

# TRUSTED FOR MORE THAN JUST POWER

TWENTY SEVENTEEN INTERIM REPORT



**WE  
CONNECT  
EMPOWER  
AND BRING  
THINGS  
TO LIFE**

# TRUSTPOWER LIMITED UNAUDITED FINANCIAL RESULTS

For the six months ended 30 September 2017

Trustpower's diverse and flexible fleet of generation assets, together with sound operating decisions, has allowed us to take advantage of above average prices and record a very strong profit.

Net profit after tax of \$82 million for the six months ended 30 September 2017 was up \$37 million or 82% on the prior year. Underlying earnings<sup>1</sup> after tax were \$83 million, up \$27 million or 48%.

Operating earnings (EBITDAF)<sup>2</sup> were \$159 million, an increase of 44%, while generation earnings from both New Zealand and Australia of \$134 million were up 21%.

## ADDING VALUE

Trustpower added the most shareholder value of all our listed competitors in the period, delivering a total return to shareholders of 24%. Earnings per share of 25.8 cents were up 79% on the prior year.

It is pleasing to see the share price trending up to reflect the underlying value and growth potential of the company. While we have achieved an outstanding interim result, we remain committed to delivering long-term sustainable value for investors.

## DIVIDEND

An interim dividend of 17 cents per share, fully imputed, has been declared and is payable on 8 December 2017. Subject to meeting guidance levels the company expects to be able to increase the dividend payable at the year end.

## DEBT

We are actively managing Trustpower's debt level and composition and will be repaying the retail bond maturing on 15 December 2017 and replacing it with bank debt.

## STRATEGY

The company's retail earnings of 30 million, up 109% on the prior year, are a positive sign that our investment in growth is paying off.

Our multi-product retail business strategy bundling life's essential utilities including power, gas, internet and phone, is gaining momentum. This strategy is backed by a robust innovation and technology programme to ensure the company delivers a great customer experience and remains one step ahead in an evolving customer world.

We have continued to invest in developing a strong service and technology platform, providing new options for our consumer queries including virtual agents and web bots. It is great to see more customers are choosing to engage with us digitally, with 43% of our customer interactions now handled by our virtual workforce.

Growth in customer numbers has been modest, with retail acquisition campaigning put on hold during the period while we leveraged high wholesale electricity prices. However, Trustpower's current marketing campaign for new bundle customers is proving very successful and the company is on track for a 20% increase in telecommunications customers this year.

## RETAIL OPERATIONS

Trustpower's retail business continued to make solid progress. Total utility account holders reached 390,000, a 1% increase from 385,000 at 31 March 2017. Customers with two or more products reached 94,000, a 4% increase from 90,000 at 31 March 2017.

While the energy and telecommunications markets

remain highly competitive, Trustpower's bundled proposition resonates well with customers who can see its value. About 80% of new customers who join Trustpower now purchase more than one product.

By focusing on service and value rather than just price, Trustpower is seeing our retail revenue grow. Our overall revenues of \$520 million were up by \$18 million or 4% on the same period last year, with growth in all product groups.

It is fantastic to see the high number of customers who have remained with Trustpower once their initial contract period has ended.

Direct cost of sales increased in line with revenue, resulting in a retail gross margin increase of \$11 million or 18%. Other retail operating costs were \$3 million or 6% lower than the prior year.

While a major contributor to the reduced costs was delayed promotional activity, it is pleasing to see the cost saving initiatives starting to bear fruit. Our continued focus on technology improvements is expected to both enhance customer experience and drive a reduction in cost-to-serve and cost-to-acquire.

## NEW ZEALAND GENERATION

### New Zealand Generation

New Zealand generation production lifted 20% due to the impact of strong hydrological inflows, resulting in operating earnings of \$127 million, up 24% on last year. This reflects Trustpower's geographically diverse fleet of generation stations that allowed us to take advantage of record high inflows in some parts of New Zealand while other parts were facing extremely low inflows.

### Australian Generation

The three generation schemes in New South Wales are all associated with irrigation schemes and as such they generate predominately in summer. Early indications are that generation volumes this summer will be consistent with Trustpower's forecast predictions.

We are continuing to work through our strategic review of the New South Wales assets and expect to have this completed by early 2018. These assets are performing well, but due to their size and distance from New Zealand are a less strategic part of our portfolio.

## FY2018 GUIDANCE AND OUTLOOK

On 13 October Trustpower revised EBITDAF guidance for the current financial year to be in the range of \$255 million to \$270 million, assuming average hydrology and climatic conditions.

Looking ahead we remain focused on optimising value from our generation assets, and using innovation and technology to improve customer experience, reduce costs and drive product growth.

Trustpower will continue our pursuit of profitable growth – both organically through our multi-product retail strategy, and through value-add acquisitions.

### Notes:

1. *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 rates and or electricity futures 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. A full reconciliation between profit after tax attributable to the shareholders of the Company and underlying earnings after tax is provided in Note 8 to the Interim Financial Statements.*
2. *EBITDAF is a non-GAAP financial measure but is commonly used within the electricity industry as a measure of performance as it shows the level of earnings before impact of gearing levels and non-cash charges such as depreciation and amortisation. Market analysts use this measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.*

# TRUSTPOWER INTERIM REPORT HIGHLIGHTS

For the six months ended 30 September 2017

# ↑ \$37 MILLION

NET PROFIT AFTER TAX OF \$82 MILLION, UP \$37 MILLION OR 82%



# \$159 MILLION

OPERATING EARNINGS (EBITDAF) OF \$159 MILLION, UP 44%



RETAIL EARNINGS (EBITDAF) OF \$30 MILLION, UP 109%



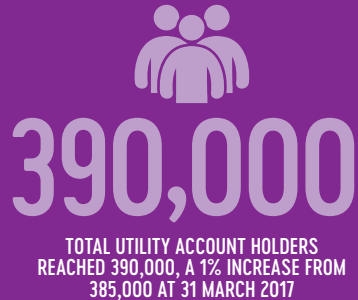
# 17c

INTERIM DIVIDEND OF 17 CENTS



# 25.8c

EARNINGS PER SHARE OF 25.8 CENTS, UP 79%



# 20%

NEW ZEALAND GENERATION PRODUCTION LIFTED 20% DUE TO THE IMPACT OF STRONG HYDROLOGICAL INFLOWS, RESULTING IN OPERATING EARNINGS OF \$127 MILLION, UP 24% ON LAST YEAR



# 43%

MORE CUSTOMERS ARE CHOOSING TO ENGAGE WITH TRUSTPOWER DIGITALLY, WITH 43% OF CUSTOMER INTERACTIONS NOW HANDLED BY A VIRTUAL WORKFORCE

# KEY METRICS

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	2017	2016	2015	2014	2013
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF) (\$M)	159	110			
Profit After Tax (\$M)	82	45			
Underlying earnings after tax (\$M)	83	56			
Basic earnings per share (cents per share)	26	15			
Underlying earnings per share (cents per share)	26	18			
Dividends paid during the period (cents per share)	17	17			
Net debt to annualised EBITDAF	2.0	3.4			
Net tangible assets per share (dollars per share)	4.44	4.35			
<b>Customers, Sales and Service</b>					
Electricity connections (000s)	273	278	252	234	218
Telecommunication customers (000s)	80	69	51	35	29
Gas connections (000s)	37	33	30	21	10
Total utility accounts	390	380	333	290	257
Customers with two or more utilities (000s)	94	84	66	46	31
Mass market sales – fixed price (GWh)	1,090	1,066	981	893	851
Time of use sales – fixed price (GWh)	426	417	414	410	312
Time of use sales – spot price (GWh)	566	652	752	748	668
Total customer sales (GWh)	2,082	2,134	2,147	2,051	1,831
Average spot price of electricity purchased (\$/MWh)	91	58	60	69	71
Gas Sales (TJ)	714	664	744	542	241
Annualised electricity connection churn rate	21%	17%	16%	14%	14%
Annualised electricity connection churn rate – total market	22%	21%	22%	19%	21%
<b>Generation Production and Procurement</b>					
North Island hydro generation production (GWh)	732	518	381	304	313
South Island hydro generation production (GWh)	593	541	574	606	562
Total New Zealand generation production (GWh)	1,325	1,059	955	910	875
Average spot price of electricity generated (\$/MWh)	89	55	54	63	68
Net third party fixed price volume purchased (GWh)	770	871	805	657	617
Australian generation production (GWh)	71	100	68	35	-
<b>Other Information</b>					
Resource consent non-compliance events	6	4	4	2	1
Staff numbers (full time equivalents)	787	813	675	611	542

# CONSOLIDATED INCOME STATEMENT

	Unaudited 6 Months September 2017 \$'000	Unaudited 6 Months September 2016 \$'000
<b>FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017</b>		
<b>Operating Revenue</b>		
Electricity revenue	454,685	441,042
Telecommunications revenue	38,146	31,045
Gas revenue	17,947	16,800
Other operating revenue	9,300	12,729
	<b>520,078</b>	<b>501,616</b>
<b>Operating Expenses</b>		
Line costs	158,935	159,842
Electricity costs	75,753	94,465
Generation production costs	18,724	20,585
Employee benefits	31,445	32,882
Telecommunications cost of sales	26,301	23,740
Gas cost of sales	13,132	12,739
Other operating expenses	36,656	47,138
	<b>360,946</b>	<b>391,391</b>
<b>Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF)</b>		
	159,132	110,225
Net fair value (gains)/losses on financial instruments	2,530	3,235
Amortisation of intangible assets	8,149	7,473
Depreciation	15,920	15,140
<b>Operating Profit</b>	<b>132,533</b>	<b>84,377</b>
Interest paid	18,604	21,062
Interest received	(484)	(3,044)
Net finance costs	18,120	18,018
<b>Profit Before Income Tax</b>	<b>114,413</b>	<b>66,359</b>
Income tax expense	32,218	21,131
<b>Profit After Tax</b>	<b>82,195</b>	<b>45,228</b>
Profit after tax attributable to the shareholders of the Company	80,775	44,982
Profit after tax attributable to non-controlling interests	1,420	246
Basic and diluted earnings per share (cents per share)	25.8	14.5

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 6 November 2017.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<b>FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017</b>	Unaudited 6 Months September 2017 \$000	Unaudited 6 Months September 2016 \$000
Profit after tax	82,195	45,228
<b>Other Comprehensive Income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Currency translation differences	(316)	(3,131)
Fair value losses on cash flow hedges	(1,175)	(646)
Tax effect of the following:		
Fair value losses on cash flow hedges	329	181
<b>Total Other Comprehensive Income</b>	<b>(1,162)</b>	<b>(3,596)</b>
<b>Total Comprehensive Income</b>	<b>81,033</b>	<b>41,632</b>
Attributable to shareholders of the Company	79,613	41,386
Attributable to non-controlling interests	1,420	246



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Share capital \$000	Invested capital \$000	Revaluation reserve \$000	Cash flow hedge reserve \$000	Foreign Currency Translation Reserve \$000
<b>Opening balance as at 1 April 2016</b>	–	421,963	969,311	(1,494)	2,119
Total comprehensive income for the period	–	44,982	–	(465)	(3,131)
<i>Contributions by and distributions to non-controlling interest</i>					
Acquisition of shares held by outside equity interest	–	–	–	–	–
<i>Transactions with owners recorded directly in equity</i>					
Dividends paid 6	–	(53,713)	–	–	–
Total transactions with owners recorded directly in equity	–	(53,713)	–	–	–
<b>Unaudited Closing balance as at 30 September 2016</b>	–	413,232	969,311	(1,959)	(1,012)
<b>Opening balance as at 1 April 2017</b>	2	–	969,311	(5,240)	(172)
Total comprehensive income for the period	–	–	–	(846)	(316)
<i>Contributions by and distributions to non-controlling interest</i>					
Acquisition of shares held by outside equity interest	–	–	–	–	–
<i>Transactions with owners recorded directly in equity</i>					
Dividends paid 6	–	–	–	–	–
Total transactions with owners recorded directly in equity	–	–	–	–	–
<b>Unaudited closing balance as at 30 September 2017</b>	2	–	969,311	(6,086)	(488)

The accompanying notes form part of these interim financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Note	Retained earnings \$'000	Total Shareholder's Equity \$'000	Non-controlling interest \$'000	Total Equity \$'000
<b>Opening balance as at 1 April 2016</b>	–	1,391,899	45,379	1,437,278
Total comprehensive income for the period	–	41,386	246	41,632
Contributions by and distributions to non-controlling interest				
Acquisition of shares held by outside equity interest	–	–	(708)	(708)
Transactions with owners recorded directly in equity				
Dividends paid 6	–	(53,713)	(1,277)	(54,990)
Total transactions with owners recorded directly in equity	–	(53,713)	(1,277)	(54,990)
<b>Unaudited Closing balance as at 30 September 2016</b>	–	1,379,572	43,640	1,423,212
<b>Opening balance as at 1 April 2017</b>	410,817	1,374,718	43,676	1,418,394
Total comprehensive income for the period	80,775	79,613	1,420	81,033
Contributions by and distributions to non-controlling interest				
Acquisition of shares held by outside equity interest	–	–	(167)	(167)
Transactions with owners recorded directly in equity				
Dividends paid 6	(53,312)	(53,312)	(1,844)	(55,156)
Total transactions with owners recorded directly in equity	(53,312)	(53,312)	(1,844)	(55,156)
<b>Unaudited closing balance as at 30 September 2017</b>	438,280	1,401,019	43,085	1,444,104

The accompanying notes form part of these interim financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017	Note	Unaudited September 2017 \$000	Audited March 2017 \$000
<b>Equity</b>			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital	7	2	2
Revaluation reserve		969,311	969,311
Retained earnings		438,280	410,817
Cash flow hedge reserve		(6,086)	(5,240)
Foreign currency translation reserve		(488)	(172)
Non-controlling interests		43,085	43,676
<b>Total Equity</b>		<b>1,444,104</b>	<b>1,418,394</b>
<i>Represented by:</i>			
<b>Current Assets</b>			
Cash at bank		9,644	8,183
Other deposits		–	957
Accounts receivable and prepayments		129,160	112,238
Contract assets		39,046	35,044
Derivative financial instruments		2,809	4,432
Taxation receivable		220	260
		<b>180,879</b>	<b>161,114</b>
<b>Non Current Assets</b>			
Property, plant and equipment		2,267,239	2,276,094
Derivative financial instruments		1,325	3,245
Other investments		8,698	8,008
Intangible assets		53,054	56,479
		<b>2,330,316</b>	<b>2,343,826</b>
<b>Total Assets</b>		<b>2,511,195</b>	<b>2,504,940</b>
<b>Current Liabilities</b>			
Accounts payable and accruals		89,262	89,762
Unsecured senior bonds	5	51,992	51,992
Unsecured bank loans	5	–	80,000
Derivative financial instruments		7,697	7,140
Taxation payable		14,325	17,282
		<b>163,276</b>	<b>246,176</b>
<b>Non Current Liabilities</b>			
Unsecured bank loans	5	275,284	215,791
Unsecured subordinated bonds	5	113,346	113,133
Unsecured senior bonds	5	208,476	208,110
Derivative financial instruments		18,523	18,918
Deferred tax liability		288,186	284,418
		<b>903,815</b>	<b>840,370</b>
<b>Total Liabilities</b>		<b>1,067,091</b>	<b>1,086,546</b>
<b>Net Assets</b>		<b>1,444,104</b>	<b>1,418,394</b>
Net Tangible Assets Per Share		<b>\$4.44</b>	<b>\$4.10</b>

The accompanying notes form part of these interim financial statements

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017	Note	Unaudited 6 Months September 2017 \$'000	Unaudited 6 Months September 2016 \$'000
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from customers		499,121	489,215
		499,121	489,215
<i>Cash was applied to:</i>			
Payments to suppliers and employees		362,453	388,906
Taxation paid		30,837	23,692
		393,290	412,598
<b>Net Cash Flow from Operating Activities</b>	10	105,831	76,617
<b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from:</i>			
Sale of property, plant & equipment		–	8,375
Return of electricity market security deposits		969	3,069
Interest received		484	2,925
		1,453	14,369
<i>Cash was applied to:</i>			
Advances to Tilt Renewables		–	7,714
Purchase of property, plant and equipment		7,769	14,355
Purchase of other investments		690	–
Purchase of intangible assets		4,709	3,882
		13,168	25,951
<b>Net Cash Flow used in Investing Activities</b>		(11,715)	(11,582)
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Bank loan proceeds		73,412	132,083
Senior bond issue proceeds		–	–
		73,412	132,083
<i>Cash was applied to:</i>			
Bond brokerage costs		–	–
Repayment of bank loans		93,442	114,046
Repayment of subordinated bonds		–	–
Repayment of senior bonds		–	–
Interest paid		17,353	20,692
Purchase of minority interest		167	708
Dividends paid to owners of the Company		53,311	53,713
Dividends paid to non-controlling shareholders in subsidiary companies		1,720	1,277
		165,993	190,436
<b>Net Cash Flow used in Financing Activities</b>		(92,581)	(58,353)
<b>Net Increase in Cash, Cash Equivalents and Bank Overdrafts</b>		1,535	6,682
Cash, cash equivalents and bank overdrafts at beginning of the period		8,183	7,642
Exchange (losses)/gains on cash		(74)	(8)
Cash, Cash Equivalents and Bank Overdrafts at End of the Period		9,644	14,316

The accompanying notes form part of these interim financial statements

## NOTE 1: BASIS OF PREPARATION

### Reporting entity

The reporting entity is the consolidated group comprising Trustpower Limited and its New Zealand and Australian subsidiaries together referred to as Trustpower. 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, is listed on the New Zealand Stock Exchange (NZX) and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

On 31 October 2016, the demerger of Scarlett Limited (previously known as Trustpower Limited, "Old Trustpower") became effective. At this date, all of the assets and liabilities directly related to the development and operation of wind and solar generation assets were transferred to Tilt Renewables Limited (Tilt Renewables) which was a member of the Old Trustpower group. The remaining assets and liabilities, related to the ownership and operation of hydro generation assets and the retail sale of energy and telecommunications services, were transferred to Trustpower Limited (previously known as Bay Energy Limited).

The comparative financial information presented in these financial statements is based on actual figures as an independent group after the demerger and carve-out figures from Old Trustpower prior to the demerger. Further detail on how this carve out information was calculated can be found in the full year financial statements for the year ended 31 March 2017.

### Basis of preparation

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2017. 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 2017 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.
- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit oriented entities.

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.

### Seasonality

The individual segments of Retail and New Zealand 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.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

**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 and Australia.

The Board has further segregated Generation into New Zealand and Australian operations. Generation New Zealand also includes the lease of legacy meters to the Retail segment and to other retailers, and 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 2017 are as follows:**

	Retail \$000	Generation New Zealand \$000	Generation Australia \$000	Other \$000	Total \$000
Total segment revenue	486,934	143,670	9,396	2,755	642,755
Inter-segment revenue	–	(120,010)	–	(2,667)	(122,677)
<b>Revenue from external customers</b>	<b>486,934</b>	<b>23,660</b>	<b>9,396</b>	<b>88</b>	<b>520,078</b>
<b>EBITDAF</b>	<b>29,578</b>	<b>126,638</b>	<b>6,926</b>	<b>(4,010)</b>	<b>159,132</b>
Amortisation of intangible assets	2,484	–	–	5,665	8,149
Depreciation	–	11,487	1,609	2,824	15,920
Capital expenditure	–	4,378	1,402	6,922	12,702

**The unaudited segment results for the six months ended 30 September 2016 are as follows:**

	Retail \$000	Generation New Zealand \$000	Generation Australia \$000	Other \$000	Total \$000
Total segment revenue	465,477	122,360	10,306	2,439	600,582
Inter-segment revenue	–	(96,780)	–	(2,186)	(98,966)
<b>Revenue from external customers</b>	<b>465,477</b>	<b>25,580</b>	<b>10,306</b>	<b>253</b>	<b>501,616</b>
<b>EBITDAF</b>	<b>14,185</b>	<b>102,169</b>	<b>8,173</b>	<b>(14,302)</b>	<b>110,225</b>
Amortisation of intangible assets	2,152	–	–	5,321	7,473
Depreciation	–	11,680	1,651	1,809	15,140
Capital expenditure including business acquisitions	–	8,461	523	6,783	15,767

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 New Zealand Generation to New Zealand Retail. See the retail note 3 for more information.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## RETAIL

Trustpower is a multiproduct utility retailer. Trustpower supplies homes and businesses around the country with electricity, gas, broadband and telephone services. Trustpower provides electricity to 273,000 homes and businesses (September 2016: 278,000, March 2017: 276,000), supplies 37,000 customers with gas (September 2016: 31,000, March 2017: 33,000) and connects 80,000 (September 2016: 69,000, March 2017: 76,000) customers with telephone and broadband services.

## NOTE 3: RETAIL PROFITABILITY ANALYSIS

	Unaudited 6 Months September 2017 \$'000	Unaudited 6 Months September 2016 \$'000
<b>AS AT 30 SEPTEMBER 2017</b>		
<b>Operating Revenue</b>		
Electricity revenue		
Mass market – fixed price	283,906	275,275
Commercial & industrial – fixed price	66,276	65,925
Commercial & industrial – spot price	77,277	73,055
Total electricity revenue	427,459	414,255
Gas	17,947	16,800
Telco	38,146	31,045
Other operating revenue	3,382	3,377
	486,934	465,477
<b>Operating Expenses</b>		
Electricity costs	199,180	191,245
Line costs	158,935	159,842
Telecommunications cost of sales	26,301	23,740
Employee benefits	16,620	17,382
Meter rental costs	11,819	11,791
Gas cost of sales	13,132	12,739
Market fees and costs	3,742	3,727
Marketing and acquisition costs	8,005	9,441
Other customer connection costs	1,309	1,274
Bad debts	920	849
Other operating expenses*	17,393	19,262
	457,356	451,292
<b>EBITDAF</b>	<b>29,578</b>	<b>14,185</b>
The analysis above includes the following internal charges:		
Electricity costs	123,427	96,780
Meter rental costs	5,145	5,270
Other operating expenses	1,285	1,285
	129,857	103,335

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## GENERATION

Trustpower owns 433MW of mainly hydro generation assets throughout New Zealand as well as 93MW of hydro generation in New South Wales. The Generation segment also includes metering and irrigation assets as well as Trustpower's energy trading function. Trustpower also holds a 65% controlling interest in King Country Energy Limited, which owns an additional 54MW of hydro generation assets.

## NOTE 4: GENERATION PROFITABILITY ANALYSIS

	Unaudited 6 Months September 2017 \$'000	Unaudited 6 Months September 2016 \$'000
<b>New Zealand</b>		
<b>Operating Revenue</b>		
Electricity revenue	131,598	106,816
Meter rental revenue	8,107	8,534
Net other operating revenue	3,965	7,010
	<b>143,670</b>	<b>122,360</b>
<b>Operating Expenses</b>		
Generation production costs	17,072	19,532
Employee benefits	7,879	7,574
Generation development expenditure	164	169
Other operating expenses including electricity hedge settlements	(8,083)	(7,084)
	<b>17,032</b>	<b>20,191</b>
	<b>126,638</b>	<b>102,169</b>
The analysis above includes the following internal charges:		
Electricity revenue	113,580	90,225
Electricity hedge settlements	9,847	6,555
Meter rental revenue	5,145	5,270
Other operating revenue	1,285	1,285
	<b>129,857</b>	<b>103,335</b>
	<b>Unaudited 6 Months September 2017 \$'000</b>	<b>Unaudited 6 Months September 2016 \$'000</b>
<b>Australia</b>		
<b>Operating Revenue</b>		
Electricity revenue	9,396	10,306
<b>Operating Expenses</b>		
Generation production costs	1,652	1,218
Employee benefits	624	658
Other operating expenses	194	257
	<b>2,470</b>	<b>2,133</b>
	<b>6,926</b>	<b>8,173</b>

There are no internal transactions in the Australian Generation business.



## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 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 5: BORROWINGS

Unaudited 30 September 2017					
Unsecured bank loans					
	New Zealand dollar facilities \$000	Australian dollar facilities \$000	Total bank facilities \$000	Senior Bonds \$000	Subordinated Bonds \$000
<i>Repayment terms:</i>					
Less than one year	-	-	-	51,992	-
One to two years	18,998	66,286	85,284	-	114,163
Two to five years	190,000	-	190,000	83,046	-
Over five years	-	-	-	127,734	-
Bond issue costs	-	-	-	(2,304)	(817)
	208,998	66,286	275,284	260,468	113,346
Current portion	-	-	-	51,992	-
Non-current portion	208,998	66,286	275,284	208,476	113,346
	208,998	66,286	275,284	260,468	113,346
Audited 31 March 2017					
Unsecured bank loans					
	New Zealand dollar facilities \$000	Australian dollar facilities \$000	Total bank facilities \$000	Senior Bonds \$000	Subordinated Bonds \$000
<i>Repayment terms:</i>					
Less than one year	116,512	-	116,512	51,992	-
One to two years	-	68,789	68,789	-	-
Two to five years	110,490	-	110,490	83,046	114,163
Over five years	-	-	-	127,734	-
Bond issue costs	-	-	-	(2,670)	(1,030)
	227,002	68,789	295,791	260,102	113,133
Current portion	80,000	-	80,000	51,992	-
Non-current portion	147,002	68,789	215,791	208,110	113,133
	227,002	68,789	295,791	260,102	113,133

Senior bonds rank equally with bank loans, while subordinated bonds are fully subordinated behind all other creditors.

The fair value of Trustpower's bank loans and bonds is not materially different to the carrying values above. At 30 September 2017 the subordinated bonds had a fair value of \$120,146,000 (31 March 2017: \$121,040,000) and the senior bonds had a fair value of \$268,889,000 (31 March 2017: \$264,521,000).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## EQUITY

There are no internal transactions in the Australian Generation business.

## NOTE 6. DIVIDENDS

	Unaudited 6 Months September 2017 \$000	Unaudited 6 Months September 2016 \$000
Final dividend prior year	53,312	53,613
<b>Total dividend</b>	<b>53,312</b>	<b>53,613</b>
	Cents per share	Cents per share
Final dividend prior year	17.0	17.1
<b>Total dividend</b>	<b>17.0</b>	<b>17.1</b>

A fully imputed interim dividend of 17 cents per share has been declared and is payable on 8 December 2017 to all shareholders on the register at 24 November 2017.

## NOTE 7. SHARE CAPITAL

	Unaudited 6 Months September 2017 \$000	Audited 12 Months March 2017 \$000
Authorised and issued ordinary share capital at beginning of the period	2	–
Transfer from invested capital	–	2
	<b>2</b>	<b>2</b>
	000's of Shares	000's of Shares
Authorised and issued ordinary shares at beginning of the period	312,973	–
Share split prior to demerger	–	312,973
	<b>312,973</b>	<b>312,973</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 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 2017 \$000	Unaudited 6 Months September 2016 \$000
Profit After Tax Attributable to the Shareholders of the Company	80,775	44,982
Fair value losses / (gains) on financial instruments	2,530	3,235
Demerger related expenditure	–	8,673
<i>Adjustments before income tax</i>	<b>2,530</b>	<b>11,908</b>
Change in income tax expense in relation to adjustments	(708)	(906)
Adjustments after income tax	1,822	11,002
<b>Underlying Earnings After Tax</b>	<b>82,597</b>	<b>55,984</b>

**Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF)**

EBITDAF is a non-GAAP financial measure but is commonly used within the electricity industry 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.

	Unaudited 6 Months September 2017 \$000	Unaudited 6 Months September 2016 \$000
Profit after tax attributable to the shareholders of the Company (\$000)	80,775	44,982
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
<b>Basic and diluted earnings per share (cents per share)</b>	<b>25.8</b>	<b>14.4</b>
Underlying earnings after tax (\$000)	82,597	55,984
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
<b>Underlying earnings per share (cents per share)</b>	<b>26.4</b>	<b>17.9</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

**NOTE 10. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS**

	Unaudited 6 Months September 2017 \$000	Unaudited 6 Months September 2016 \$000
Profit after Tax	82,195	45,228
Interest paid	17,353	20,692
Interest received	(484)	(2,925)
Amortisation of debt issue costs	579	665
Non-cash transfer from cash flow hedge reserve to interest expense	-	(138)
Fixed, intangible and investment asset charges	23,975	22,613
Movements in financial instruments taken to the income statement	2,530	3,235
Decrease in deferred tax liability excluding transfers to reserves	4,265	(7,654)
(Increase)/decrease in working capital	(24,582)	(5,099)
<b>Net Cash Flow from Operating Activities</b>	<b>105,831</b>	<b>76,617</b>

**NOTE 11. CONTINGENT ASSETS AND LIABILITIES**

There were no contingent assets or liabilities as at 30 September 2017 (31 March 2017: nil).

**NOTE 12. SUBSEQUENT EVENTS**

On 30 August 2017 Trustpower announced a strategic review of its Australian hydro generation assets. Subsequent to balance date a number of indicative offers to purchase these assets have been received. No decision on a potential sale has yet been reached. These assets were not considered held for sale at 30 September 2017 as Trustpower was not actively marketing them at a specified price, it was merely seeking expressions of interest.

Other than those disclosed elsewhere in these financial statements there have been no material events subsequent to 30 September 2017 (30 September 2016: none, 31 March 2017: none).

## NOTE 13. FINANCIAL RISK MANAGEMENT

### Fair Values

Except for subordinated bonds and 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.

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.

<i>Valuation Input</i>	<i>Source</i>
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%

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 earlier in this note for sensitivity analysis.

NZ IFRS 7 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).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

**NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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
<b>30 September 2017</b>				
<b>Assets per the statement of financial position</b>				
Interest rate derivative assets	–	1,044	–	1,044
Electricity price derivative assets	–	–	3,090	3,090
		1,044	3,090	4,134
<b>Liabilities per the statement of financial position</b>				
Interest rate derivative liabilities	–	9,219	–	9,219
Electricity price derivative liabilities	–	–	17,001	17,001
		9,219	17,001	26,220
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>31 March 2017</b>				
<b>Assets per the statement of financial position</b>				
Interest rate derivative assets	–	1,674	–	1,674
Electricity price derivative assets	–	–	6,003	6,003
		1,674	6,003	7,677
<b>Liabilities per the statement of financial position</b>				
Interest rate derivative liabilities	–	9,291	–	9,291
Electricity price derivative liabilities	–	–	16,767	16,767
		9,291	16,767	26,058

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

**NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

	Unaudited 6 Months September 2017 \$000	Audited 12 Months March 2017 \$000
<b>Assets per the statement of financial position</b>		
Opening balance	6,003	6,466
Gains or (losses) recognised in profit or loss	(2,913)	(159)
Gains or (losses) recognised in other comprehensive income	–	(304)
Closing balance	3,090	6,003
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	1,134	1,438
<b>Liabilities per the statement of financial position</b>		
Opening balance	16,767	11,993
(Gains) or losses recognised in profit or loss	(941)	128
(Gains) or losses recognised in other comprehensive income	1,175	4,646
Closing balance	17,001	16,767
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	(169)	6,484
Settlements during the period	252	(13,221)

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 2017 \$000	Audited 12 Months March 2017 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(783)	965
Increase/(decrease) to profit of a 10% decrease in electricity forward price	783	(965)
Increase/(decrease) to equity of a 10% increase in electricity forward price	7,629	5,122
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(7,629)	(5,122)



**TWENTY SEVENTEEN  
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