's retirement.

Mr Ridley-Smith says, "We are very lucky to have had Geoff on our Board for over 13 years and will miss his wisdom and insight. On behalf of all Directors, I'd like to thank him for his contribution. We also welcome David and Peter onto the Board and look forward to working with them as we continue to drive success at Trustpower."

Sara Broadhurst joined the leadership team on 22 October, 2020, as General Manager, People and Culture. "Sara is an experienced general manager, with nearly 20 years of delivering significant people and business focussed outcomes and around 10 years working in executive teams for commercial, publicly listed, government and not-for-profit organisations in Australasia and the UK," said Dr Prentice.

GUIDANCE AND OUTLOOK

Trustpower's judicial review of the Transmission Pricing Methodology (TPM) guidelines is ongoing, as it seeks to ensure fundamental changes to transmission charges with economy-wide repercussions are well justified and demonstrate real benefits to customers.

Trustpower expects its FY-21 EBITDAF* to be in the range of \$185 million to \$205 million. This reflects a revised generation volume forecast for FY-21 of approximately 1,702 GWh. This forecast has been driven by lower volumes across the first half of the year and current below average lake storage levels at some of our schemes. Wholesale prices, average residential energy consumption, mass market customer numbers and bad debt levels are all expected to remain broadly consistent. Trustpower expects FY-21 capex to be in the range of \$34 million to \$44 million.

Mr Ridley-Smith said that looking ahead, the company had capacity to grow and to participate strongly in a dynamic and fast-evolving retail environment, and to realise the opportunities presented by the need for increased electrification into the future.

SNAPSHOT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

**\$19.2
million**

retail earnings
(EBITDAF*) up 38%
from \$13.9 in 2019

**\$110.4
million**

operating earnings
(EBITDAF*)
up \$3.3 million
or 3%

**\$33.6
million**

profit after tax
down \$5.1 million
or 13%

**\$91.9
million**

New Zealand generation
earnings (EBITDAF*)
down \$2.7 million
or 3%

**\$52.7
million**

underlying earnings
after tax** up \$3.5m
or 7%

16.8c

underlying
earnings** per
share up 7.0%
from 15.7c
in 2019

17.0¢

fully imputed
interim dividend of
17.0c per share

*EBITDAF (Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition adjustments) is a non-GAAP financial measure commonly used within the electricity industry as a measure of performance as it shows the level of earnings before the impact of gearing and non-cash charges such as depreciation and amortisation.

**Underlying Earnings is a non GAAP (Generally Accepted Accounting Principles) financial measure. Trustpower believes that this measure is an important additional financial measure to disclose as it excludes movements in the fair value of financial instruments which can be volatile year to year, depending on movement in long term interest rate and or electricity future prices. Also excluded in this measure are items considered to be one off and not related to core business such as changes to the company tax rate or impairment of generation assets.

KEY METRICS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

	2020	2019	2018	2017	2016
Profit After Tax (\$M)	34	39	65	82	45
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF) (\$M)	110	107	130	159	110
Underlying earnings after tax (\$M)	53	49	65	83	56
Basic earnings per share (cents per share)	11	12	20	26	15
Underlying earnings per share (cents per share)	17	16	21	26	18
Dividends paid during the period (cents per share)	16	32	17	17	17
Net debt to annualised EBITDAF	3.0	3	1.9	2.0	3.4
Net tangible assets per share (dollars per share)	3.38	3.72	4.53	4.44	4.35

CUSTOMERS, SALES AND SERVICE

Electricity connections (000s)	263	266	273	278	252
Telecommunication customers (000s)	106	100	80	69	51
Gas connections (000s)	42	40	37	33	30
Total utility accounts	411	399	390	380	333
Customers with two or more utilities (000s)	117	111	94	84	66
Mass market sales – fixed price (GWh)	1,051	1,025	1,090	1,066	981
Time of use sales – fixed price (GWh)	250	418	426	417	414
Time of use sales – spot price (GWh)	428	546	566	652	752
Total customer sales (GWh)	1,729	1,989	2,082	2,135	2,147
Average spot price of electricity purchased (\$/MWh)	135	91	91	58	60
Gas Sales (TJ)	709	636	714	664	744
Annualised customer churn rate	16%	18%	21%	17%	16%
Annualised customer churn rate – total market	18%	22%	22%	21%	22%

GENERATION PRODUCTION AND PROCUREMENT

North Island hydro generation production (GWh)	410	479	732	518	381
South Island hydro generation production (GWh)	535	510	593	541	574
Total New Zealand generation production (GWh)	945	989	1,325	1,059	955
Average spot price of electricity generated (\$/MWh)	135	89	89	55	54
Net third party fixed price volume purchased (GWh)	487	770	770	871	805

OTHER INFORMATION

Resource consent non-compliance events	2	10	6	4	4
Staff numbers (full time equivalents)	813	812	787	813	675

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020	NOTE	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
OPERATING REVENUE			
Electricity revenue		415,822	447,676
Telecommunications revenue		50,726	46,805
Gas revenue		18,146	17,511
Revenue allocated to customer incentives		11,959	15,622
Other operating revenue		9,622	11,766
		506,275	539,380
OPERATING EXPENSES			
Line costs		133,201	151,604
Electricity costs		105,030	123,205
Generation production costs		22,036	22,270
Employee benefits		37,732	37,464
Telecommunications cost of sales		32,762	32,764
Gas cost of sales		15,172	13,183
Other cost of sales		7,989	15,058
Other operating expenses		41,953	36,729
		395,875	432,277
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, FAIR VALUE MOVEMENTS OF FINANCIAL INSTRUMENTS AND ASSET IMPAIRMENTS (EBITDAF)*			
	8	110,400	107,103
Impairment of assets		-	2,381
Net fair value losses on financial instruments		26,484	12,249
Amortisation of intangible assets		5,638	4,984
Depreciation (includes right of use asset depreciation)		16,268	14,784
OPERATING PROFIT		62,010	72,705
Interest paid		15,423	17,278
Interest received		(277)	(335)
Net finance costs		15,146	16,943
PROFIT BEFORE INCOME TAX		46,864	55,762
Income tax expense		13,253	17,084
PROFIT AFTER TAX		33,611	38,678
Profit after tax attributable to the shareholders of the Company		33,180	38,101
Profit after tax attributable to non-controlling interests		431	577
Basic and diluted earnings per share (cents per share)		10.6	12.2

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 5 November 2020.

*EBITDAF is a non-GAAP measure. Refer to note 8 for more information.

The accompanying notes form part of these interim financial statements

STATEMENT OF COMPREHENSIVE INCOME

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020		
Profit after tax	33,611	38,678
OTHER COMPREHENSIVE INCOME		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:		
Fair value gains on cash flow hedges	17,355	21,435
Tax effect of the following:		
Fair value gains on cash flow hedges	(4,859)	(6,002)
TOTAL OTHER COMPREHENSIVE INCOME	12,496	15,433
TOTAL COMPREHENSIVE INCOME	46,107	54,111
Attributable to shareholders of the Company	45,676	53,534
Attributable to non-controlling interests	431	577

The accompanying notes form part of these interim financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE
SIX MONTHS ENDED
30 SEPTEMBER 2020

	NOTE	SHARE CAPITAL \$000	REVALUATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL SHAREHOLDERS' EQUITY \$000	NON- CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
OPENING BALANCE AS AT 1 APRIL 2019		2	801,920	28,856	393,625	1,224,403	24,570	1,248,973
Total comprehensive income for the period		-	-	16,153	37,885	54,038	577	54,615
<i>Transactions with owners recorded directly in equity</i>								
Dividends paid	7	-	-	-	(100,151)	(100,151)	(1,072)	(101,223)
Total transactions with owners recorded directly in equity		-	-	-	(100,151)	(100,151)	(1,072)	(101,223)
UNAUDITED CLOSING BALANCE AS AT 30 SEPTEMBER 2019		2	801,920	45,009	331,359	1,178,290	24,075	1,202,365
OPENING BALANCE AS AT 1 APRIL 2020		2	732,898	7,987	335,340	1,076,227	23,787	1,100,014
Total comprehensive income for the period		-	-	12,496	33,180	45,676	431	46,107
<i>Transactions with owners recorded directly in equity</i>								
Dividends paid	7	-	-	-	(48,645)	(48,645)	(1,499)	(50,144)
Total transactions with owners recorded directly in equity		-	-	-	(48,645)	(48,645)	(1,499)	(50,144)
UNAUDITED CLOSING BALANCE AS AT 30 SEPTEMBER 2020		2	732,898	20,483	319,875	1,073,258	22,719	1,095,977

The accompanying notes form part of these interim financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2020	NOTE	UNAUDITED SEPTEMBER 2020 \$000	AUDITED MARCH 2020 \$000
EQUITY			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital		2	2
Revaluation reserve		732,898	732,898
Retained earnings		319,875	335,340
Cash flow hedge reserve		20,483	7,987
Non-controlling interests		22,719	23,787
TOTAL EQUITY		1,095,977	1,100,014
<i>Represented by:</i>			
CURRENT ASSETS			
Cash at bank		14,283	8,662
Electricity market security deposits	13	31,201	541
Accounts receivable and prepayments		105,470	90,777
Capitalised customer acquisition costs	4	34,959	35,320
Derivative financial instruments	15	19,075	14,121
Taxation receivable		5,903	-
		210,891	149,421
NON CURRENT ASSETS			
Property, plant and equipment		1,835,513	1,836,412
Right-of-use assets	14	37,135	35,455
Capitalised customer acquisition costs	4	14,395	20,078
Derivative financial instruments	15	26,539	22,701
Other investments		8,000	8,000
Intangible assets		38,160	38,715
		1,959,742	1,961,361
TOTAL ASSETS		2,170,633	2,110,782
CURRENT LIABILITIES			
Accounts payable and accruals		91,233	92,992
Unsecured bank loans	6	15,000	35,000
Lease liabilities	14	8,504	6,924
Derivative financial instruments	15	13,634	2,716
Taxation payable		-	6,003
		128,371	143,635
NON CURRENT LIABILITIES			
Unsecured bank loans	6	228,875	158,690
Unsecured senior bonds	6	432,452	432,208
Lease liabilities	14	29,654	29,176
Derivative financial instruments	15	34,358	27,335
Deferred tax liability		220,946	219,724
		946,285	867,133
TOTAL LIABILITIES		1,074,656	1,010,768
NET ASSETS		1,095,977	1,100,014
Net Tangible Assets Per Share		\$3.38	\$3.12

The accompanying notes form part of these interim financial statements

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020	NOTE	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers		485,113	521,168
		485,113	521,168
<i>Cash was applied to:</i>			
Payments to suppliers and employees		385,253	428,049
Taxation paid		28,812	33,802
		414,065	461,851
NET CASH FLOW FROM OPERATING ACTIVITIES	10	71,048	59,317
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Return of electricity market security deposits	13	78,300	5,000
Interest received		277	335
		78,577	5,335
<i>Cash was applied to:</i>			
Lodgement of electricity market security deposits	13	108,960	2,231
Purchase of property, plant and equipment		10,551	9,914
Purchase of intangible assets		5,076	6,512
		124,587	18,657
NET CASH FLOW USED IN INVESTING ACTIVITIES		(46,010)	(13,322)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was provided from:</i>			
Bank loan proceeds		142,585	233,506
Senior bond issue proceeds		-	123,806
		142,585	357,312
<i>Cash was applied to:</i>			
Repayment of bank loans		92,400	170,300
Repayment of subordinated bonds		-	114,163
Interest paid		15,126	16,217
Repayment of lease liability		4,332	2,856
Dividends paid to owners of the Company	7	48,645	100,151
Dividends paid to non-controlling shareholders in subsidiary companies		1,499	305
		162,002	403,992
NET CASH FLOW USED IN FINANCING ACTIVITIES		(19,417)	(46,680)
NET INCREASE/(DECREASE) IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFT		5,621	(685)
Cash, cash equivalents and bank overdrafts at beginning of the period		8,662	8,204
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF THE PERIOD		14,283	7,519

The accompanying notes form part of these interim financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

REPORTING ENTITY

The reporting entity is the consolidated group comprising Trustpower Limited and its subsidiaries together referred to as Trustpower. Trustpower Limited is a limited liability company incorporated and domiciled in New Zealand. The principal activities of Trustpower are the ownership and operation of electricity generation facilities from renewable energy sources and the retail sale of energy and telecommunications services to its customers.

Trustpower Limited is registered under the Companies Act 1993, and is listed on the New Zealand Stock Exchange (NZX). It is an FMC Reporting Entity under the Financial Markets Conducts Act 2013.

The financial statements are presented for the half year ended 30 September 2020.

BASIS OF PREPARATION

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2020. Trustpower is designated as a profit-oriented entity for financial reporting. These financial statements provide an update on the interim performance of Trustpower, and should be read in conjunction with the full year financial statements presented for the year ended 31 March 2020 from which the same accounting policies and methods of computation have been followed.

The interim financial statements are prepared in accordance with:

- NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.
- Generally Accepted Accounting Practice (GAAP).
- The accounting policies and methods of computation in the most recent annual financial statements.
- The Financial Markets Conduct Act 2013, and NZX equity listing rules.

In preparing the financial statements we have:

- Recorded all transactions at the actual amount incurred (historical cost convention), except for generation assets and derivatives which are recorded at fair value.
- Reported in 'New Zealand Dollars' (NZD) rounded to the nearest thousand.

Estimates and judgements made in preparing the financial statements are frequently evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Trustpower makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

SEASONALITY

The individual segments of Retail and Generation are subject to seasonality due to seasonal differences in the demand for electricity and in the wholesale electricity price. However, as a group these differences partially offset each other.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

GENERATION ASSET VALUATION

Since the previous generation asset valuation at 31 March 2020, New Zealand Aluminium Smelters Limited has announced its intention to close its aluminium smelter at Tiwai Point. Electricity future pricing reflects an expectation this will be a staged exit. The Electricity Authority has also announced its final Transmission Pricing Guidelines which would end Trustpower's avoided cost of transmission (ACOT) revenue from 1 April 2024. Both of these developments are negative to the value of Trustpower's generation assets. Trustpower has, with the assistance of independent experts, reviewed the carrying value of these assets in light of this new data and is comfortable that it sits within a reasonable fair value range. The factors below have moved sufficiently to offset the negative price and ACOT movements:

- A fall in interest rates has resulted in a reduction in Trustpower's weighted average cost of capital; and
- The wholesale price forecasts assume an increase in the proportion of electricity generated from intermittent renewable sources, e.g. wind. This change is forecast to result in increased levels of price volatility. Most of Trustpower's hydro stations are able to store water for some period of time and generate in higher price times. A key part of Trustpower's generation revenue forecast is an assessment of the extent to which the price it receives for its generation differs to the average price and this has been reviewed in light of the expected increase in price volatility. As a result the forecast prices that Trustpower expects to receive for its generation have now increased.

As noted in March 2020, there remains additional uncertainty in the valuation of generation assets due to the factors noted above and the ongoing impact of COVID-19. The size of the fair value range determined at 31 March 2020 remains appropriate.

COVID-19

Trustpower has considered the potential impact of COVID-19 as part of its impairment testing of assets on its statement of financial position. The generation of electricity and retailing of electricity, telecommunications and gas are considered essential services and, as such, Trustpower continued trading throughout all alert levels. This has limited the impact of COVID-19 and the Government's response on Trustpower. The table below provides an assessment of the impact of COVID-19 on Trustpower's assets. It is acknowledged that there is significant uncertainty in how COVID-19 will impact the New Zealand economy and Trustpower in the future. This assessment is effective as at 5 November 2020 and has made use of available information at that time.

ASSET	COVID-19 ASSESSMENT
Cash at bank	No impact to carrying value. All cash held with banks with Standard & Poor's credit ratings of A or better.
Electricity market security deposits	No impact to carrying value. Deposits held on trust.
Accounts receivable and prepayments	Trustpower increased its provision for expected credit losses as a result of the deteriorating outlook for the New Zealand economy in March 2020. Actual credit losses since that time have shown no material change as a result of COVID-19. The increased provision has still been maintained to allow for any worsening of the New Zealand economy once Government support begins to expire.
Capitalised customer acquisition costs	The majority of capitalised customer acquisition costs are amortised over the term of the contract with the customer, and written off immediately if the customer leaves. There are no current indications of a change in customer behaviour as a result of COVID-19, as such there has been no impact on the carrying value of these assets. The remaining capitalised customer acquisition costs are amortised over the expected life of the customer relationship. Prior to COVID-19 this expected life had been trending moderately longer than assumed for amortisation purposes. This trend has continued and the amortisation period has been increased from 4 to 4.5 years for costs incurred since 1 April 2020. The impact on the financial statements for the six months to 30 September 2020 is immaterial at \$8,000.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

ASSET	COVID-19 ASSESSMENT
Derivative financial instruments	Derivative financial instrument counterparties are primarily New Zealand banks with Standard & Poor's credit ratings of A or better or they are electricity market participants. These electricity market participants are able to trade through all alert levels, Trustpower is not aware of any change to their creditworthiness and no adjustment has been made to the carrying value.
Property, plant and equipment	Trustpower's generation assets are held at fair value. These assets were revalued as at 31 March 2020 following an independent valuation by Deloitte Corporate Finance. A detailed impairment test has been completed as at 30 September 2020, including the preparation of a revised forecast of wholesale electricity prices. The first three years of this forecast use the wholesale market prices traded on the ASX and, as such, represent the wider market's view on the impact of COVID-19 on medium term electricity prices.
Right-of-use assets	COVID-19 has not had any impact on any of the lease agreements underpinning these right-of-use assets. Trustpower has not sought any rent relief from landlords or changed its view on likely contract extensions.
Loan receivable	The counterparty is an electricity market participant and there has been no change in Trustpower's assessment of their creditworthiness.
Intangible assets	Trustpower continues to use its intangible assets to the fullest extent possible and there are no indications of impairment of any of Trustpower's intangible assets as a result of COVID-19.

NOTE 2: SEGMENT INFORMATION

For internal reporting purposes, Trustpower is organised into three segments. The main activities of each segment are:

Retail The retail sale of electricity, gas and telecommunication services to customers in New Zealand.

Generation The generation of renewable electricity by hydro power schemes across New Zealand.

Generation also includes the supply of water to Canterbury irrigators. There is also an Other segment that exists to include any unallocated revenues and expenses. This relates mostly to unallocated corporate functions.

THE UNAUDITED SEGMENT RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020 ARE AS FOLLOWS:

	RETAIL \$000	GENERATION \$000	OTHER \$000	TOTAL \$000
Total segment revenue	476,633	122,203	23	598,859
Inter-segment revenue	-	(94,022)	1,438	(92,584)
REVENUE FROM EXTERNAL CUSTOMERS	476,633	28,181	1,461	506,275
EBITDAF*	19,173	91,927	(700)	110,400
Amortisation of intangible assets	1,803	-	3,835	5,638
Depreciation (includes right of use asset depreciation)	-	8,120	8,148	16,268
Capital expenditure	-	11,417	8,506	19,923

NOTE 2: SEGMENT INFORMATION (CONTINUED)

THE UNAUDITED SEGMENT RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 ARE AS FOLLOWS:

	RETAIL \$000	GENERATION \$000	OTHER \$000	TOTAL \$000
Total segment revenue	507,227	120,365	3,188	630,780
Inter-segment revenue	–	(89,462)	(1,938)	(91,400)
REVENUE FROM EXTERNAL CUSTOMERS	507,227	30,903	1,250	539,380
EBITDAF*	13,912	94,621	(1,430)	107,103
Amortisation of intangible assets	835	–	4,149	4,984
Depreciation (includes right of use asset depreciation)	–	9,098	5,686	14,784
Capital expenditure including business acquisitions	–	2,857	12,302	15,159
Asset impairment	–	2,381	–	2,381

Transactions between segments (inter-segment) are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. The most significant inter-segment transaction is the sale of electricity hedges by Generation to Retail. See the retail note 3 for more information.

*EBITDAF is a non-GAAP measure. Refer to note 8 for more information.

RETAIL

Trustpower is a multiproduct utility retailer. Trustpower supplies homes and businesses in New Zealand with electricity, gas, broadband and telephone services. Trustpower provides electricity to 263,000 homes and businesses (September 2019: 266,000, March 2020: 266,000), supplies 42,000 customers with gas (September 2019: 40,000, March 2020: 41,000) and connects 106,000 (September 2019: 100,000, March 2020: 104,000) customers with telephone and broadband services.

NOTE 3: RETAIL SEGMENT PROFITABILITY ANALYSIS

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
OPERATING REVENUE		
Electricity revenue		
Mass market – fixed price	272,070	265,708
Commercial & industrial – fixed price	38,772	64,637
Commercial & industrial – spot price	79,960	91,512
Total electricity revenue	390,802	421,857
Gas revenue	18,146	17,511
Telecommunications revenue	50,726	46,805
Revenue allocated to customer incentives	11,959	15,622
Other operating revenue	5,000	5,432
	476,633	507,227
OPERATING EXPENSES		
Electricity costs	202,241	214,151
Line costs	133,201	151,604
Telecommunications cost of sales	32,762	32,764
Employee benefits	20,703	18,409
Meter rental costs	14,482	12,812
Gas cost of sales	15,172	13,183
Market fees and costs	5,641	3,444
Marketing and acquisition costs	5,260	7,177
Other retail cost of sales	7,989	15,058
Bad debts	2,496	1,379
Other operating expenses*	17,513	23,334
	457,460	493,315
EBITDAF**	19,173	13,912

The analysis above includes the following transactions with the Generation segment:

Electricity costs	97,211	90,946
Meter rental costs	–	4,311
Other operating expenses	1,298	1,298
	98,509	96,555

*Other operating expenses includes an allocation of computing and corporate costs.

**EBITDAF is a non-GAAP measure. Refer to note 8 for more information.

NOTE 4: CAPITALISED CUSTOMER ACQUISITION COSTS

	UNAUDITED SEPTEMBER 2020 \$000	UNAUDITED SEPTEMBER 2019 \$000	AUDITED MARCH 2020 \$000
Opening balance	55,398	53,021	53,021
Additions	17,462	21,801	44,246
Amortisation to electricity revenue	(13,281)	(9,592)	(23,110)
Amortisation to telecommunications revenue	(6,479)	(4,148)	(9,645)
Amortisation to marketing and acquisition costs	(3,746)	(4,869)	(9,114)
Closing balance	49,354	56,213	55,398
Current portion	34,959	35,320	35,320
Non-current portion	14,395	20,893	20,078
	49,354	56,213	55,398

Trustpower has changed its estimate of the expected average customer tenure from four years to four-and-a-half years for the purposes of amortising certain capitalised customer acquisition costs. This change in accounting estimate has had an immaterial impact on Trustpower's profit and net assets.

GENERATION

Trustpower owns 433MW of mainly hydro generation assets throughout New Zealand. The Generation segment also includes irrigation assets as well as Trustpower's energy trading function. Trustpower also holds a 75% controlling interest in King Country Energy Limited, which owns an additional 54MW of hydro generation assets.

NOTE 5: GENERATION SEGMENT PROFITABILITY ANALYSIS

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
OPERATING REVENUE		
Electricity revenue	117,807	108,485
Meter rental revenue	-	7,286
Net other operating revenue	4,396	4,594
	122,203	120,365
OPERATING EXPENSES		
Generation production costs	22,036	22,270
Employee benefits	8,893	8,699
Generation development expenditure	804	155
Other operating expenses including electricity hedge settlements	(1,457)	(5,380)
	30,276	25,744
EBITDAF*	91,927	94,621
The analysis above includes the following transactions with the Retail segment:		
Electricity revenue	92,724	83,853
Meter rental revenue	-	4,311
Other operating revenue	1,298	1,298
Total inter-segment revenue	94,022	89,462
Electricity hedge settlements	4,487	7,093
Total inter-segment transactions	98,509	96,555

*EBITDAF is a non-GAAP measure. Refer to note 8 for more information.

DEBT

Trustpower borrows under a negative pledge arrangement which, with limited exceptions, does not permit Trustpower to grant any security interest over its assets. The negative pledge deed requires Trustpower to maintain certain levels of shareholders' funds and operate within defined performance and debt gearing ratios. The banking arrangements may also create restrictions over the sale or disposal of certain assets unless the bank loans are repaid or renegotiated. Throughout the period Trustpower has complied with all debt covenant requirements in these agreements.

NOTE 6: BORROWINGS

	UNAUDITED 30 SEPTEMBER 2020	
	UNSECURED BANK LOANS \$000	SENIOR BONDS \$000
<i>Repayment terms:</i>		
Less than one year	50,995	–
One to two years	93,675	83,046
Two to five years	99,205	127,734
Over five years	–	225,000
Bond issue costs	–	(3,328)
	243,875	432,452
Current portion	15,000	–
Non-current portion	228,875	432,452
	243,875	432,452
	AUDITED 31 MARCH 2020	
<i>Repayment terms:</i>		
Less than one year	49,000	–
One to two years	61,000	83,046
Two to five years	83,690	127,734
Over five years	–	225,000
Bond issue costs	–	(3,572)
	193,690	432,208
Current portion	35,000	–
Non-current portion	158,690	432,208
	193,690	432,208

Senior bonds rank equally with bank loans.

The fair value of Trustpower's bank loans are not materially different to the carrying values above. At 30 September 2020 the senior bonds had a fair value of \$464,569,000 (31 March 2020: \$442,956,000).

During the six months to 30 September 2020, Trustpower replaced \$80,000,000 (2019: \$100,000,000) of bank debt facilities with \$110,000,000 (2019: \$105,000,000) of new facilities maturing in two to five years.

EQUITY

NOTE 7: DIVIDENDS

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
Final dividend prior year	48,645	53,205
Special dividend current year	-	46,946
TOTAL DIVIDEND	48,645	100,151

A fully imputed interim dividend of 17 cents per share has been declared and is payable on 4 December 2020 to all shareholders on the register at 27 November 2020.

ADDITIONAL NOTES

NOTE 8: NON-GAAP MEASURES

Underlying Earnings is a non GAAP (Generally Accepted Accounting Principles) financial measure. Trustpower believes that this measure is an important additional financial measure to disclose as it excludes movements in the fair value of financial instruments which can be volatile year to year depending on movement in long term interest rate and/or electricity future prices. Also excluded in this measure are items considered to be one-off and not related to core business such as changes to the company tax rate or gain/impairment of generation assets.

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
Profit after tax	33,611	38,678
Fair value losses on financial instruments	26,484	12,249
Asset impairments	-	2,381
Adjustments before income tax	26,484	14,630
Change in income tax expense in relation to adjustments	(7,416)	(4,096)
<i>Adjustments after income tax</i>	19,068	10,534
UNDERLYING EARNINGS AFTER TAX	52,679	49,212

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, FAIR VALUE MOVEMENTS OF FINANCIAL INSTRUMENTS AND ASSET IMPAIRMENTS (EBITDAF)

EBITDAF is a non-GAAP financial measure but is commonly used within the electricity and telecommunications industries as a measure of performance as it shows the level of earnings before the impact of gearing levels and non-cash charges such as depreciation and amortisation. Market analysts use the measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.

NOTE 9: EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of Trustpower Limited by the weighted average number of ordinary shares on issue during the year.

Note	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
Profit after tax attributable to the shareholders of the Company (\$000)	33,180	38,101
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
BASIC AND DILUTED EARNINGS PER SHARE (CENTS PER SHARE)	10.6	12.2
Underlying Earnings After Tax (\$000)	8 52,679	49,212
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
UNDERLYING EARNINGS PER SHARE (CENTS PER SHARE)	16.8	15.7

NOTE 10: RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH PROFIT AFTER TAX

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	UNAUDITED 6 MONTHS SEPTEMBER 2019 \$000
Profit after tax	33,611	38,678
Interest paid	15,126	16,217
Interest received	(277)	(335)
Amortisation of debt issue costs	244	425
Fixed, intangible and investment asset charges	21,810	21,964
Movements in financial instruments taken to the income statement	26,484	12,249
Decrease in deferred tax liability excluding transfers to reserves	(3,637)	(3,894)
Increase in working capital	(22,313)	(25,987)
NET CASH FLOW FROM OPERATING ACTIVITIES	71,048	59,317

NOTE 11: CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities as at 30 September 2020 (31 March 2020: nil).

NOTE 12: SUBSEQUENT EVENTS

Other than those disclosed elsewhere in these financial statements there have been no material events subsequent to 30 September 2020 (30 September 2019: none, 31 March 2020: none).

NOTE 13: ELECTRICITY MARKET SECURITY DEPOSITS

Trustpower is required to provide cash deposits as prudential security in order to trade in the wholesale electricity futures market. The required level of deposits depends on the amount of outstanding contracts Trustpower is a party to and the fair value of these contracts.

NOTE 14: RIGHT OF USE ASSETS

During the six months ended 30 September 2020, Trustpower had lease additions and modifications of \$5,502,000 (September 2019: \$6,870,000). There has been no disposals or reductions to the right of use assets (September 2019: nil).

NOTE 15: FINANCIAL RISK MANAGEMENT

FAIR VALUES

Except for senior bonds, the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

ESTIMATION OF FAIR VALUES

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and liabilities are calculated using discounted cash flow analysis based on market-quoted rates.
- The fair value of derivative financial instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve or available forward price data for the duration of the instruments.

NOTE 15: FINANCIAL RISK MANAGEMENT (CONTINUED)

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument, the two key types of variables used by the valuation techniques are:

- forward price curve (as described below); and
- discount rates.

VALUATION INPUT	SOURCE
Interest rate forward price curve	Published market swap rates
Foreign exchange forward prices	Published spot foreign exchange rates and interest rate differentials
Electricity forward price curve	Market quoted prices where available and management's best estimate based on its view of the long run marginal cost of new generation where no market quoted prices are available
Discount rate for valuing interest rate derivatives	Published market interest rates as applicable to the remaining life of the instrument
Discount rate for valuing forward foreign exchange contracts	Published market interest rates as applicable to the remaining life of the instrument
Discount rate for valuing electricity price derivatives	Assumed counterparty cost of funds ranging from 3.3% to 3.5%

If the discount rate for valuing electricity price derivatives increased/decreased by 1% then the fair value of the electricity price derivatives would have decreased/increased by an immaterial amount.

The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in respect of these variables that could be used in estimating the fair value of these derivatives. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques. See later in this note for sensitivity analysis.

NZ IFRS 13 requires that financial instruments are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables present Trustpower's financial assets and liabilities that are measured at fair value.

	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000	TOTAL \$000
30 SEPTEMBER 2020				
ASSETS PER THE STATEMENT OF FINANCIAL POSITION				
Interest rate derivative assets	-	13,106	-	13,106
Electricity price derivative assets	-	-	32,508	32,508
	-	13,106	32,508	45,614
LIABILITIES PER THE STATEMENT OF FINANCIAL POSITION				
Interest rate derivative liabilities	-	30,640	1,123	31,763
Electricity price derivative liabilities	-	-	16,229	16,229
	-	30,640	17,352	47,992

NOTE 15: FINANCIAL RISK MANAGEMENT (CONTINUED)

	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000	TOTAL \$000
31 MARCH 2020				
ASSETS PER THE STATEMENT OF FINANCIAL POSITION				
Interest rate derivative assets	–	8,649	–	8,649
Electricity price derivative assets	–	–	28,173	28,173
	–	8,649	28,173	36,822
LIABILITIES PER THE STATEMENT OF FINANCIAL POSITION				
Interest rate derivative liabilities	–	27,297	–	27,297
Electricity price derivative liabilities	–	–	2,754	2,754
	–	27,297	2,754	30,051

The following tables present the changes during the period of the level 3 instruments being electricity price derivatives.

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	AUDITED 12 MONTHS MARCH 2020 \$000
ASSETS PER THE STATEMENT OF FINANCIAL POSITION		
Opening balance	28,173	52,175
Gains or (losses) recognised in profit or loss	(37,289)	(44,814)
Gains or (losses) recognised in other comprehensive income	41,624	20,812
Closing balance	32,508	28,173
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	45,711	28,112
LIABILITIES PER THE STATEMENT OF FINANCIAL POSITION		
Opening balance	2,754	15,929
(Gains) or losses recognised in profit or loss	(10,793)	(11,408)
(Gains) or losses recognised in other comprehensive income	24,268	(1,767)
Closing balance	16,229	2,754
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	(30,336)	3,462
Settlements during the period	(3,815)	18,556

Electricity price derivatives are classified as Level 3 because the assumed location factors which are used to adjust the forward price path are unobservable.

A sensitivity analysis showing the effect on the value of the electricity price derivatives of reasonably possible alternative price path assumptions is shown below:

	UNAUDITED 6 MONTHS SEPTEMBER 2020 \$000	AUDITED 12 MONTHS MARCH 2019 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(4,724)	(3,983)
Increase/(decrease) to profit of a 10% decrease in electricity forward price	4,724	3,983
Increase/(decrease) to equity of a 10% increase in electricity forward price	13,386	10,897
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(13,386)	(10,897)



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