TRUSTED FOR MORE THAN JUST POWER

Interim Results Briefing | 6 November 2017

Trust power.

Contents

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%

$30 MILLION

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%

94,000

CUSTOMERS WITH TWO OR MORE PRODUCTS REACHED 94,000, A 4% INCREASE FROM 90,000 AT 31 MARCH 2017

390,000

TOTAL UTILITY ACCOUNT HOLDERS REACHED 390,000, A 1% INCREASE FROM 385,000 AT 31 MARCH 2017

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

Retail Overview

Retail strategy is working

Metric	FY-18	FY-17	Var %
Mass Market Electricity Sales (GWh)	1,090	1,066	**2%**
Mass Market Gas Sales (TJ)	714	664	**8%**
Total Connections	390,000	380,000	**3%**
Customers with 2+ services	94,000	84,000	**12%**
Telco customers	80,000	69,000	**16%**
EBITDAF ($'000's)	29,578	14,185	**109%**

Note: Apr-Sep numbers for each year.

Comment

- Significant improvement in Retail EBITDAF
- Strong Telco growth
- Moderated acquisition activity through winter

Current connections

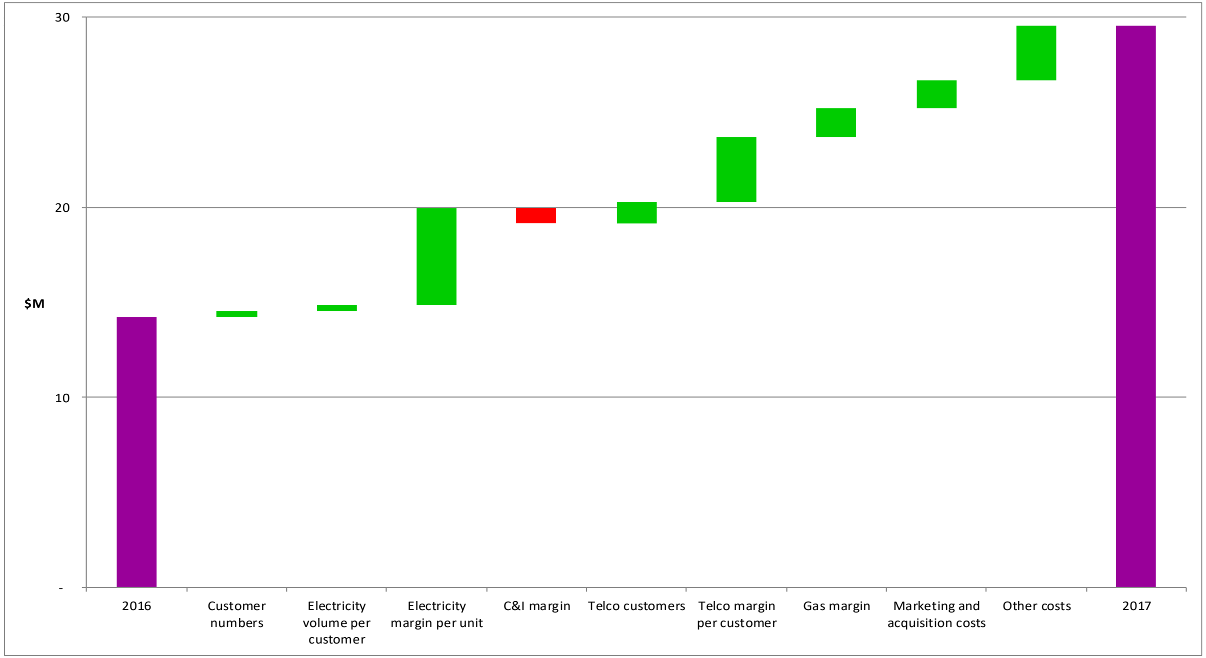
273,000 electricity

37,000 gas

80,000 telco

94,000 customers have more than one product

Performance has lifted in all mass market products



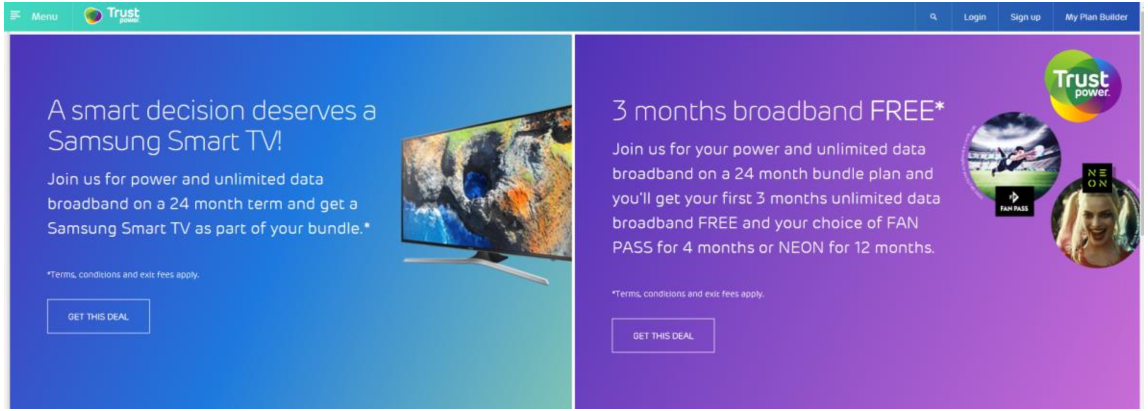
Comment

- Telco margin improvement coming from both the revenue and cost line
- Energy margin coming from improved trading outcome and revenue improvements

Note: Apr-Sep numbers for each year.

Targeted and insight led propositions drive success

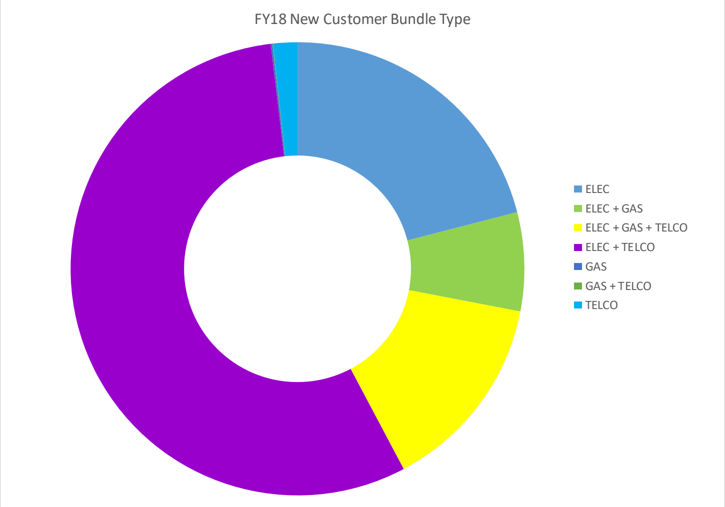
- **Evolving our propositions**



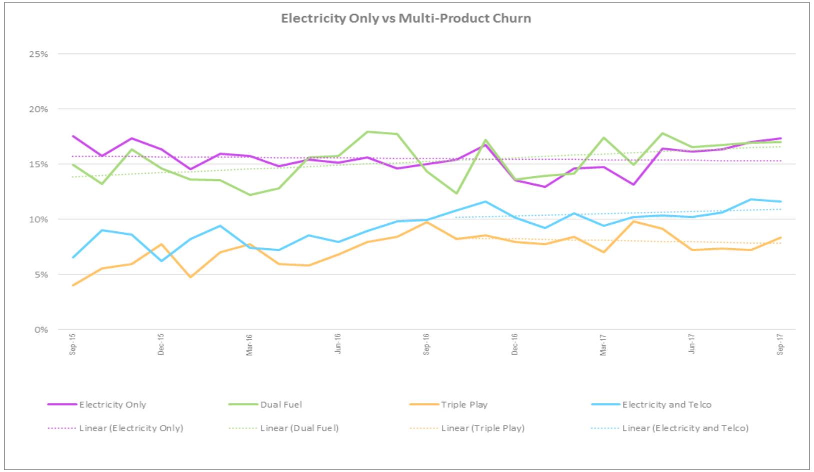
Comment

- Propositions value led not price led
- Developing multiple propositions designed to the meet different needs
- Well developed re-contracting and retention program now in place
- We are progressing plans to expand the bundle in 2018

Success is measured by acquisition quality and retention



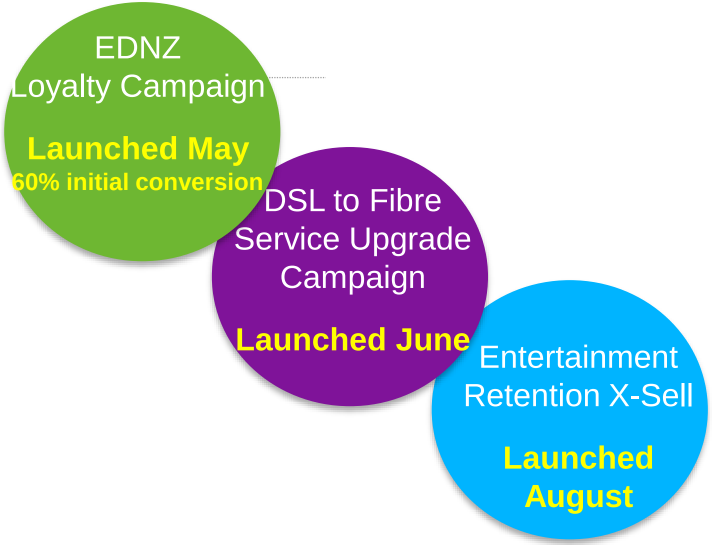
Churn has stabilised



Comment

- Around 80% of new customers are taking more than one product
- Bundled churn appears stable

Plan for the customer life cycle



Comment

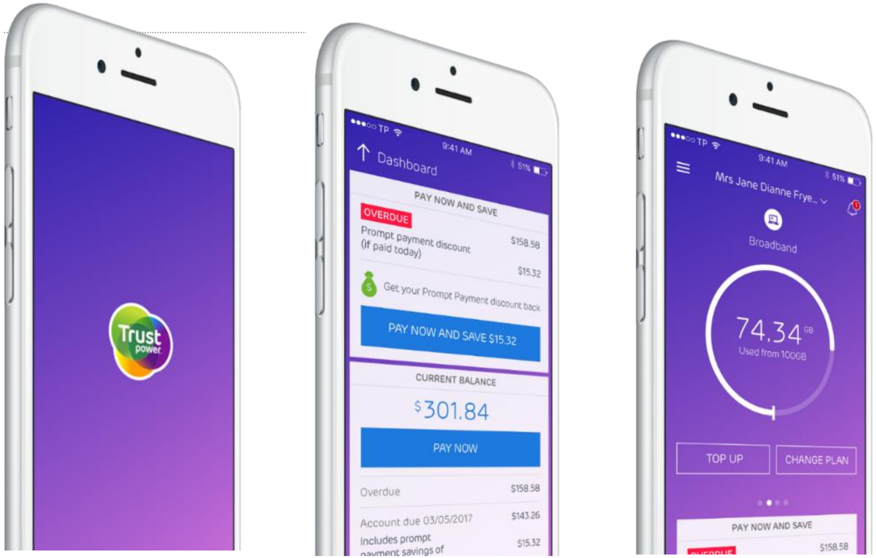
- Developing multiple journeys for our customers
- Working with our partners to give our customers a better experience

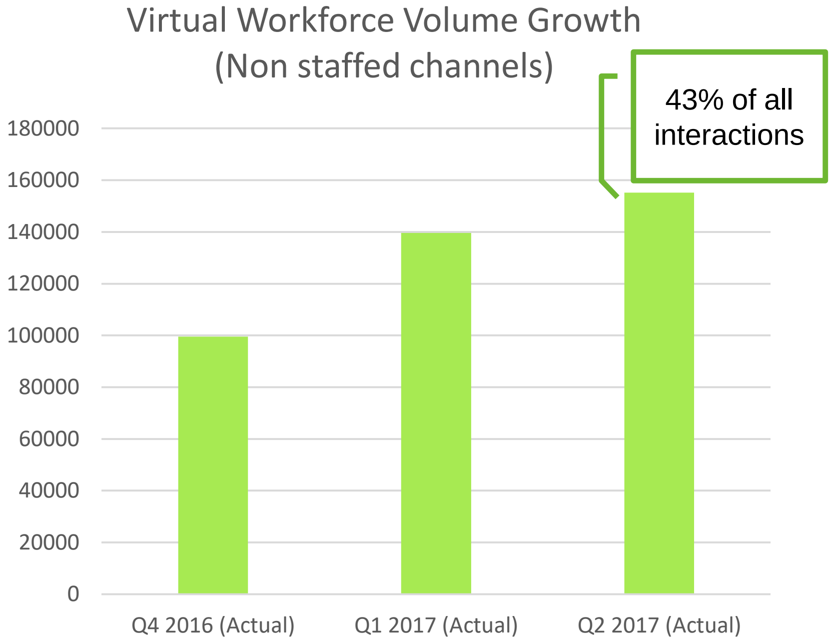
Learning and evolving

49/79 lessons learnt

- Churn relatively consistent across the contract term
- We observed a lift in churn around contract expiry
- 27 months after customer signup, more than 2 out of 3 customers remain with Trustpower
- We have applied the lessons from 49/79 to our newer campaigns.
- Early days but churn on our new campaigns tracking well below 49/79

Continued focus on Customer and efficiency





Note: Number of virtual workforce Customer interactions

Comment

- We continue to enhance our hybrid service model allowing our customers to engage via their channel of choice while at the same time reducing our cost to serve

Generation and Wholesale Market Overview

Market view

Over supply has largely gone

- Trustpower agrees with other market commentators and participants that the market has largely reached a supply/demand balance
- Changes in short term hydrology will now have a more direct impact on wholesale pricing.

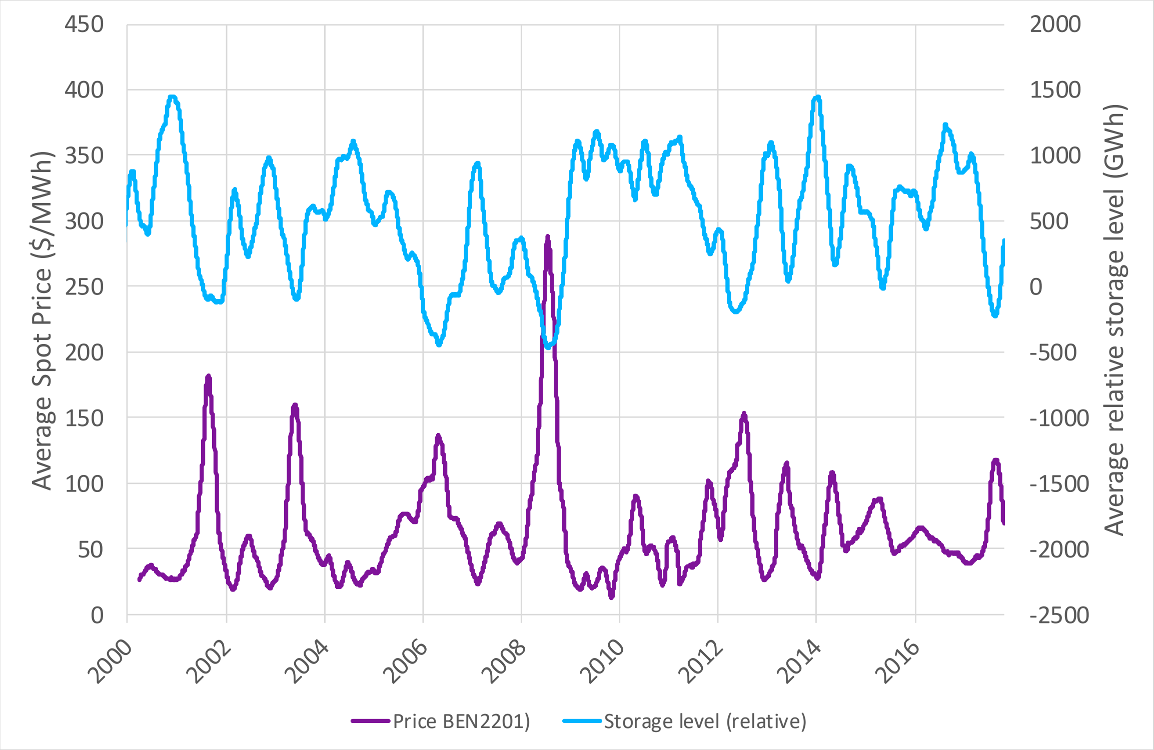
Short term view

- Wholesale prices will be more volatile and this needs to be reflected in forward wholesale pricing as well as retail pricing.

Long term view

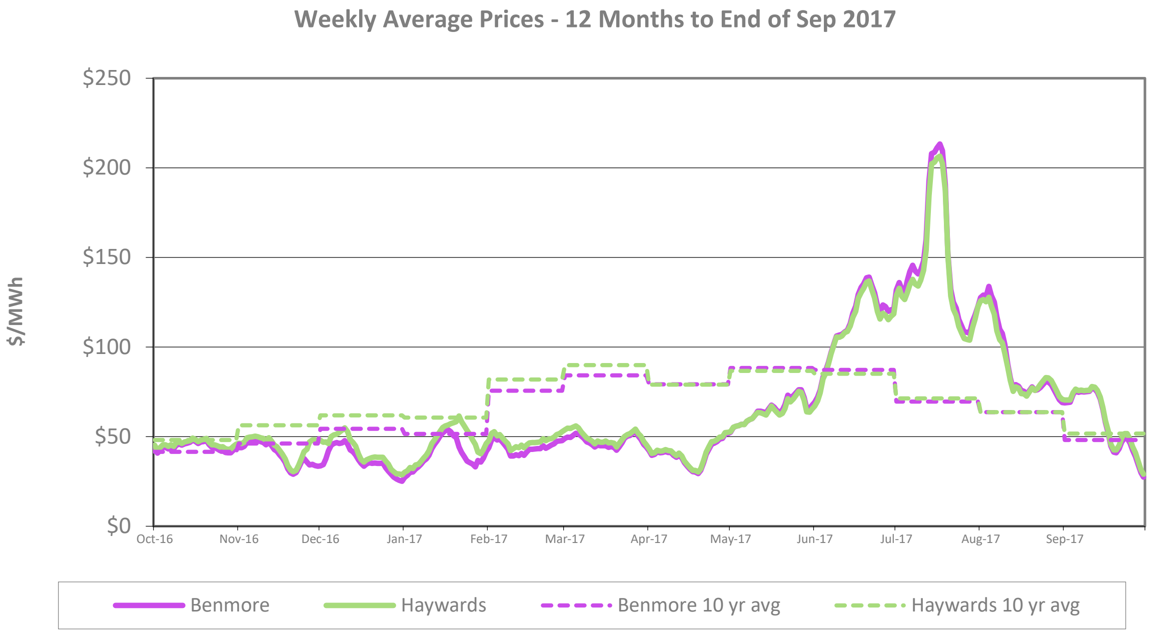
- Considerable uncertainty exists as to the long run supply/demand balance.
- Trustpower is unlikely to invest in a significant new generation build in the near term. Small scale builds/enhancements may be possible.

Storage levels and prices can change rapidly



Trustpower remains cautious of a high priced event and is well positioned to respond

NZ wholesale prices above average

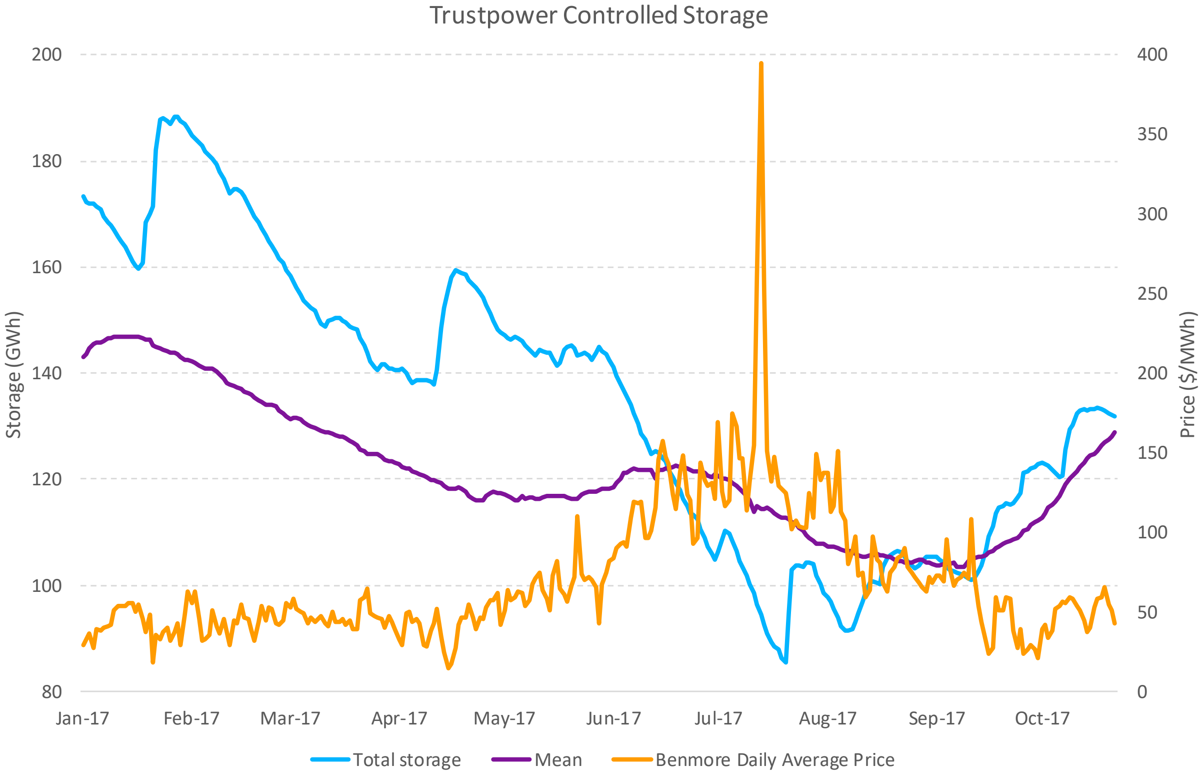


Generation Weighted Average Price (GWAP) for half year $89/MWh compared to $55/MWh for same period last year.

Over the six months prices were 12% above average

Source: NZX Energy

Wholesale price risk management



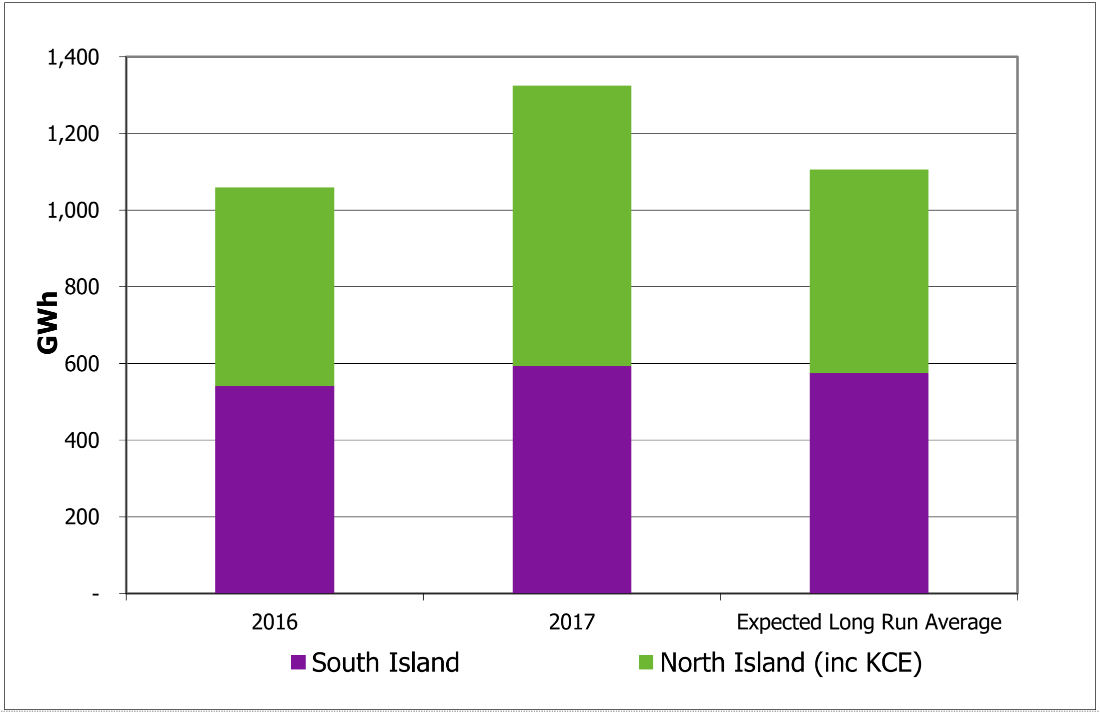
Well positioned at the start of winter

- Geographically distributed generation
- Strong hedging position

Response to firmer wholesale prices

- Deferred acquisition campaigns
- Deferred scheduled maintenance
- Targeted generation at peak pricing

NZ generation

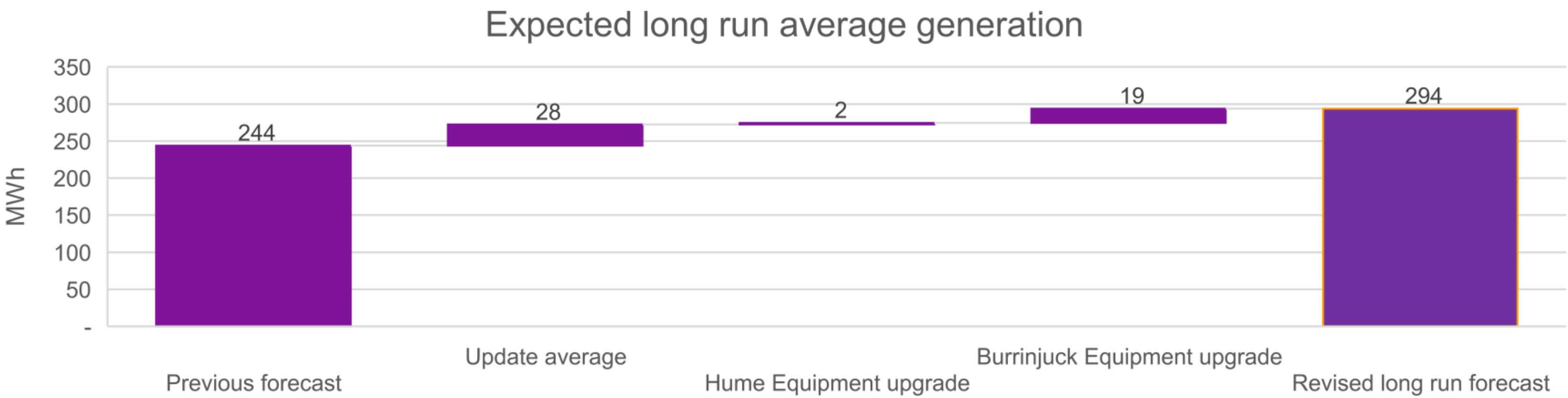


NZ generation up 266GWh (25%) due to strong hydrological inflows

Australian generation

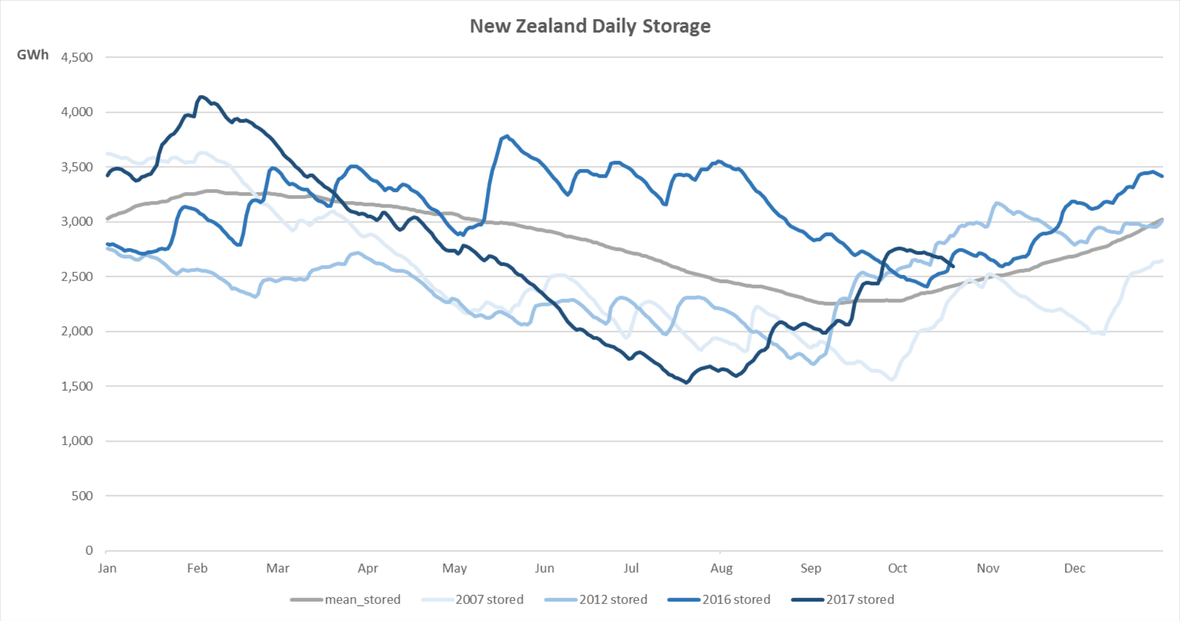
- Detailed review undertaken since FY17
- Baseline revised up following enhancements
- Forecast FY18 generation now 294GWh

Scheme	Expected long run average (GWh)
Hume	203
Burrinjuck	81
Keepit	10
Total	**294**



Next year will be interesting

It all depends on the storage at the end of summer

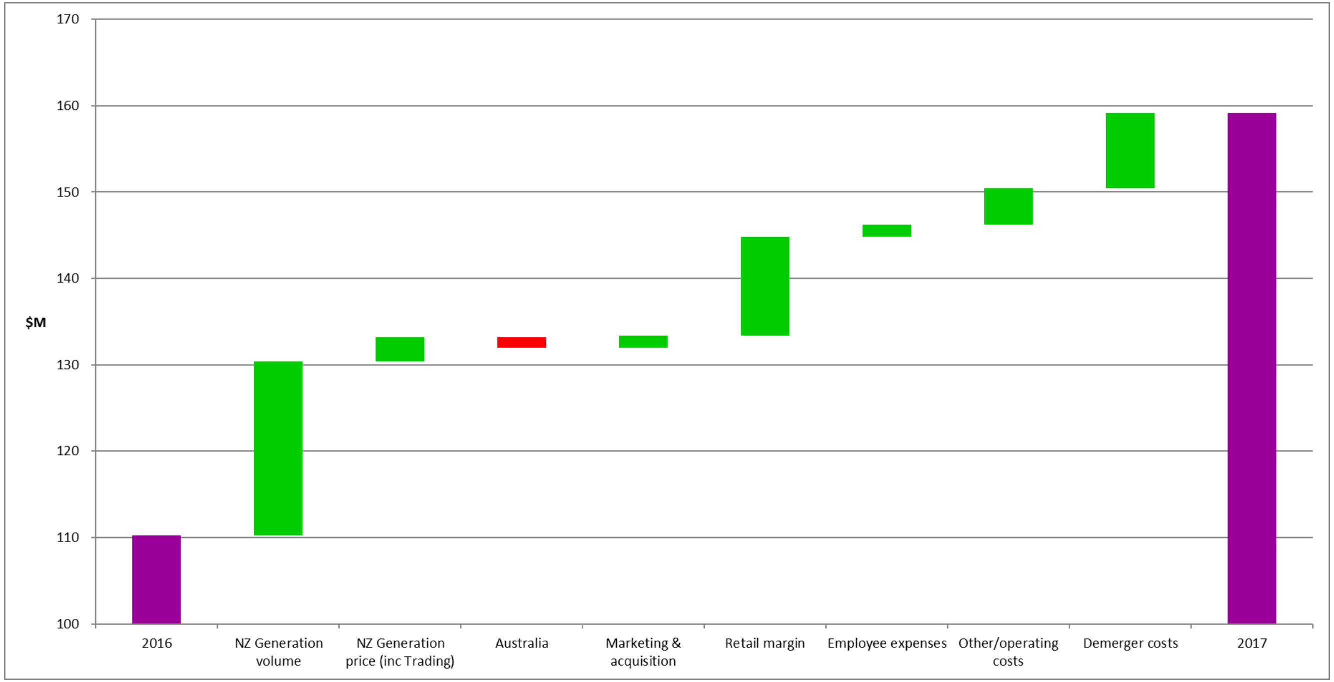


- Current levels above average due to strong recent inflows
- The rapid change in storage levels indicates how quickly the situation can change
- Highlights the importance of prudent risk management

Source: NZX Energy Hydro Summary – 20 October 2017

Overview of Financial Results

EBITDAF bridge half year 2016 - 2017



Retail transfer price

Methodology

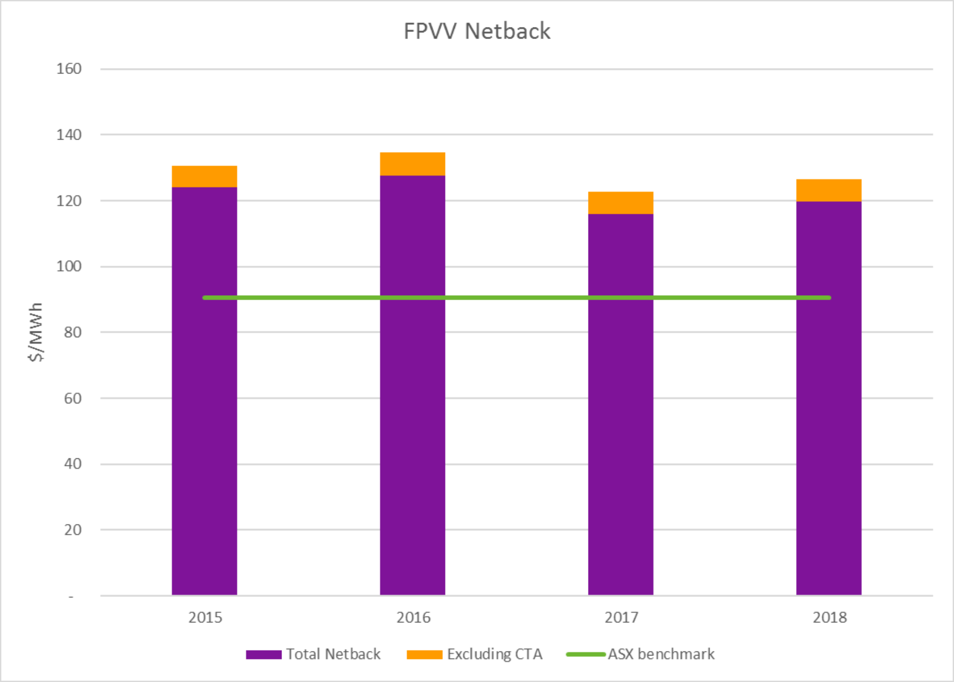
1. Establish a monthly base rate based primarily on ASX pricing (1/3 based 3 years ago,1/3 2 years ago, 1/3 1 year ago).
2. Adjust for location factors and load shape relative to pricing peaks (peaking factor)
3. Adjust for the annual volume option premium provided by the internal trading division and an allowance the transaction costs.
4. Establish a fixed volume for each month and location. If actual volume varies then Retail needs to buy/sell at spot prices.

Industry practice

Steps I & 2 seem to be fairly consistent with market practice for setting transfer prices however steps 3 & 4 seem unique to Trustpower. Others appear to use variable volume, load following hedges with no premium above ASX.

	FY16 $000	FY17 $000	FY17 (6 mnths) $000	FY18 (6 mnths) $000
Reported Retail EBITDAF	56,098	44,965	14,185	29,578
Volume settled at spot	1,091	4,535	2,515	331
Option premium/transaction costs	4,366	4,320	2,403	2,297
Retail EBITDAF if hedge volume is variable and no risk premium	**61,556**	**53,819**	**19,103**	**32,207**

Netback



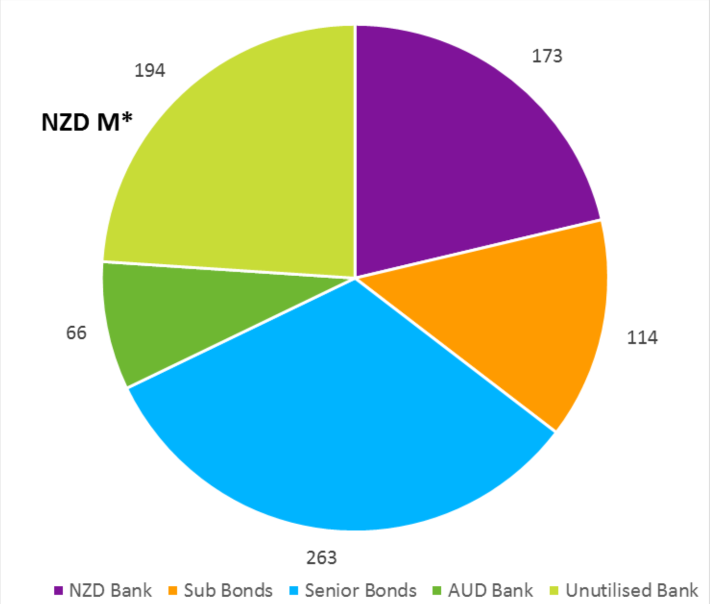
Strong retail profitability reflects:

- Retention of existing customers through excellent service
- Targeting of value adding new customers

Note: this differs from previous netback charts as it includes Fixed Price Variable Volume (FPVV) commercial and industrial customers

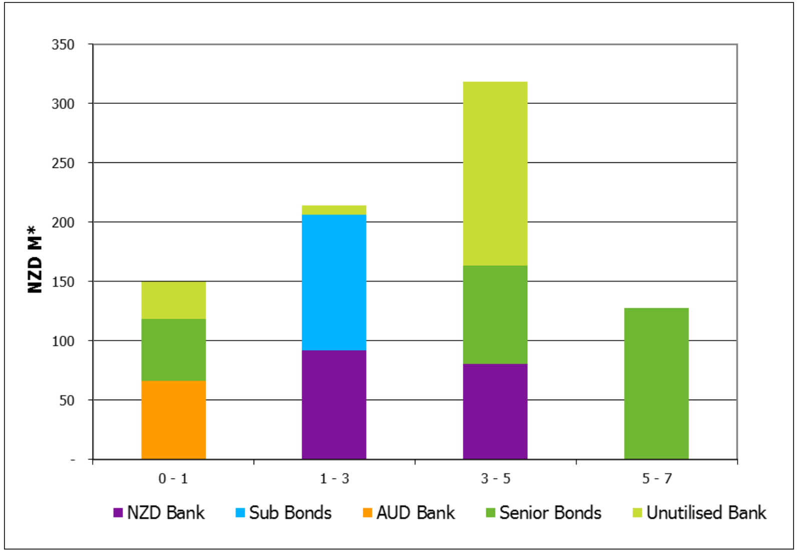
Debt capital management

Source of debt financing



* AUD Loans converted at NZD/AUD 0.92

Maturity of debt financing



- Successful refinancing of $155m of bank debt.
- Will repay December bond with bank debt.

Interim dividend

Dividend declared of

17 cps Fully Imputed

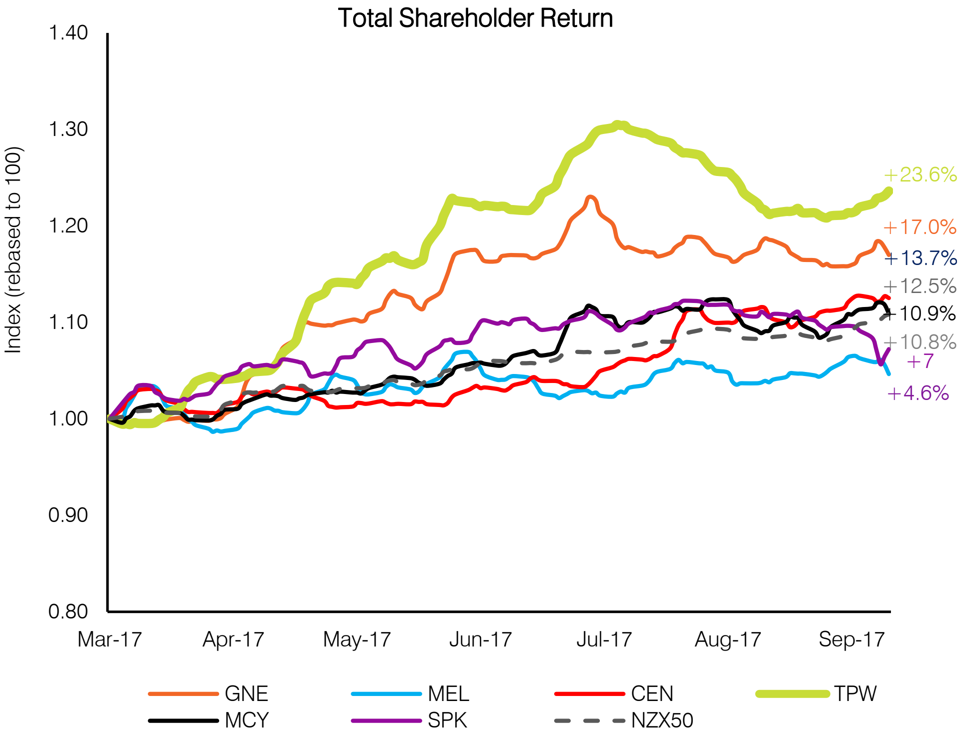
All dividends expected to be fully imputed from now onwards.

The Company expects to increase dividends at yearend if forecast profits eventuate.

Trustpower adds shareholder value

Share price is starting to reflect underlying value

- Refocus and renewed momentum since demerger
- High dividend yield
- Modest gearing allowing for future growth
- Supportive major shareholders
- Credible retail growth story
- Flexible and geographically diverse fleet of generation assets that will optimise value under a variety of scenarios



Market Overview and Outlook

Key regulatory issues

Hydro's key role in the transition to a low-emissions economy

- Increasing political awareness of the need for New Zealand to up its game in order to meet its climate change commitments
- Existing hydro plants are critical to achieving an affordable low emissions future - their access to water and operational flexibility must be retained through meaningful policy

Telecommunications Act review

- We continue to push for a refresh of industry self-governance, and introduction of pro-consumer, pro-competitive measures

Electricity distribution pricing reform

- The shift to cost-reflective pricing will require careful transition and communication

Regulatory framework for emerging energy technology

- Competition in the provision of network support services (e.g. by batteries, Distributed Generation (DG), load management, etc) must be able to flourish

Review of Distributed Generation Pricing Principles (DGPPs) – Avoided Cost of Transmission (ACOT) payments

- We are still awaiting publication by the Electricity Authority (EA) of Transpower's first assessment of which DG should continue to receive Avoided Cost of Transmission (ACoT) payments; their assessment is subject to review and approval by the EA

Transmission pricing methodology (TPM) review

- We support an increased role for Transpower in the next steps of the TPM review, including evidence-based problem definition

GSP strategic review

Update on progress

- A comprehensive internal review of the assets and their value to Trustpower has been undertaken
- We are currently undertaking a targeted market testing to see if there is potential to add value through a sale
- We expect to have completed the review late 2017 or early 2018

Hume Power Station

Trustpower is well positioned in a world that is decentralising and converging at the customer premise

A proven ability to execute in our target markets

- We are not relying on our strong relative position in the traditional electricity industry to build our future business
- Trustpower's investments in the last few years to pre-position for the inevitable changes in the industry are now showing positive returns:
  - diversified generation fleet, multi-service offer, flexible enterprise systems, online capability, improved work environment, and extending the Trustpower brand
- The strategic shift towards multi-service retail – this high conviction is being realised
- 2017/18 Proof points demonstrated by performance:
  - ✓ customer retention post acquisition term
  - ✓ continued ability to execute targeted campaigns in high value segments
  - ✓ increased returns through cost optimisation and scale
- Increasing signs of industry convergence

Will create opportunities for growth in energy and other utility services, and a path to value through customer insight, portfolio management, cost efficiency and targeted investment

March 2018 forecast

On 13 October 2017 Trustpower advised it now expects its FY18 EBITDAF to be in the range of **$255 million to $270 million** this is an increase on its earlier guidance of $225 million to $245 million.

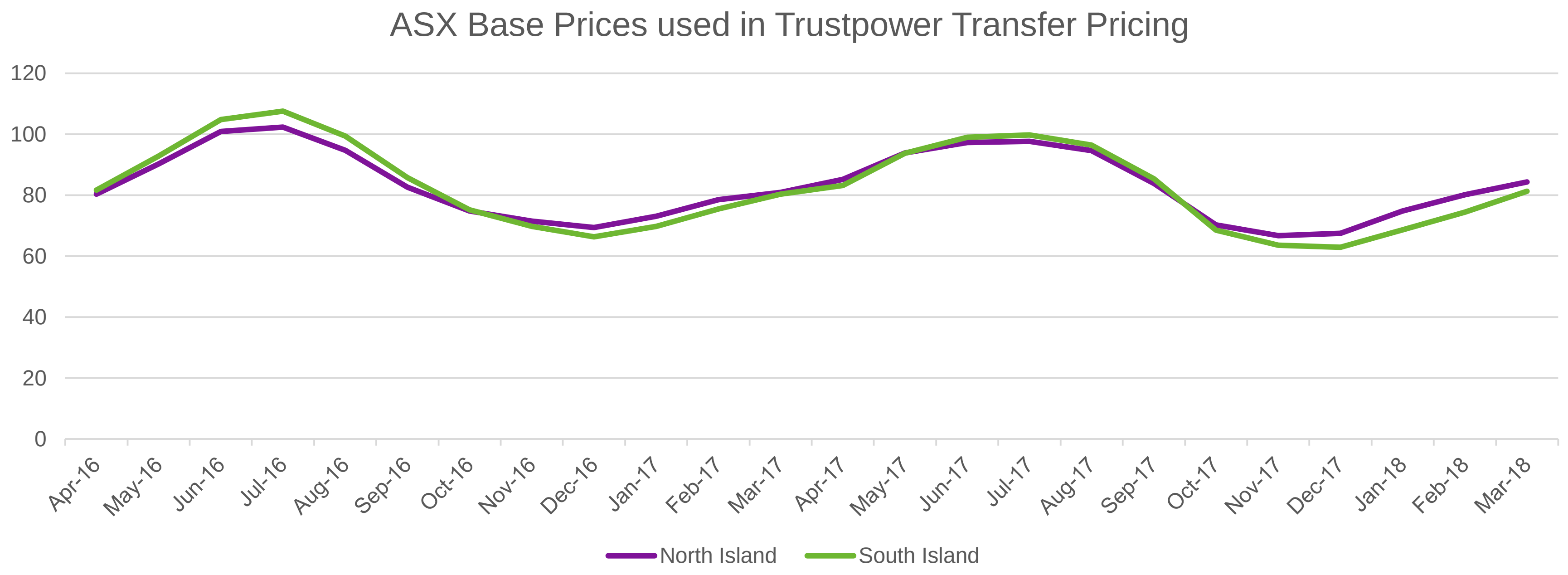
The increased forecast has been driven by the favourable trading conditions in the year to date and a revision of the expected result from its Australian operations.

The forecast is underpinned by the following assumptions:

- Long run average generation volumes for the remainder of the year
- NZ and Australian Wholesale prices are in line with current forward pricing for the remainder of the year
- Average temperatures and average electricity consumption for the remainder of the year
- Total customers increase to between 255,000 and 260,000 including circa 90,000 telco customers

Appendices

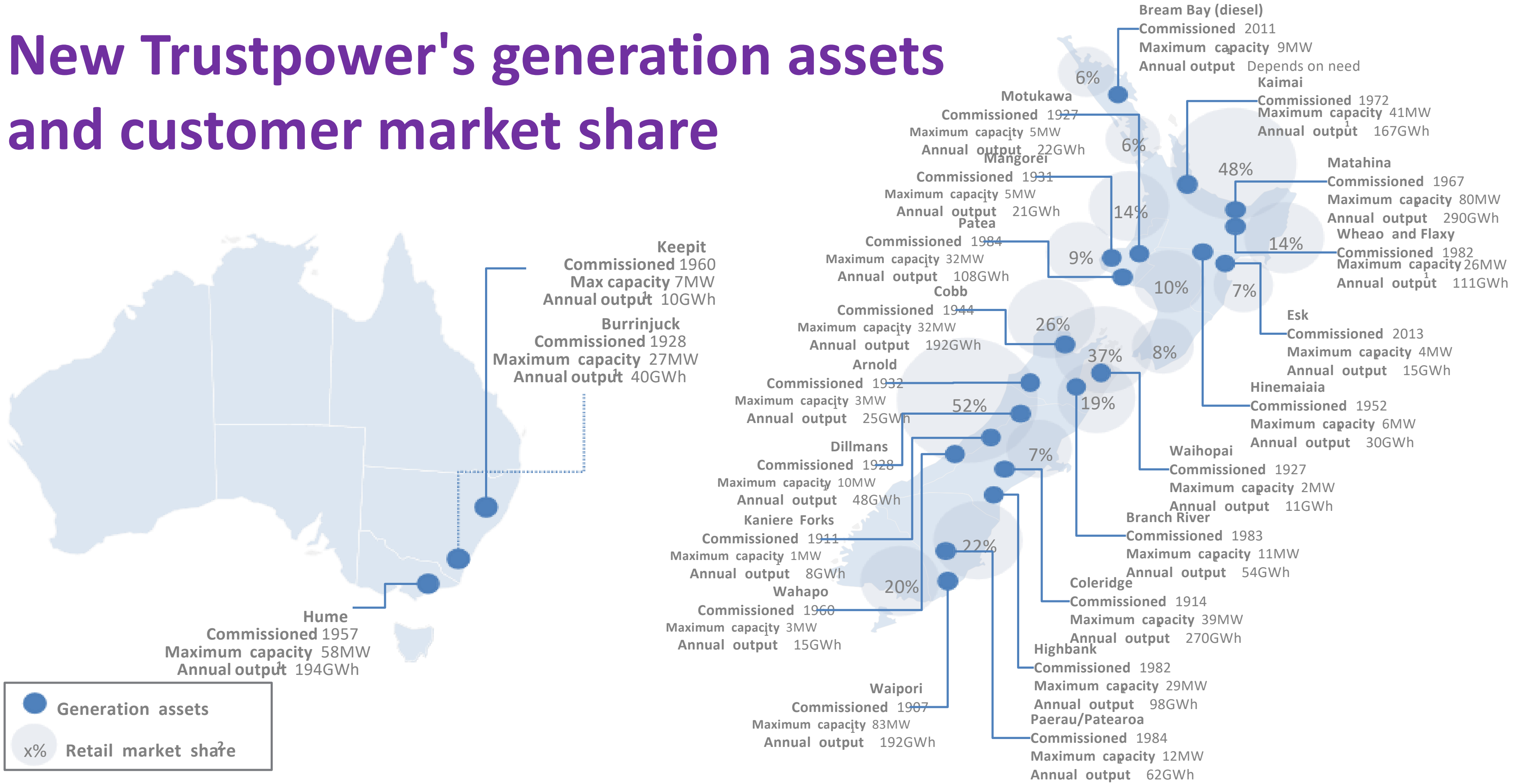
Transfer Price



Trustpower key facts

- Tauranga based national electricity generator and retailer of energy and telco
- History dates back to 1923 as the Tauranga Electric Power Board
- Market capitalisation circa $1.8 billon
- Key shareholders Infratil (51.0%) and TECT (26.8%)
- New Zealand generation capacity (hydro) 433MW producing an average of circa 1,723GWh per annum
- 93MW of Australian hydro operating assets producing an expected average of circa 294GWh per annum
- Approximately 247,000 customers
- 94,000 customers have more than one product
- Approximately 787 FTE employees (including King Country Energy)

New Trustpower's generation assets and customer market share



Notes:

1 Based on average annual output
2 Retail market share based on Electricity Authority Customer connections as at 31 March 2016
3 The percentage figures in the map reflect the percentage of customers in each region who are Trustpower electricity customers (circle size relative to approximate numbers of customers)

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 impairment of generation assets.
- 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 the measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.
- Reconciliation between statutory measure of profit and the two measures above are given below:

	2016	2017
Profit After Tax Attributable to Shareholders	**44,982**	**80,775**
Fair value losses / (gains) on financial instruments	3,235	2,530
Demerger related expenditure	8,673	-
Changes in income tax expense in relation to adjustments	(906)	(708)
Underlying Earnings After Tax	**55,984**	**82,597**
Operating Profit	**84,377**	**132,533**
Fair value losses / (gains) on financial instruments	3,235	2,530
Depreciation and amortisation	22,613	24,069
EBITDAF	**110,225**	**159,132**

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