all the little things

TRUSTPOWER
2018 ANNUAL
REPORT

little things lead to greatness

Trustpower's relentless attention to detail and continuous effort have led us to where we are today. It's no small achievement. Improvements, innovations and efficiencies add up to a very successful year.

Our talented people recognise that individual steps are not insignificant when they are made together as a team, on a shared path to the future.

table of contents

achievements
/ 2018

We added the most shareholder value, at 29%, of all our listed competitors for the year; we reached the milestone of 100,000 customers taking two or more services; we successfully sold our NSW hydro assets for AUD168 million after purchasing them for AUD72 million in 2014; we completed the joint takeover of King Country Energy and the purchase of its retail business.

Strategic Focus
/ 2019

We're focussed on continuing to execute our multi-product customer strategy, increasing efficiency throughout the business, and finding opportunities to add value for shareholders through strategic acquisitions over the year ahead.

$35 million

net profit after tax of $129 million, up $35 million or 38%

$267 million

operating earnings (EBITDAF) of $267 million, up 22%

17¢

final dividend of 17 cents

40.9¢

earnings per share of 40.9 cents, up 38%

397,000

total utility account holders reached 397,000, a 3% increase from 385,000 at 31 March 2017

$60 million

retail earnings (EBITDAF) of $60 million, up 33%

100,000

customers with two or more products reached 100,000, 11% increase from 90,000 at 31 March 2017

11%

New Zealand generation production lifted 11% due to the impact of strong hydrological inflows, resulting in operating earnings of $196 million, up 16% on last year

45%

more customers are choosing to engage with Trustpower digitally, with 45% of customer interactions now handled by our virtual workforce

where we work

Trustpower generates electricity at 27 sites across New Zealand. More than 99% of our power is generated sustainably, through hydroelectric generation.

Retail Customers

Hydro

Diesel

North Island

Auckland
Counties
Far North
King Country
Southern Thames Valley
Taupo
Waikato/Waipa
Tauranga
Rotorua
New Plymouth/Taranaki
Gisborne
Manawatu
Whanganui
Hawke's Bay
Wairoa
Wellington

Hinemaiaia
Kuratau
Mokauti
Piriaka
Wairere Falls
Kaimai
Matahina
Wheao/Flaxy
Mangorei
Motukawa
Patea
Mangahao
Esk

Bream Bay

South Island

Tasman/Nelson
Buller
West Coast
Invercargill/Southland
Marlborough
Central Otago
Dunedin
Oamaru
Otago
Ashburton
Christchurch
Rangiora
Timaru

Cobb
Arnold
Kaniere Forks/McKays Creek
Kumara/Dillmans/Duffers
Wahapo
Argyle/Wairau
Waihopai
Paerau/Patearoa
Waipori
Deep Stream
Coleridge
Highbank
Montalto

99%+

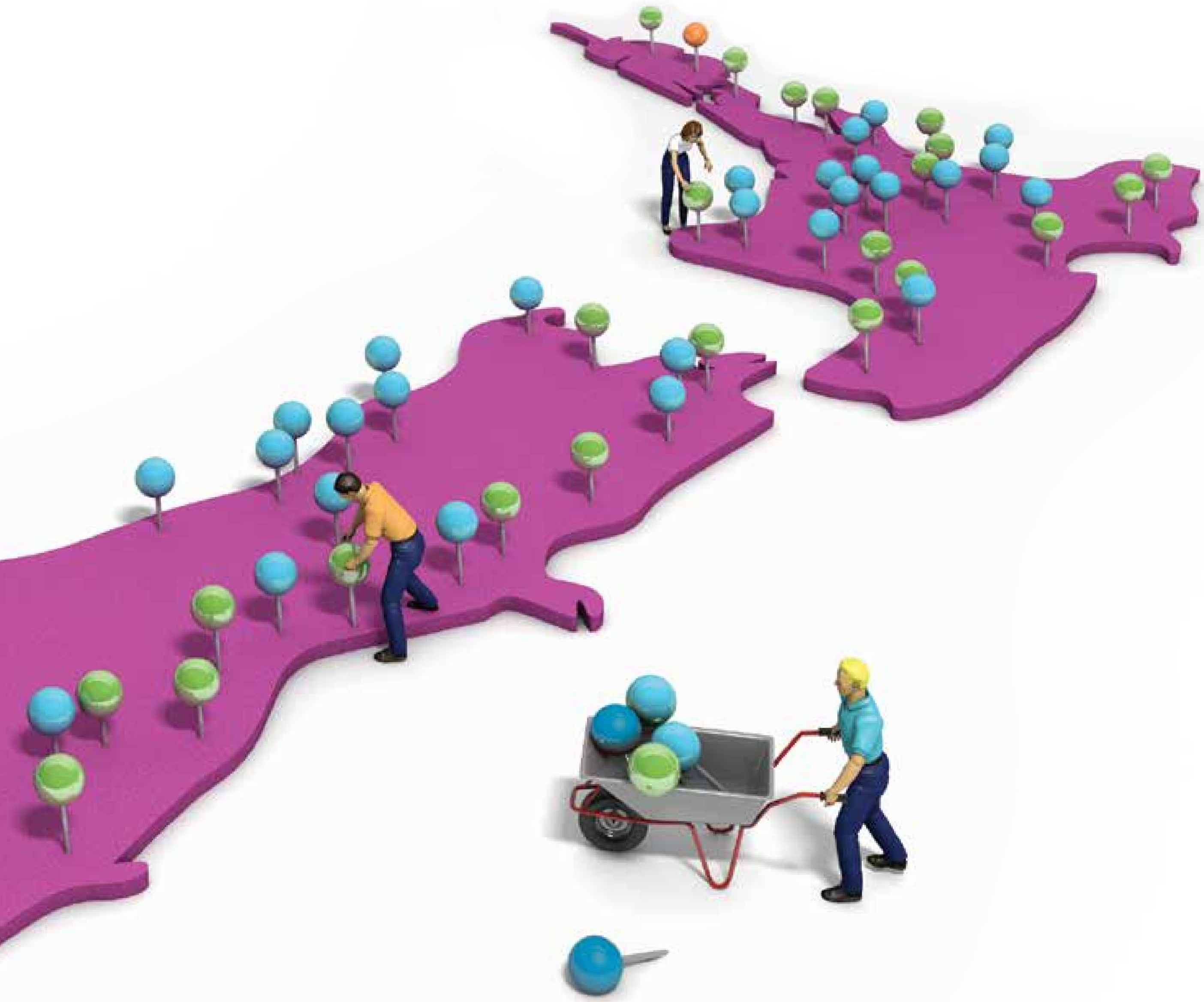
of our power is generated sustainably

27

generation sites across New Zealand

246,000

customers including 100,000 that purchase multiple products from us



chairman & chief executive's report

The 2018 financial year was the first full year for Trustpower after the demerger of Tilt Renewables Limited.

Last year we noted that Trustpower would "focus on increasing performance in its two key business areas of hydro generation and multi-product retail".

Progress this year has been pleasing. We continued our retail multi-product growth strategy reaching 100,000 customers with two or more products, we have also benefited from being well positioned with our hydro generation storage when prices were high during the winter months.

We have further refined our strategy and focussed the business in New Zealand with the successful sale of the Australian GSP Energy assets and the completion of the acquisition of King Country Energy (KCE) in a joint venture with the King Country Electric Power Trust.

There were two particularly challenging events during the year. The first was the Edgecumbe flood. This serious weather event was devastating for the community and Trustpower provided support where possible. Trustpower also made significant effort to reduce the impact through the operation of the Matahina dam and meeting the requirements of the flood management plan.

The second was the Tauranga Energy Consumer Trust (TECT) proposal and consultation on major change to TECT. Trustpower opposed the process followed by TECT and the single option for change. Trustpower's customers expected the company to enable their voice to be heard. Trustpower believes the TECT Trustees made the right decision to withdraw the proposal.

Whilst the environment in which we operate is dynamic and continuous change is inevitable we believe Trustpower is well positioned to compete.

Strategy

Trustpower has further refined its strategy during the 2018 year.

We have developed four key strategic themes. These are based on our core convictions, that customers value the bundled product offer, the value of customer loyalty and the importance of renewable generation in New Zealand.

The first strategy, bundling energy and telecommunication products, is a successful growth story. We consistently experience more than 80% of new customers purchasing two or more products. When this trend is combined with lower churn for customers who buy both energy and telecommunication products we believe this leads to increased customer satisfaction and lifetime value.

During the year, Trustpower changed its approach for bundled customer acquisition, moving from a price discount model to a customer centric value added model based on the insights from our market research.

Analysis of these insights led to the introduction of entertainment bundles that appealed to key customer segments. The result is more customers migrating to higher value internet plans. Trustpower now has 52% of its telecommunication customers on fibre plans.

Paul Ridley-Smith
/ Chairman

Vince Hawksworth
/ Chief Executive

Our second strategic focus is on our electricity only customers. This is a highly competitive market segment with around 40 brands in market; we believe this intense competition increases the risk of business failures and market consolidation is likely. Trustpower seeks to balance its portfolio across all parts of the market to manage risk. We sell approximately 1,900GWh per annum into the commercial and industrial market on two to three year contracts, with our customer relationships having an average tenure of seven years.

In the mass market consumer segment, we have focussed our efforts on cross sell and retention using targeted offers to move customers from electricity only to the multi-product category.

Our third strategy, to optimise our generation portfolio performance, delivered particularly well in the 2018 year. Our hydro storages were well positioned at the start of winter and by ensuring that our assets were available Trustpower was able to maximise revenue, resulting in $196 million EBITDAF from the generation business, an increase of 16% from $169 million in the previous year.

Trustpower has a small share of the New Zealand generation market. In an average year we produce 4.2% of New Zealand generation and 7.3% of New Zealand hydro generation. Trustpower does however have the ability to store more water than represented by its generation capacity. This allows us to generate more electricity at times when prices are high and conservatively less when prices are low.

We continue to make prudent investments in our asset base with a particular focus on the highest earning hydro machines. We commenced significant work at Matahina that will be completed in the coming months and have a planned upgrade for the Coleridge power station generators.

Trustpower also decided to divest the GSP Energy Pty Ltd hydro assets. This decision took advantage of the current Australian energy market conditions that has created heightened interest in renewable assets. The competitive process was successful, realising a sale price of AUD168 million, a significant premium to the purchase price of AUD72 million in 2014. Final settlement occurred on 29 March 2018. These assets were part of the NSW irrigation system and as such, unlike its New Zealand assets, Trustpower had little influence over when or how much generation took place. Over the period of ownership Trustpower received EBITDAF from these schemes of AUD79 million with individual years ranging from AUD14 million to AUD30 million.

Trustpower also has a strategy focusing on new and emerging market opportunities. We are focussed on technology and customer requirements that are adjacent to our core business. During the past year, we have developed a solar product that allows our customers to "trade" with each other. We have also started to explore adjacent opportunities in the telecommunications market including the provision of mobile services.

We believe that consolidation is inevitable in the markets we serve. We completed the takeover of King Country Energy (KCE) jointly with the King Country Electric Power Trust. Subsequently, Trustpower has fully acquired the KCE retail business and is integrating it with Trustpower retail.

Operating performance

Trustpower achieved New Zealand hydro generation volumes of 2,235GWh which is 18% above the long-term average of 1,890GWh. The Company particularly benefitted from strong inflows into its North Island catchments.

The average price received was $88/MWh, a significant increase from the average price of $52/MWh received in the prior year.

In Australia, prices for black energy were A$92/MWh (an 18% increase on the A$78/MWh received in the previous year) and this, combined with renewable energy credit production, resulted in a strong final year for GSP Energy.

Customer connections continue to grow and Trustpower now has more than 100,000 customers buying two or more products. It is notable that our growth in the metro areas means that we are now more geographically diversified, with our traditional customer base being in the Bay of Plenty and regional New Zealand. To support this growth, and to meet the expectations of our customers, we have continued to invest in technology.

During the year, we launched a mobile app and a chatbot. Together with our other customer facing technology investments, we now service more than 45% of customer contacts without human intervention.

Financial performance

As noted, the year ended 31 March 2018 was a positive year for Trustpower. With consolidated profit after tax of $129 million, being an increase of 38% compared with the $94 million received last year.

Underlying earnings were $135 million compared with $115 million in the previous year an increase of 17%.

Earnings before interest, tax, depreciation, fair value movements of financial instruments, asset impairments and discount on acquisition (EBITDAF) of $267 million (including the discontinued Australian operations) was a significant increase of 22% on the $218 million achieved the previous year.

The results reflect the favourable hydro generation, firm winter wholesale prices and the continued success of our retail strategy in a competitive environment. The Company incurred one off costs of $3 million due to merger and acquisition activity and the response to the TECT consultation process.

Financial position and capital structure

As at 31 March 2018, net debt (including subordinated bonds) was $470 million, down 29% from $661 million the year before. Trustpower uses Net Debt/EBITDAF as the metric to measure the company's ability to repay debt. The current level of 1.9 times is well down on the 3.0 times achieved in the previous year mostly due to the recent sale of the GSP Energy assets.

Health, safety and environment

This year Trustpower has focussed on two key areas of improvement in health, safety and wellbeing of staff, contractors and the public. These are our health and safety culture and implementing the previous year's audit improvement opportunities. We have made significant progress with twenty four high priority projects complete. During the 2018 financial year we had 12 lost time injuries whilst total recordable injury frequency rate (TRIFR) was 2.88 up from 2.87 in March 2017.

To address the increase in TRIFR we have focussed on roles and responsibilities of leaders, health and safety representatives and most importantly workers taking a shared responsibility in keeping themselves and their workmates safe. Reporting of hazards, incidents and near misses has increased with the implementation of our new incident management system. This system helps us ensure that work will be done safely in the future.

Last year we noted that hydro generation is critical to New Zealand's low carbon future. This is especially so with the Government's focus on more ambitious emissions targets for 2050. The Productivity Commission's draft report "Low-Emissions Economy" notes the opportunity to reduce emissions in other sectors of the economy like transport and process heat. Trustpower is focussed on ensuring its hydro generation contributes to this goal in a sustainable manner.

During the year, Trustpower was involved in a significant event when Edgecumbe was flooded during ex-Tropical Cyclone Debbie. This flood occurred when the river floodwall breached in the Edgecumbe Township. Edgecumbe is 15km downstream of the Matahina dam and the peak flow was 740 cubic metres per second. Trustpower's management of the lake levels and outflow from the Matahina Dam helped reduce the flood downstream of the dam. This action reduced the flood from a one in 200 year event to a less than one in 100 year event. The subsequent independent event review concluded that Trustpower operated Matahina in accordance with its obligations under the Flood Management Plan.

Trustpower also deployed resources to assist the Council and the community in the recovery effort including providing technical, people and other resources.

Our people

Our people strategies focus on delivering the capabilities we have identified as essential if we are to execute our strategic goals. Key to these is "fostering an open organisational culture with a collective learning focus".

During the year, we have developed a number of programmes that build on our leadership programme. These include the development of "fast business improvement" facilitators who are helping the business find solutions to challenging change management problems.

This work has led to an increased focus on agile work practices and we expect to expand on these in the coming year.

Once again, the Trustpower National Community Awards were very successful. The 2017 supreme winners were the Edgecumbe Volunteer Fire Brigade.

Government and regulatory landscape

The change of government heralds a change in policy emphasis. Trustpower acknowledges the important role of energy and telecommunications in all parts of New Zealand's communities. We understand the Government's priorities to set a pathway to a low emissions economy and ensuring that New Zealand maximises the benefits available from the digital economy. We will fully participate in the policy development process with a preference for market mechanisms that facilitate innovation, open access for participants and suitable social policy protections for disadvantaged communities.

Trustpower is particularly focussed on climate policy, the electricity price review, environment and water, telecommunications review and transmission and distribution pricing.

During the year, we have continued to challenge the Electricity Authority's approach to the Transmission Pricing Methodology review (TPM) and its review of Distributed Generation Pricing Principles (DGPP). Since the Electricity Authority's announcement that it would undertake a new cost benefit analysis for the TPM there has been little progress. We believe that it is appropriate that work is put on hold until the Government completes its electricity pricing review.

We also challenged unsuccessfully the changes to the DGPP and are now focussed on ensuring the value of our distributed, embedded generation is recognised as the changes are rolled out.

We are conscious of the increased government and stakeholder focus on water quality. As an operator of hydro schemes Trustpower is conscious it has an important part as a provider of 100% renewable energy which produces no emissions and does not consume the water it uses. Trustpower not only operates its power stations within the resource consent constraints but works actively with the other users of the waterways it uses to ensure the optimal use of the resource is achieved, be it hydro generation, recreation, flood management, water quality etc.

It is important that policy makers and politicians remain aware of the environmental, social and economic benefits of sustainable hydro generation.

We are actively participating in the Telecommunications Act Review and Commerce Commission Mobile Market study. Trustpower believes the establishment of a fixed line central registry to support consumer switching and improved access to networks will create better competitive outcomes that benefit consumers.

Trustpower supports moving to a low emissions economy, but in the electricity sector there is likely to be an important role for gas powered generation for an extended period. Gas powered generation, among currently available technologies, is uniquely placed to provide security of supply and resilience when climatic conditions (i.e. low wind, water and sunshine) reduce renewable energy generation. For this sector to play its important role in helping keep New Zealanders warm and productive, indigenous gas resources need to be available and utilised.

Directors

During the year, Marko Bogoievski retired as a Director and Steven Fitzgerald was appointed as a Director.

The Board acknowledged the significant contribution that Marko has made to the success of Trustpower.

Auditor

PricewaterhouseCoopers has indicated its willingness to continue in office.

Dividend

The Directors are pleased to have declared a final dividend of 17 cents per share, fully imputed, payable 15 June 2018 (record date of 1 June 2018).

This together with an interim dividend of 17 cents per share, provides a total pay-out of 34 cents per share for the 2018 financial year.

Looking ahead

The electricity and telecommunications markets are experiencing significant change. The transition to a low emissions economy and the advent of ubiquitous connectivity provide the opportunity to integrate both electricity and telecommunications technologies.

Trustpower is excited by the opportunities this convergence creates. Our customers are increasingly receptive to integrated solutions that "make life easy".

Trustpower has developed a robust and agile platform across energy and telecommunications. Together with our capable people and focus on value growth Trustpower has a bright future.

Paul Ridley-Smith
/ Chairman

Vince Hawksworth
/ Chief Executive

3%

increase in customer connections

11%

increase in New Zealand generation volume

100,000

customers that purchase multiple products from us


a.


b.


c.


e.


f.

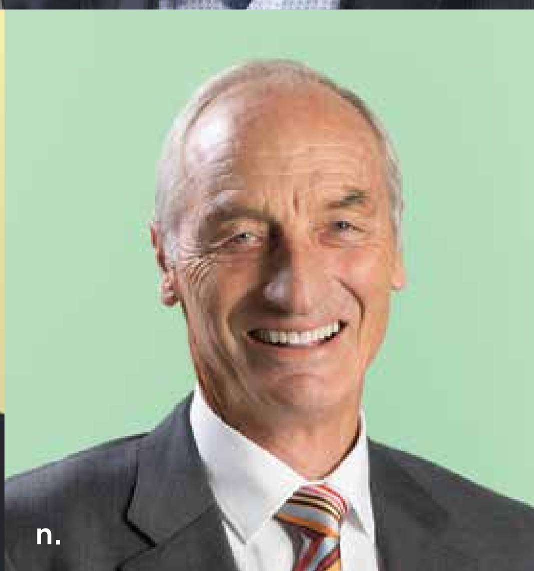

g.


i.

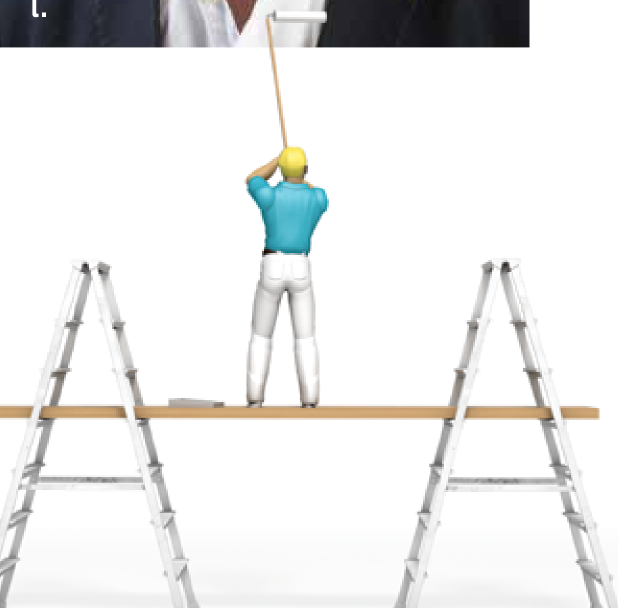

j.


k.


m.


n.


o.



the leadership team

a. **Paul Ridley-Smith**
/ Chairman

b. **Vince Hawksworth**
/ Chief Executive

c. **Steven Fitzgerald**
/ Director

d. **Melanie Dyer**
/ General Manager People and Culture

e. **Sam Knowles**
/ Director

f. **Susan Peterson**
/ Director

g. **Kevin Palmer**
/ Chief Financial Officer and Company Secretary

h. **Stephen Fraser**
/ General Manager Generation

i. **Alan Bickers**
/ Director

j. **Craig Neustroski**
/ General Manager Markets

k. **Geoff Swier**
/ Director

l. **Simon Clarke**
/ General Manager Business Solutions and Technology

m. **Peter Calderwood**
/ General Manager Strategy and Growth

n. **Richard Aitken**
/ Director

o. **Fiona Smith**
/ General Manager Customer Operations

optimising the experience for our customers

Trustpower has launched a mobile app designed by customers.

Trustpower customers are the architects of our communications options. This ensures everyone can use the channel that best suits them.

A new mobile app launched in December 2017 has already had thousands of downloads. Trustpower's General Manager Customer Operations, Fiona Smith, says that's because it was built to customers' specifications.

"We build the things our customers want. The best way to do this is to ask them," she says.

The app's functions include online bill payments, due date notifications, prompt payment discount reinstatement, faults and outages alerts, usage history and LPG bottle ordering.

The app is just one of the many digital and human communications channels available to Trustpower customers.

"It's incredibly important to us to give our customers choice. Everyone can use the method that suits them at a time that suits them," says Fiona.

Customers can phone the call centre or use web chat to communicate in real time with a human, they can interact with an online 'chat bot', or utilise the self-service knowledge base, where a virtual agent generates answers to common questions.

Customers can also email, message via Facebook, or use the website's FAQs section for information on popular topics.

Fiona says customers of all ages are using the online channels such as web chat.

"Our customers who have hearing difficulties especially appreciate being able to communicate with a real person via easy-to-use platforms," she says.

Digital Channel Manager Wayne Ramshaw, who helped design the website and the new app, says customers lead the way.

"We want to make our customers' journeys as effortless as possible, especially when they want to sign up for services," says Wayne.

He says the plan is to add frequently-requested functions to the app, such as access to household energy use data, order tracking and moving house.

"Our customers will be able to monitor the progress of their fibre installations, for instance," says Wayne.

Savonne Wadsworth, Trustpower's Digital Service Manager, says its self-service knowledge bank, accessible via the website and app, has grown to more than 400 subjects generated from questions and feedback from customers.

"We are continually encouraging customer feedback," she says. "We respond with updates and action requests by feeding that information into our digital tools."

> We build the things our customers want – the best way to do this is to ask them.

A quarter of customers choose to use the knowledge base to answer their queries, while another 2,000 customers use web chat each week. The numbers continue to grow as customers build trust and confidence within our online channels.

"Already nearly half our customer contacts are serviced digitally, freeing up our staff to deal with the more complex enquiries."


MR K S WYLIE
Fibre
26.04 GB
Used from unlimited this month
CHANGE PLAN
CURRENT BALANCE

giving our people a platform to have their say

An innovative approach to leadership has led to a shift in mindset at Trustpower.

Trustpower employees are encouraged to ask questions and offer ideas regardless of their position, discipline, experience or department.

It's an approach that leads to innovation, integration of mixed ideas, fresh concepts and cross-function collaboration – all considered essential for Trustpower's future success in a rapidly changing world.

General Manager People and Culture, Melanie Dyer, says one of Trustpower's tools to encourage this way of working is a unique leadership development programme called "Leading Our Future", provided by Insight Outsight Pty Ltd.

"We looked at the changes in our industry and considered the skills we would need to keep up with a rapid pace of change," says Melanie.

"For future proofing Trustpower needs to be open to learning, new opportunities and experiences, as well as customer and market feedback."

The programme targets leadership at all levels and involves learning by doing. The only prerequisite is an appetite for learning.

Participants are coached and supported as they tackle a multi-disciplinary group project. The course lasts close to a year, but the projects often lead to longer-term initiatives.

About 100 of Trustpower's 800 staff have been through the programme in the past five years. Melanie says the number of participants has reached a tipping point that has effected cultural change across the organisation.

"This way of working has become the new normal," she says.

Programme graduate Annabel Davies says participants learn to self-examine why they do the things they do, including how others experience them at work, and recognise that leadership can come from any level in the organisation. They learn to deal with ambiguity and change, to look for the less obvious answer and be courageous enough to try things.

"My way of working and thinking has fundamentally changed. It challenges your assumptions and teaches you to value others for their different approach and offering, unrelated to hierarchy," she says.

Annabel credits the course with enabling her successful move to a bigger role as Group Risk, Regulatory and Stakeholder Manager.

"The organisation is very supportive of people trying new things," she says.

Annabel, who had an extensive career in infrastructure companies prior to joining Trustpower four years ago, says the programme is unique in her experience.

"It's not something you can learn from a textbook. It's very challenging and at times very frustrating, but it's also liberating and energising," she says.

"The real world learning continues well after the programme ends and stays with you forever."

The "Leading Our Future" programme is the cornerstone of a broader organisational transformation, creating an encouraging environment for initiatives aimed at identifying fast fixes and innovative ideas for improvements.

An example is "Jump Start July", which calls for nominations from across the business for ideas to be auditioned for further investigation. One such idea, since implemented, is a small public high-speed wifi network around the Trustpower headquarters in downtown Tauranga.

A cross-functional group called "Future Focus" looks at wider industry developments and broader trends, such as the emergence of self-driving cars, better battery storage technology and micro-power generation sites.

The "Fast Business Improvement Team" is a group of in-house coaches from across the company that can help teams to identify easy wins.


B3
D2
O1
T1
N1
E1
A1
M3
Z10
R1
SCORES

lifting our game as an ISP

Network expansion has allowed Trustpower to deliver some of New Zealand’s fastest broadband.

Investment in internet infrastructure has resulted in faster connections and fewer problems for Trustpower’s customers.

ISP Operations Manager, Ginny Buell, says Trustpower has invested in equipment in the past two years, increasing capacity and installing gear in telephone exchanges.

Trustpower’s need for greater network control, rather than outsourcing to other providers, was inevitable at recent rates of growth, says Ginny. Trustpower is now the country’s fourth largest broadband retailer by number of connections.

“On top of that, traffic volumes have doubled year on year,” she says. “We’re becoming more and more reliant on data networks to do everyday tasks and that demand is only set to grow.”

As well as keeping up with growth, the infrastructure investment allows Trustpower to provide a much better service.

“It’s an ongoing cost but it means we can deliver a really resilient internet service and it has completely changed our customers’ experience and perceptions.”

Owning its equipment allows Trustpower to connect more efficiently to international networks, quickly troubleshoot faults or bottlenecks, and give customers faster access to popular services such as Google and Netflix.

“We’ve now got our own passing lane,” says Ginny. “We are less reliant on sharing the highway with other users.”

Netflix now regularly rates Trustpower as the fastest internet service provider in New Zealand in its independent reviews.

Trustpower’s investment in fit-for-purpose, modern equipment is part of the fresh thinking that has seen customers flock to its multi-product bundle of services.

It is a one-stop-shop for household electricity, gas, phone and broadband, all on one bill. Trustpower provides even more of life’s necessities by bundling in a Samsung appliance as part of some targeted offers.

“We’re focusing on ways to make our customers’ lives easier,” says Craig Neustroski, Trustpower’s General Manager Markets. “Over one hundred thousand of our customers buy more than one product from us, which is better value for both them and us.”

Trustpower’s customer-centric approach extends to managing the power that customers generate themselves.

An innovative new programme, Solar Buddies, allows people with solar panels to sell or gift their excess electricity to family, friends, organisations or charities.

The unique peer-to-peer exchange is easy to use and any power left over after it is distributed to ‘buddies’ is purchased by Trustpower.

“Solar Buddies was conceived and championed by a small team from across the business that is passionate about solar and wanted to create a real win-win for both customers and the business,” says Craig.

“Solar Buddies is yet another example of innovative product design that delivers better value for both the customers and Trustpower,” he says.


Trust
power
Take it easy.
ADMIT
ONE
0560418

seeing great results from ongoing improvements

Small tweaks have made a multi-million dollar difference to the efficiency and reliability of Trustpower's generation portfolio.

Trustpower's focus on small capital projects continues to improve profitability and minimise risk.

The company has several large upgrade projects on the go, including a major refurbishment of two of the machines at the historic Coleridge power station in Canterbury. It is the hunt for small enhancements and minor tweaks, however, that is reaping huge rewards.

"We have been working through a list of small projects where a little bit of effort, innovation and modest expenditure can gain us a significant increase in cost savings or revenue," says Peter de Graaf, Trustpower's Asset Manager.

An initiative launched two years ago has identified a pipeline of more than 80 projects. Around 20 completed projects have returned more than $22 million of value, well ahead of the $18 million target.

One example is replacement of a diesel generator with a modern wind-powered version to feed the batteries that open and close gates at a remote power scheme.

"We have to visit the site less often and it's virtually maintenance-free," says Peter.

Replacing old lighting with low energy alternatives at one large power station saved tens of thousands of dollars.

"We're always open to new ideas and, if the numbers stack up, they go into the pipeline for implementation as the resources become available," he says.

Other innovations are designed to improve safety and risk management. New screen cleaners automate the previously manual task of clearing debris from inlet screens, eliminating the risk of injury to operations staff.

Stephen Fraser, Trustpower's General Manager Generation, says as well as continuously improving team safety, the company is prioritising environmental risk management.

"We are being more deliberate and focussed as an organisation to ensure we have the resilience we need if problems crop up," he says.

"We have to continually find smarter ways to do things. If we're not looking after our environment, we won't make it too far."

Stephen says technology improvements in recent years have allowed Trustpower to increase monitoring and data collection.

"We have quite a diverse portfolio of generating assets in some pretty dispersed places. We can use data to improve the decisions we make about how we operate and maintain them," he says.

That diversity also protects the Company from external threats such as localised droughts, says Stephen.

Trustpower's risk management was scrutinised in the official inquiry launched after the catastrophic flooding of Edgecumbe in April 2017.

The Bay of Plenty town was inundated after a stopbank failed during a major storm, and Trustpower's flood management plan and operation of the Matahina Dam upriver was put under the spotlight.

The official inquiry found Trustpower's management of lake levels and outflow helped reduce the flood impact downstream.

"It is unlikely that lowering the lake level further or filling it more would have prevented the failure," said inquiry lead Sir Michael Cullen.

Trustpower assembled a multi-disciplinary team to work around the clock through the emergency, including digger operators to clear flood debris from around the dam to prevent blockages. The team worked with the Regional Council, iwi and the wider community to mitigate the effects of the massive weather event.

sustainability report

At Trustpower we believe that sustainability means building a long term business through relationships with all who we interact with. In order to report on our progress in this regard we report economic, staff, environmental, customer and community related measures.

Key performance

Area	Measure	2017 Actual	2018 Actual	2018 Target	2019 Target
Economic[1]	EBITDAF Growth	5%	23%	5-10%	5-10%
Staff	Voluntary Turnover	16%	10%	15%	10%
Environmental	Resource Consent Breaches	15	7	0	0
Customer	Customer churn rate compared to market average	87%	90%	<100%	<100%
Community	Stakeholder Engagement	Completed	Completed	Complete detailed stakeholder consultation	Complete detailed stakeholder consultation

[1] This target is based on Trustpower's medium term growth aspirations and should not be taken as guidance for the 2019 financial year.

A more detailed analysis can be found in pages 23-33.

Risks and challenges

All businesses face risks and challenges. Our key risks and challenges are summarised in the table below.

Category	Key risks / challenges	Approach	Targets	Progress
Economic	• Shareholder value growth • Acquire profitable customers	• Maintain strong focus on efficiency of operation • Focus on long term sustainable pricing • Understand characteristics of profitable customers and target them	• Costs benchmarked at below industry average • Prices set at levels so customer base maintained with minimal churn	● ● ●
Environmental	• Need to minimise environmental impact of generation schemes	• Work closely with special interest groups and the local community to minimise impact of generation schemes • Comply with resource consents	• Zero significant resource consent breaches	● ●
Our people	• Need to retain and develop a team to produce ongoing performance	• Extensive training and development programme • Succession planning and internal promotion • Health and safety focus	• 75% of management roles filled by internal promotion	●
Community	• Relationships with and an understanding of local communities is required to operate effectively	• Community engagement including sponsorship and community awards • Consultation around resource issues	• Maintain a strong corporate profile in all areas in which we operate and build relationships within those communities	●
Customer	• Dissatisfied customers prevent sustainable economic performance • Disruptive technologies/ business models	• Competitive pricing • Excellent customer service • Information and advice • Differentiated product offering	• Customer churn below market average	●

● Achieved ● Partially achieved ● Not achieved

our economic performance

/ Performance against commitments for 2018

Provide a year of earnings growth in line with EBITDAF growth goal.
EBITDAF up 29% as a result of above average generation volumes, increased multi-product customer numbers and cost efficiencies.

/ Commitments for 2019

Provide a year of earnings growth in line with EBITDAF growth goal.

29% uplift as a result of above average generation and cost efficiencies.

*This target is based on Trustpower's medium term growth aspirations and should not be taken as guidance for the 2019 financial year.

† Excludes King Country Energy

EBITDAF growth (%)
/ 2018

22.5

Targets
2018 / 5 → 10*
2019 / 5 → 10*

Previous
2017 / 4.9

Operating cost per MWh generated†
/ 2018

18.6

Targets
2018 / 22.0 → 23.0
2019 / 24.0 → 26.0

Previous
2017 / 21.9
2016 / 23.1

Underlying earnings ($ millions)
/ 2018

135.0

Targets
2018 / 100 → 110
2019 / 90 → 100

Previous
2017 / 114.6

Total shareholder return (%)
/ 2018

29.2

Targets
2018 / 5 → 10
2019 / 5 → 10

Previous
2017 / n/a

Net debt to EBITDAF
/ 2018

1.9

Targets
2018 / <3.0
2019 / <3.0

Previous
2017 / 3.0
2016 / 3.5

our community

/ Performance against commitments for 2018

Maintain involvement in the wider community through various award programmes and targeted sponsorship.
Involvement maintained in the wider community through various awards programmes and target sponsorships.

/ Commitments for 2019

Maintain and where appropriate expand involvement in the wider community through various award programmes and targeted sponsorship.

Organisations and individuals sponsored through the Lend a Hand Foundation
/ 2018

131

Targets

2018 / 120
2019 / 140

Previous

2017 / 133
2016 / 115
2015 / 136
2014 / 139

Community groups involved in the Trustpower Community Awards programme
/ 2018

1,068

Targets

2018 / 1,350
2019 / 1,400

Previous

2017 / 1,299
2016 / 1,036
2015 / 1,198

High School students recognised via Trustpower Youth Spirit Awards
/ 2018

65

Targets

2018 / 65
2019 / 65

Previous

2017 / 62
2016 / 68
2015 / 65
2014 / 60

our environment

/ Performance against commitments for 2018

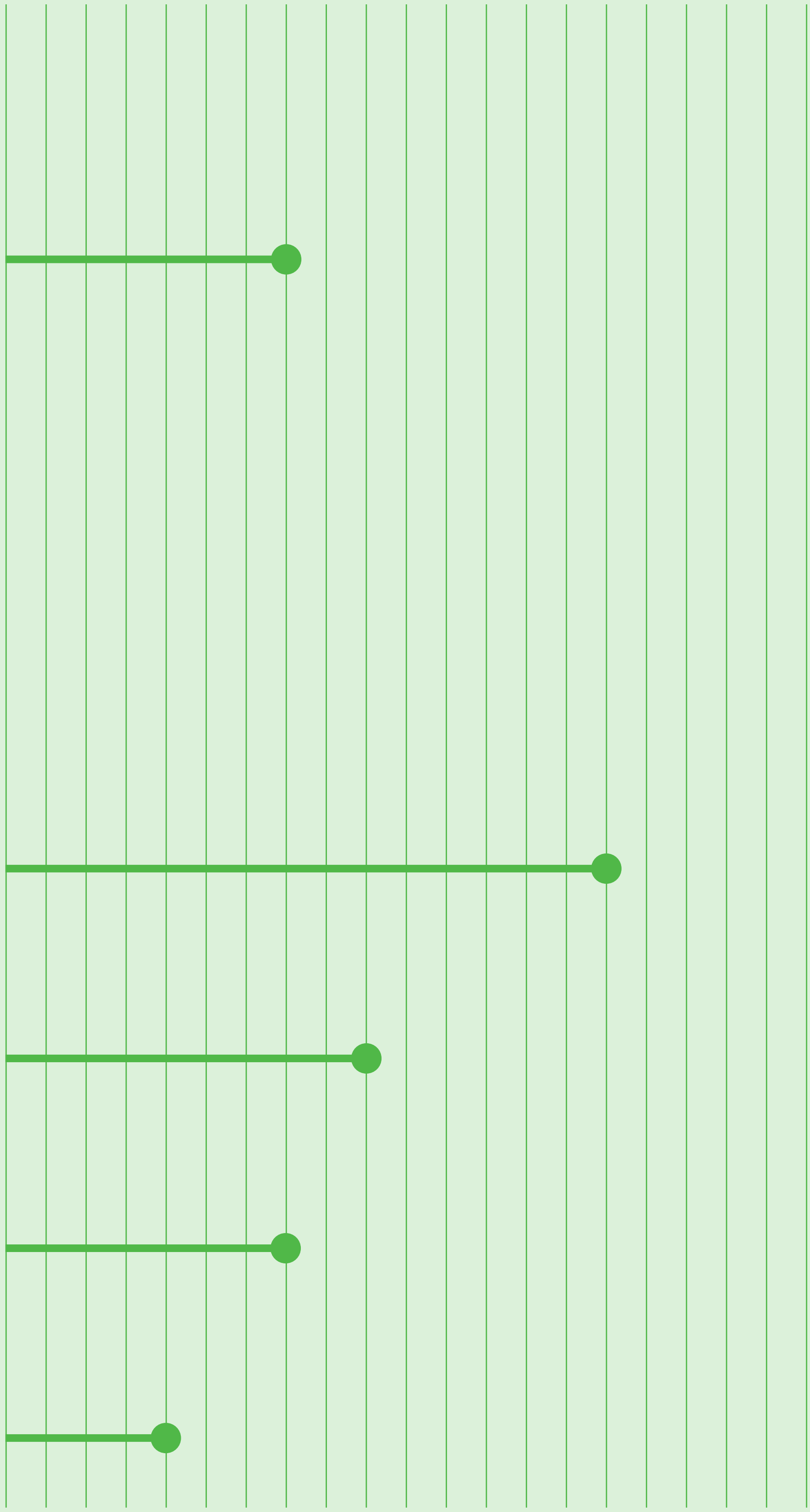
Achieve zero non-compliance events.

Seven resource consent non-compliances were recorded this year. No non-compliances had any material adverse environmental consequences. Compared with 2017, the reduction in non-compliances can be attributed to ongoing initiatives relating to post incident reviews and close out meetings, setting and progressing of environmental objectives resulting from Trustpower's Environmental Management System and continued engagement with staff on environmental matters through improved training. Of note, 2018 saw the inclusion of Trustpower's Environmental Induction and Environmental Awareness training in its new Learning Management System. This allows for all staff, including new starts, to be captured in this training with clear records of competency in this area being maintained. The introduction of Environmental Management Plans for generation site related maintenance tasks has also improved overall environmental performance at our sites by ensuring staff have access to clear and concise information relating to the management of potential environmental effects of site related activities.

/ Commitments for 2019

Achieve zero non-compliance events.

Seven non-compliance events recorded this year.



Resource consent non-compliance events

/ 2018

7

Targets

2018 / 0
2019 / 0

Previous

/ 2017

15

/ 2016

9

/ 2015

7

/ 2014

4

our people

/ Performance against commitments for 2018

Continue to focus on risk identification, controls and assurance as well as safety culture. We will sustain the cultural change and capability development as well as redesign our approach to remuneration and performance management.

Significant progress has been made in documenting our Safety Management System including our approach to risk identification, assurance and safety culture. Our investment in leadership development is producing results and we have also trained internal resources to facilitate business improvement activities. The new remuneration and performance model has been designed and implemented.

Our investment in leadership development is producing results.

/ Commitments for 2019

Continue work on understanding barriers to achieving greater diversity across the business, supporting our managers to drive behavioural change and build an open culture based on continuous feedback loops. Focus on demonstrating commitment to Health & Safety, learn from incidents and audit. Injury statistics will be accompanied by a discussion of the failed controls in order to ensure we have visibility over their effectiveness.

Diversity disclosure
/ 2018

	Board level	Officer	Manager	All staff
%	14%	25%	43%	55%
No. of women	1	2	49	436
Total number	7	8	113	797

Lost time injuries
/ 2018

12

Targets*
2018 / 0

Previous
2017 / 8
2016 / 5
2015 / 6
2014 / 6

Voluntary turnover (%)
/ 2018

9.5

Targets
2018 / 15
2019 / 10

Previous
2017 / 16.1
2016 / 12.3
2015 / 12.3
2014 / 21.0

Unscheduled absenteeism (%)
/ 2018

3.4

Targets
2018 / 2.0
2019 / 2.0

Previous
2017 / 2.9
2016 / 2.2
2015 / 2.9
2014 / 2.5

Injury incidence rate
(per 200,000 hours worked)
/ 2018

7.8

Targets*
2018 / 0

Previous
2017 / 6.8
2016 / 9.2
2015 / 6.9
2014 / 9.9

*Targets have been removed as Trustpower recognises that zero-targeting could drive a culture of under reporting and blame.

our customers

/ Performance against commitments for 2018

We are placing the customer at the heart of everything we do. Providing channels of choice and enabling our customers to do business with us how they want is key. We intend to do this by both leveraging technology and ensuring we continue to respect the value our customers place on personal service. We will continue to innovate and create great bundles of services for our customers.

We listened to customer feedback and focussed our effort on increasing self-service channels and ensuring, when customers needed us, that we continued to respect the value they placed on personal service. We drove improvement across a number of telecommunications related processes engaging with our industry partners and regulators for the benefit of customers.

/ Commitments for 2019

We are committed to growing our service offerings to meet the needs of our customers and will continue to innovate within the Trustpower App and other automated channels to do this. We remain committed to ensuring our telecommunications industry partners and the regulators continue to improve their processes, we will continue to utilise robotics, automation and customer insight to drive improvements.

We drove improvement across a number of processes engaging with our industry partners and regulators for the benefit of customers.

Electricity connections (000s)
/ 2018

272

Targets
2018 / 270 → 280
2019 / 270 → 280

Previous
2017 / 276
2016 / 277
2015 / 242
2014 / 224

Half hourly metered sales (GWh)
/ 2018

1,928

Targets
2018 / 1,650 →1,700
2019 / 1,750 →1,850

Previous
2017 / 2,079
2016 / 1,849
2015 / 2,275
2014 / 1,934

Customer number growth (%)
/ 2018

-1.2

Targets
2018 / 5→10
2019 / 0→3

Previous
2017 / 0.8
2016 / 14.5
2015 / 17.5
2014 / 8.7

Telecommunication connections (000s)
/ 2018

87

Targets
2018 / 70 →80
2019 / 95 →105

Previous
2017 / 76
2016 / 62
2015 / 38
2014 / 31

Mass market sales (GWh)
/ 2018

1,887

Targets
2018 / 2,000 →2,100
2019 / ,1950 →2,050

Previous
2017 / 1,895
2016 / 1,820
2015 / 1,659
2014 / 1,578

Gas connections (000s)
/ 2018

37

Targets
2018 / 33 → 35
2019 / 38 → 41

Previous
2017 / 33
2016 / 31
2015 / 24
2014 / 14

Automated contacts (% of total)
/ 2018

45.7

Targets
2018 / >40
2019 / >51

Satisfaction with automated contacts (%)
/ 2018

82.7

Targets
2018 / >75
2019 / >85

Call Service Level
/ 2018

Call service level has been removed as a measure. While managing wait times for calls remained important, this method of contact is reducing as customers adopt channels that better suit their lifestyle. Our effort focussed on increasing the choice customers have and ensuring each channel delivered a quality service.

corporate governance

Across all that we do, Trustpower is deeply committed to working responsibly, ethically and in full compliance with our obligations.

Our governance programme sets out our accountabilities to our shareholders and the direction we are heading, as well as how we run our business, manage risks, and review and improve our performance.

Trustpower believes that our corporate governance principles comply with the NZX Corporate Governance Best Practice Code.

Over the past year we have undertaken a comprehensive review of our governance framework. The focus of the review has been to ensure that not only is the business well governed but also that the process of governance has its own governance framework. This "governance of governance" review has led to the formation of the Governance and Nomination Committee whose primary role is to ensure good governance exists. This Committee, in common with all standing committees, is chaired by an independent director and has a majority of independent directors as its members.

Board of directors

Our Directors have overall responsibility for Trustpower's strategy, culture, health and safety, governance and performance.

The Board comprises four independent directors and three non-independent directors in keeping with the Company's Constitution and NZX Listing Rules.

The full Board meets at least nine times a year and draws on relevant corporate governance best practice principles to assist and contribute to the performance of the Group.

It operates to a charter which outlines its responsibilities and commitments.

The Governance and Nominations Committee facilitates an annual review of the performance of the Board and individual Directors.

Board committees

Board committees focus on specific responsibilities in greater detail than is possible for the full Board. Committee recommendations are reported to the Board by committee chairpersons, and Committee members are appointed by the Board. Committee roles are formally recorded in a charter document approved by the Board.

Trustpower has three standing committees – the Audit and Risk Committee, the Governance and Nominations Committee and the People and Remuneration Committee.

The Audit and Risk Committee exists to assist the Board in fulfilling its responsibilities relating to accounting and reporting practices, auditing and risk management of the Group.

The Governance and Nominations Committee ensures the Company has good governance and that the Board of Directors has the appropriate balance of skills, experience, knowledge and diversity to meet the Group's needs.

The People and Remuneration Committee exists to assist the Board in overseeing Trustpower's remuneration and performance frameworks as well as compliance with the provisions of the Employment Relations Act 2000, the Companies Act 1993, the NZX Listing Rules and any other relevant legal requirements.

Other committees are formed as required to oversee major projects or matters of conflict/independence.

Doing the right thing

Our values of passion, respect, integrity, innovation, delivery and empowerment are at the heart of the way we do things at Trustpower.

Trustpower is committed to maintaining the highest standards of honesty, integrity and ethical conduct and has adopted a Code of Ethics for the Board and employees to help guide decision making in keeping with our values, business goals, and legal and policy obligations.

Diversity

We recently reviewed our approach to measuring our success in becoming a more diverse business. In the discussions we recognised that many initiatives run the risk of becoming tick box exercises which can fail the core objective of genuinely opening the organisation to maximising the value diversity brings. As a result we have challenged ourselves to frame our approach to diversity as a statement of intent which we will use to guide our everyday behaviour, conversations and actions.

Annually we will determine the most appropriate activities and actions to make a real difference. This year we have prioritised gender remuneration analysis to surface, understand and rectify any discrepancy, and to offer unconscious bias training for our leaders. The learnings from these initiatives and other discussions in the organisation will shape our next steps. We are confident that this approach will provide us with a better understanding of the complexities of navigating diversity and allow us to take the right steps to achieve real change and progress.

Health and safety

Trustpower believes that no business activity should take priority over health and safety. We want our people and anyone who enters our workplace to go home safe to their families at the end of each day, and we are committed to protecting all people from injury or illness as a result of our operations. While Directors and Management have ultimate accountability, building a safety culture where everyone is involved and engaged in their personal health and safety is a key focus for the Group.

Environment

It's our aim to leave the environment in the same state or better than we found it. We are committed to improving the impact of our operations on the environment and to using energy and other resources efficiently, and expect the same of our suppliers, contractors and distributors. To help us achieve the highest levels of environmental performance we have developed and implemented both environmental policies and a comprehensive environmental management system.

Managing risk

Identifying, assessing, monitoring and managing potential and relevant risks is a priority for Trustpower. We have developed a comprehensive, enterprise-wide risk management framework and the Audit and Risk Committee and Board routinely monitors the Group's risks and the treatment of those risks.

An internal system of control, including policies, procedures, guidelines and organisational structures, provide an appropriate division of responsibility, sound risk management, a programme of internal audit, and the careful selection and training of qualified personnel.

Trustpower has established a Whistleblowing Policy in order to facilitate the disclosure and impartial investigation of any serious wrongdoing in keeping with the Protected Disclosures Act 2000.

We have a number of policies covering but not limited to disclosure of information, purchasing, treasury, human resources, health and safety, buildings and security, business continuity and disaster recovery planning. These policies are regularly reviewed and approved by Senior Management and where appropriate the Board.

We have established an internal audit function that is responsible for monitoring the Group's system of internal financial control and the integrity of the financial information reported to the Board. Internal audit operates independently from the Board and reports its findings directly to the Audit and Risk Committee. Internal audit liaises closely with the external auditor, who reviews the internal audit work undertaken to the extent necessary to support its audit opinion.

Energy trading

We have adopted an Energy Trading Policy to manage the risk relating to the purchasing of electricity and gas from wholesale energy markets and the trading of carbon related products. Derivative instruments are used to set the price of electricity and gas at a future nominated time. The Energy Trading Policy allows wholesale energy and carbon trading to occur within risk limits set by the Board.

Securities trading

In order to protect Trustpower's reputation and safeguard employees who may want to buy or sell Trustpower securities, the Group's Financial Product Dealing (Insider Trading) Policy requires an approved procedure to be followed by all employees and Directors. Certain employees of the Group are required to make additional disclosures under the Financial Markets Conduct Act 2013.

Shareholder engagement

Trustpower is committed to engaging with shareholders and keeping them informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders in the annual and interim reports, and various announcements to NZX, as well as the company website.

Quarterly operational information is also provided following the end of each quarter via NZX announcement. The Board encourages full participation of shareholders at the annual meeting to ensure a high level of accountability and identification with the Group's strategies and goals.

> This information summarises Trustpower's Corporate Governance Statement. A full copy of the statement along with Board and Committee Charters, Trustpower's Code of Ethics, Constitution and other policy documents are available at **www.trustpower.co.nz/company-and-investor-information/governance-documents**

Explanation of financial statements

New Zealand generation

Trustpower's New Zealand generation revenue added $23.9 million to our EBITDAF in 2018. Our generation stations generated 2,235GWh, which was an 11% increase on the prior year and 18% higher than the long-term average.

The average spot price achieved for this generation was $88/MWh which is slightly higher than a normal year expectation of around $80/MWh but represents a significant increase on the $52/MWh achieved in the prior year.

Retail margin

Gross margin from Trustpower's Retail business contributed an increase to EBITDAF of $12.5 million. This reflects the investment in the multi-product business that we have made over the past few years.

The 11% increase in customers who take more than one product from us (355% increase on five years ago) has driven the recent increase in margin per customer. This result also reflects our increasing ability to target, and sell to, the right customers.

Australian generation

Following a 21% decrease in Australian generation volume, the EBITDAF contribution from our Australian business was $4.9 million lower than in 2017. This reflects a normalisation from a very strong generation result in 2017. High prices were achieved in the year, which reduced the negative impact of the lower volume.

The Australian business was sold as at 29 March 2018. See below for an explanation of the impact on the financial statements of this sale.

Impact of Australian business sale on financial statements

Note 2 to the financial statements provides a detailed explanation of the accounting for this sale. Once an agreement to sell the Australian business was reached, it was treated as a discontinued operation. The most significant effect of this classification is to separate the results from the Australian business from the rest of our operations in the income statement and the statement of cash flows.

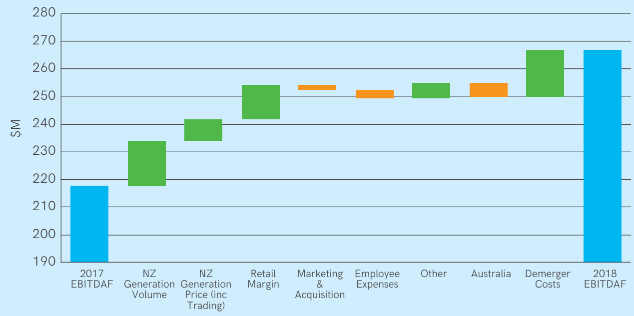
In the income statement, the results from the Australian business are included at a profit after tax level at the bottom of the statement. While this is the correct accounting treatment, one consequence is that EBITDAF as shown in the income statement excludes the Australian business.

Trustpower, along with the rest of the electricity industry, considers EBITDAF to be the key profitability measure and is how it communicates its earning guidance to the market.

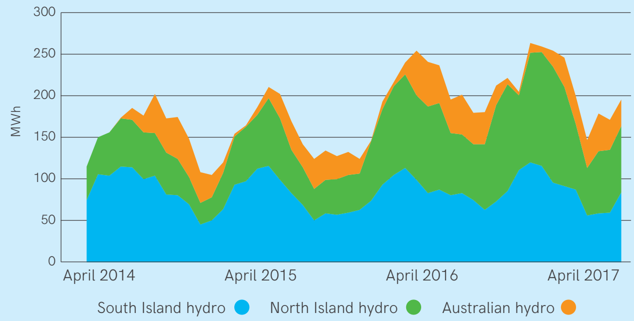
The table below shows how total EBITDAF of $266.8 million reconciles to the $243.1 million in the income statement.

	$ millions
EBITDAF per income statement	243.1
EBITDAF of discontinued operation per note 2	26.7
Reclassification of foreign currency translation reserve per note 2	(3.0)
Total EBITDAF	266.8

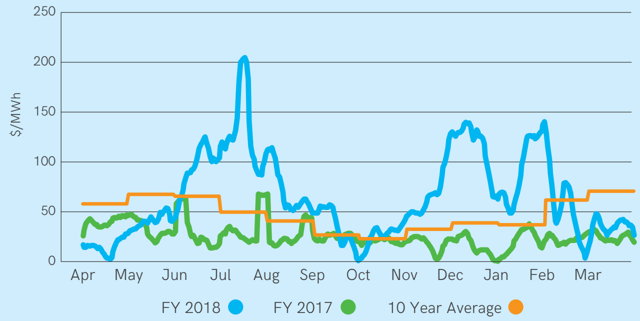
2017 vs 2018 EBITDAF



Monthly Generation Volumes



Weekly Average Prices



Demerger

The 2017 EBITDAF was impacted by $16.8 million of expenses relating to the October 2016 demerger that created Tilt Renewables. These costs were not incurred in 2018.

King Country Energy

Trustpower and the King Country Electric Power Trust completed a joint takeover of King Country Energy Limited (KCE) in March 2018. This has had very little impact on the financial statements as KCE was being fully consolidated into Trustpower's financial statements before the takeover. A description of the transaction is given in note 27.

Balance sheet

Following a very profitable year and the sale of the Australian business Trustpower's primary gearing metric, net debt to EBITDAF, is 1.9x which is below our target range of 2.5 to 4.0x. Similarly the gearing ratio, at 25%, is right at the bottom of our target range.

Financial statements

Trustpower is pleased to present its audited financial statements. The notes to the financial statements are grouped into the broad categories the Directors consider the most relevant when evaluating the performance of Trustpower. The sections are:

Retail	Notes 4 - 9
Generation	Notes 10 - 14
Funding	Notes 15 - 21
Tax, Related Parties & Other Notes	Notes 22 - 27

There is also an appendix, from notes A1 to A19, which contains additional detailed disclosure readers may wish to use to supplement the disclosures in the primary sections of notes listed above.

There are also profitability analysis notes 4 and 10 for the Retail and Generation segments.

Note index

Appendix index

Accounting policies can be found throughout the notes to the financial statements and are denoted by blue text shading.

Key metrics

	2018	2017	2016	2015	2014
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF) ($M)	**243**	218	208		
Profit From Continuing Operations ($M)	**114**	94	68		
Underlying earnings after tax ($M)	**135**	115	84		
Basic earnings per share (cents per share)	**41**	30	22		
Underlying earnings per share (cents per share)	**43**	37	27		
Dividends paid during the year (cents per share)	**34**	33	34		
Net debt to EBITDAF	**1.9**	3.0	3.5		
Net tangible assets per share (dollars per share)	**4.21**	4.10	4.24		
Customers, sales and service					
Electricity connections (000s)	**273**	276	277	242	224
Telecommunication connections (000s)	**87**	76	62	38	31
Gas connections (000s)	**37**	33	31	24	14
Total utility accounts	**397**	385	370	304	269
Customers with two or more services (000s)	**100**	90	77	52	38
Mass market sales - fixed price (GWh)	**1,887**	1,895	1,820	1,659	1,578
Time of use sales - fixed price (GWh)	**842**	835	823	810	601
Time of use sales - spot price (GWh)	**1,086**	1,244	1,389	1,465	1,333
Total customer sales (GWh)	**3,815**	3,974	4,032	3,934	3,512
Average spot price of electricity purchased ($/MWh)	**91**	55	64	77	73
Gas Sales (TJ)	**1,012**	1,013	1,046	903	593
Annualised customer churn rate	**19%**	17%	16%	14%	14%
Annualised customer churn rate - total market	**21%**	20%	21%	19%	21%
Generation production and procurement					
North Island generation production (GWh)	**1,209**	1,010	639	532	571
South Island generation production (GWh)	**1,026**	1,007	949	1,034	965
Total New Zealand generation production (GWh)	**2,235**	2,017	1,588	1,566	1,536
Average spot price of electricity generated ($/MWh)	**88**	52	60	71	67
Net third party fixed price volume purchased (GWh)	**1,539**	1,309	1,626	1,400	1,234
Australian generation production (GWh)	**284**	359	254	278	-
Average spot price of electricity generated (A$/MWh, excludes large-scale generation certificate revenue)	**92**	78	43	31	-
Other information					
Resource consent non-compliance events	**5**	15	7	7	4
Staff numbers (full time equivalents)	**803**	786	727	628	572

Certain financial information for Trustpower does not exist prior to the 2016 financial year as a result of the October 2016 demerger. All other metrics have been restated to reflect the operations of the demerged Trustpower.

directors' responsibility statement

/ The Directors are pleased to present the financial statements of Trustpower Limited and subsidiaries for the year ended 31 March 2018.

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 March 2018 and the financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

Paul Ridley-Smith
Chairman

Sam Knowles
Director

Company Registration Number

565426

Dated: 14 May 2018

Auditor's report

Independent auditor's report

To the shareholders of Trustpower Limited

The financial statements comprise:

- the statement of financial position as at 31 March 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the financial statements of Trustpower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

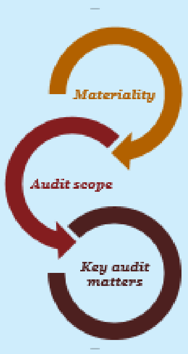
Our firm carries out other services for the Group in the areas of tax compliance, specifically the review of income tax returns and tax related correspondence. We are also engaged to provide general tax advisory services. We provided other services including an assessment of the processes surrounding the Group's accounting system migration and other assurance engagements related to the Trustpower Insurance Limited solvency return, telecommunications development levy and anti-money laundering compliance advice. The Group also purchased a benchmarking publication from us during the year. The provision of these other services and products has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

pwc

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $9.2 million, which represents approximately 5% of profit before tax from continuing and discontinued activities excluding impairment of assets.

We chose profit before tax from continuing and discontinued activities excluding impairment of assets, as the benchmark because, in our view, it is the benchmark that appropriately reflects the performance of the Group.

We have determined that there are two key audit matters:

- Generation assets carrying value
- Discontinued operations

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We audited the operations of the Group in New Zealand and Australia at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative size of the New Zealand and Australia businesses. We have also performed audit procedures over material classes of transactions and balances of King Country Energy Limited greater than or equal to Group materiality.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Key audit matters	How our audit addressed the key audit matters

Generation assets carrying value
 	
Generation assets are revalued by independent external valuers every three years or more frequently if there is evidence of a significant change in value.
 	
The valuation of generation assets involves a number of significant assumptions including forward electricity prices, the rate used to discount future cash flows, estimated avoided cost of transmission (ACOT) revenues, and updates to operational inputs such as future generation volumes and operating costs. All these assumptions involve judgements about the future.
 	
Generation assets have a carrying value of $2,050 million as at 31 March 2018. These assets were last revalued on 31 March 2016.
 	
In determining whether a revaluation was required at 31 March 2018, management in conjunction with independent external valuers have undertaken a review of the significant assumptions to establish an acceptable range for the fair value of the generation assets.
 	
The carrying value of the generation assets is within this fair value range as determined by updated assumptions. As such, the Directors have determined that the carrying value is appropriate.
 	
The matter is disclosed in Note 11- Property, plant and equipment and Note 12- Generation critical accounting estimates and judgements.
 	
Given the significance of the carrying value of generation assets and the judgements applied to determine that changes to significant assumptions do not warrant a revaluation at 31 March 2018 we considered this to be a key area of focus in our audit.
	Our procedures included:
	• Utilising our internal valuation experts we assessed whether the assumptions used in the 2016 valuation remained materially appropriate by:
	  ○ Comparing the forward electricity price path used in the 2016 valuation to current externally derived market forecast data;
	  ○ Comparing the rates used to discount future cashflows in the 2016 valuation to a recalculated rate based on current market conditions; and
	  ○ Assessing the effect on the assumptions of the latest announcements by the Electricity Authority regarding ACOT decisions relevant to Trustpower.
	• Evaluating the updated generation volume assumptions by comparing them against actual realised volumes over time.
	• Assessing assumed operating costs of generation sites by comparing them against forecast planned costs for each site based on prior year actual costs and existing contracts. We also compared the costs to the actual operating costs incurred for the current year to assess management's forecast accuracy.
	• Because of the subjectivity involved in determining values for generation assets, we assessed management's fair value range using a reasonable range of assumptions based on our previous experience and knowledge of the electricity industry to determine whether we considered a revaluation was required this year.
	
	As a result of our procedures the carrying value determined by management was within the range that we considered appropriate in the context of our audit.

PwC

pwc

Key audit matters	How our audit addressed the key audit matters

Discontinued operations
 	
As disclosed in Note 2- Discontinued Operation, the Group has sold its only Australian subsidiary, GSP Energy Pty Ltd (GSP). The associated assets and liabilities were consequently reclassified as held for sale. The sale was then recognised and disclosed as a discontinued operation in the financial statements.
 	
This was a material share sale transaction which required significant judgement from management in determining the accounting treatment, particularly the amount of the gain on sale, if any, to be recognised in the financial statements.
 	
As required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the GSP generation assets were then revalued to fair value in accordance with the Group’s accounting policy requiring generation assets to be at fair value.
 	
Management determined that the sale price was representative of the fair value of the generation assets based on the results of the competitive tender process undertaken by the Group to sell GSP and the nature of GSP’s operations and the assets and liabilities acquired. A revaluation gain of $19.4 million, less deferred tax of $5.8 million, was recognised in the revaluation reserve.
	Our procedures included:
	• Obtaining the executed Share Sale Agreement and management’s accounting paper to understand the key terms and conditions of the sale and the basis for the accounting treatment adopted.
	• Reviewing the accounting treatment for compliance with NZ IFRS 5, which included:
	  ○ Assessing whether the date GSP was designated as held for sale is appropriate based on the decisions taken by the directors and the status of the sale process at that date;
	  ○ Considering whether the disposal represents a discontinued operation;
	  ○ Evaluating the completeness of assets and liabilities identified by management as being disposed of in the share sale; and
	  ○ Reviewing the presentation and disclosure of the transaction in the financial statements.
	• Evaluating management’s judgment that the sale price materially approximated the fair value of the held for sale generation assets, using the assistance of our internal valuation expert in considering evidence provided by the bids received during the sale process and the nature of GSP’s operations and the assets and liabilities acquired.
	• Agreed the material components of the sale transaction to the executed Share Sale Agreement to ensure the allocation of the sale proceeds to the disposed assets and liabilities was appropriate, and recalculating the revaluation gain and associated deferred tax.
	
	As a result of our procedures, we have no matters to report.

PwC

Auditor's report

pwc

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
14 May 2018

Auckland

PwC

Income statement

FOR THE YEAR ENDED 31 MARCH 2018	Note	2018 $000	2017 $000
Operating revenue			
Electricity revenue	4, 10	**809,628**	782,586
Telecommunications revenue	4	**80,664**	65,896
Gas revenue	4	**29,323**	28,545
Other operating revenue		**27,257**	25,575
		946,872	902,602
Operating expenses			
Line costs	4	**290,954**	297,190
Electricity costs		**156,237**	159,518
Generation production costs	10	**36,501**	37,438
Employee benefits		**68,257**	63,838
Telecommunications cost of sales	4	**54,906**	47,937
Gas cost of sales	4	**22,022**	21,962
Other operating expenses	A5	**74,911**	88,440
		703,788	716,323
Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition (EBITDAF)	A2	**243,084**	186,279
Impairment of assets		**5,099**	3,479
Net fair value (gains) / losses on financial instruments	A9	**2,675**	(3,825)
Amortisation of intangible assets	6	**15,784**	15,549
Depreciation	11	**28,458**	29,193
Operating profit		**191,068**	141,883
Interest paid	16	**33,472**	41,659
Interest received	16	**(1,347)**	(3,860)
Net finance costs		**32,125**	37,799
Profit before income tax		**158,943**	104,084
Income tax expense	22	**44,915**	28,024
Profit from continuing operations		**114,028**	76,060
Profit from Discontinued Operation	2	**15,367**	17,929
Profit After Tax		**129,395**	93,989
Profit after tax attributable to the shareholders of the Company		**128,127**	92,545
Profit after tax attributable to non-controlling interests		**1,268**	1,444
Basic and diluted earnings per share (cents per share)	A3	**40.9**	29.6

The accompanying notes form part of these financial statements

Statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2018	Note	2018 $000	2017 $000
Profit after tax		**129,395**	93,989
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation gains on generation assets	2, 17	**19,371**	-
Items that may be reclassified to profit or loss:			
Other currency translation differences	17	**(2,850)**	(2,291)
Fair value gains/(losses) on cash flow hedges	A10	**3,448**	(5,203)
Tax effect of the following:			
Revaluation gains on generation assets	2, 17	**(5,811)**	-
Fair value gains/(losses) on cash flow hedges	A10	**(965)**	1,457
Total other comprehensive income		**13,193**	(6,037)
total comprehensive income		**142,588**	87,952
Attributable to shareholders of the Company		**141,320**	86,508
Attributable to non-controlling interests		**1,268**	1,444
Total comprehensive income attributable to shareholders of the company arises from:			
Continuing operations		**115,243**	70,870
Discontinued operations		**26,077**	15,638
		141,320	86,508

The accompanying notes form part of these financial statements

Statement of changes in equity

FOR THE YEAR ENDED 31 MARCH 2018	Note	Share Capital $000	Invested Capital $000	Revaluation Reserve $000	Cash Flow Hedge Reserve $000	Foreign Currency Translation Reserve $000	Retained Earnings $000	Total Shareholder's Equity $000	Non-controlling interest	Total Equity
Opening balance as at 1 April 2016		-	421,963	969,311	(1,494)	2,119	-	1,391,899	45,379	1,437,278
Total comprehensive income for the period		-	57,721	-	(3,746)	(2,291)	34,824	86,508	1,444	87,952
Disposal of revalued assets		-	-	-	-	-	-	-	-	-
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	19	-	(53,713)	-	-	-	(49,976)	(103,689)	(2,439)	(106,128)
Total transactions with owners recorded directly in equity		-	(53,713)	-	-	-	(49,976)	(103,689)	(2,439)	(106,128)
Demerger on 31 October 2016		2	(425,971)	-	-	-	425,969	-	-	-
Closing balance as at 31 March 2017		2	-	969,311	(5,240)	(172)	410,817	1,374,718	43,676	1,418,394
Movements 1 April 2017 – 31 March 2018										
Total comprehensive income for the period		**-**	**-**	**13,560**	**2,483**	**(2,850)**	**128,127**	**141,320**	**1,268**	**142,588**
Disposal of revalued assets	2	**-**	**-**	**(54,520)**	**-**	**3,022**	**54,520**	**3,022**	**-**	**3,022**
Contributions by and distributions to non-controlling interest										
Acquisition of shares held by non-controlling interest	27	**-**	**-**	**-**	**-**	**-**	**384**	**384**	**(19,356)**	**(18,972)**
Transactions with owners recorded directly in equity										
Dividends paid		**-**	**-**	**-**	**-**	**-**	**(106,517)**	**(106,517)**	**(3,606)**	**(110,123)**
Total transactions with owners recorded directly in equity		**-**	**-**	**-**	**-**	**-**	**(106,517)**	**(106,517)**	**(3,606)**	**(110,123)**
Balance as at 31 March 2018		**2**	**-**	**928,351**	**(2,757)**	**-**	**487,331**	**1,412,927**	**21,982**	**1,434,909**

The accompanying notes form part of these financial statements

Statement of financial position

AS AT 31 MARCH 2018	Note	2018 $000	2017 $000
Equity			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	**2**	2
Revaluation reserve	17	**928,351**	969,311
Retained earnings	17	**487,331**	410,817
Cash flow hedge reserve	A10	**(2,757)**	(5,240)
Foreign currency translation reserve	17	**–**	(172)
Non-controlling interests	17	**21,982**	43,676
Total equity		**1,434,909**	1,418,394
Represented by:			
Current assets			
Cash at bank		**19,790**	8,183
Other deposits		**2,979**	957
Accounts receivable and prepayments	A7	**100,226**	115,705
Capitalised customer acquisition costs	5	**19,811**	17,168
Derivative financial instruments	A11	**2,941**	4,432
Taxation receivable		**395**	260
		146,142	146,705
Non-current assets			
Property, plant and equipment	11	**2,102,223**	2,276,094
Capitalised customer acquisition costs	5	**27,212**	17,876
Derivative financial instruments	A11	**369**	3,245
Other investments		**8,842**	8,008
Intangible assets	6	**44,120**	56,479
		2,182,776	2,361,702
Total assets		**2,328,908**	2,508,407
Current liabilities			
Accounts payable and accruals	A8	**108,343**	93,229
Unsecured senior bonds	15	**–**	51,992
Unsecured bank loans	15	**17,194**	80,000
Derivative financial instruments	A11	**8,826**	7,140
Taxation payable		**20,201**	17,282
		154,564	249,643
Non-current liabilities			
Unsecured bank loans	15	**150,000**	215,791
Unsecured subordinated bonds	15	**113,559**	113,133
Unsecured senior bonds	15	**208,761**	208,110
Derivative financial instruments	A11	**13,032**	18,918
Deferred tax liability	23	**254,083**	284,418
		739,435	840,370
Total liabilities		**893,999**	1,090,013
Net assets		**1,434,909**	1,418,394

The accompanying notes form part of these financial statements

Cash flow statement

FOR THE YEAR ENDED 31 MARCH 2018	Note	2018 $000	2017 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		**939,445**	899,527
		939,445	899,527
Cash was applied to:			
Payments to suppliers and employees		**695,798**	719,007
Taxation paid		**33,250**	30,303
		729,048	749,310
Net cash inflow from operating activities generated by discontinued operation	2	**27,859**	30,665
Net cash from operating activities	A13	**238,256**	180,882
Cash Flows from Investing Activities			
Cash was provided from:			
Sale of property, plant and equipment		**-**	9,867
Return of electricity market security deposits		**969**	3,069
Return of advances to Tilt Renewables Limited		**5,973**	84,783
Interest received		**1,482**	3,990
		8,424	101,709
Cash was applied to:			
Lodgement of electricity market security deposits		**3,021**	380
Purchase of property, plant and equipment		**17,093**	15,321
Purchase of other investments		**834**	8,000
Purchase of intangible assets		**8,494**	9,962
		29,442	33,663
Net cash inflow/(outflow) from investing activities generated by discontinued operation	2	**137,134**	(13,550)
Net cash from / (used in) investing activities		**116,116**	54,496
Cash Flows from Financing Activities			
Cash was provided from:			
Bank loan proceeds		**87,491**	225,148
Senior bond issue proceeds		**-**	100,000
		87,491	325,148
Cash was applied to:			
Bond brokerage costs		**-**	2,825
Repayment of bank loans		**147,300**	281,633
Repayment of subordinated bonds		**-**	25,837
Repayment of senior bonds		**51,992**	82,228
Interest paid		**32,069**	44,350
Purchase of minority interest		**18,972**	708
Dividends paid to owners of the company		**106,517**	103,689
Dividends paid to non-controlling shareholders in subsidiary companies		**3,700**	2,437
		360,550	543,707
Net cash inflow/(outflow) from financing activities generated by discontinued operation	2	**(69,246)**	(16,570)
Net cash used in financing activities		**(342,305)**	(235,129)
Net increase/(decrease) in cash and cash equivalents		**12,067**	249
Cash and Cash equivalents at beginning of the year		**8,183**	7,642
Exchange gains/(losses) on cash and cash equivalents generated by discontinued operation		**(460)**	292
Cash and cash equivalents at end of the year		**19,790**	8,183

The accompanying notes form part of these financial statements

Notes to the 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 year ended 31 March 2018.

Basis of preparation

The financial statements are prepared in accordance with:

- the Financial Markets Conduct Act 2013, and NZX Main Board listing rules.
- Generally Accepted Accounting Practice (GAAP).
- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable New Zealand accounting standards and authoritative notices, as appropriate for for-profit entities.

The financial statements have been prepared as follows:

- all transactions at the actual amount incurred (historical cost convention), except for generation assets and derivatives which have been revalued to fair value.
- all figures have been reported in New Zealand Dollars (NZD) and reported to the nearest thousand.

An index to all of the accounting policies is available in note A1. Any changes to accounting policies and standards are shown in note A19.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

Capitalised Customer Acquisition Costs were labelled Contract Assets in the prior year financial statements. During the current year this balance has been allocated between current assets and non-current assets based on the remaining expected customer tenure. The prior year has been adjusted to reflect the current year presentation.

Critical accounting estimates and judgements

The areas involving a higher degree of judgement or complexity are disclosed below:

- fair value of Trustpower's generation assets (Note 12)
- useful lives of generation assets for depreciation (Note 11)
- useful lives of intangible assets for amortisation (Note 6)
- fair value of derivatives and other financial instruments (Note A17)
- electricity gross margin relating to unread electricity meters (Note 7)
- fair value of Australian generation assets (Note 2).

Note 2: Discontinued operation

Description

On 21 December 2017, Trustpower announced its intention to sell the shares in its only Australian subsidiary, GSP Energy Pty Ltd. The company's assets and liabilities comprised three hydroelectric power stations in New South Wales, a deferred tax liability, and associated working capital. These assets and liabilities were consequently reclassified as held for sale.

NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires that where a non-current asset is classified as held for sale, and that asset has been carried on the balance sheet at fair value, that asset must be fair valued immediately upon classification as held for sale.

Upon classification as held for sale, the assets were revalued to the sale price. The sale price was deemed fair value because it was the result of a competitive tender process and Trustpower was not an anxious seller, as such the sale price was deemed fair value. The revaluation gain of $19,371,000 less deferred tax of $5,811,000 was taken to the revaluation reserve in line with Trustpower's accounting policies. Once disposed, the revaluation reserve was transferred to retained earnings.

Notes to the financial statements

Note 2: Discontinued operation (continued)

The sale was completed on 29 March 2018 and is reported in the financial statements as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(a) Financial performance and cash flow information

The financial performance and cash flow information is presented below for the period ended 29 March 2018 and the year ended 31 March 2017.

FOR THE YEAR ENDED 31 MARCH 2018	2018 $000	2017 $000
Operating revenue		
Electricity revenue	**32,502**	37,257
Operating expenses		
Generation production costs	**3,994**	3,821
Employee benefits	**1,444**	1,453
Other operating expenses	**380**	431
EBITDAF	**26,684**	31,552
Net fair value (gains)/losses on financial instruments	**381**	(910)
Amortisation of intangible assets	**–**	–
Depreciation	**2,427**	2,792
Operating profit	**23,876**	29,670
Net finance costs	**2,056**	2,823
Profit before income tax	**21,820**	26,847
Income tax expense	**6,636**	8,918
Profit after income tax of discontinued operation	**15,184**	17,929
Gain on sale of the subsidiary after income tax	**183**	–
Profit from discontinued operation	**15,367**	17,929

Notes to the financial statements

Note 2: Discontinued operation (continued)

(b) Details of the sale of the subsidiary

	2018 $000
	$000
Consideration received or receivable	
Cash	156,263
Capital gains tax withheld	22,323
Working capital adjustment	(1,884)
Total disposal consideration	176,702
Carrying amount of net assets sold	134,800
Gain on sale before income tax and reclassification of foreign currency translation reserve	41,902
Reclassification of foreign currency translation reserve	(3,022)
Costs of disposal	2,292
Capital gains tax	36,405
Income tax expense on gain	36,405
Gain on sale after income tax	183
The carrying amounts of assets and liabilities as at the date of sale (29 March 2018) were:	
Property, plant and equipment	176,294
Accounts receivable and prepayments	4,553
Total assets	180,847
Accounts payable and accruals	5,238
Taxation payable	1,199
Deferred tax liability	39,610
Total liabilities	46,047
Net assets	134,800

Notes to the financial statements

Note 3: Segment information

For internal reporting purposes, Trustpower is organised into two 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 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. Following the disposal of Trustpower's Australian business, the former 'Generation Australia' segment is no longer shown (see note 2 for more details).

The segment results for the year ended 31 March 2018 are as follows:

	Retail $000	Generation $000	Other $000	Total $000
Total segment revenue	**892,230**	**246,552**	**5,504**	**1,144,286**
Inter-segment revenue	**-**	**(191,846)**	**(5,568)**	**(197,414)**
Revenue from external customers	**892,230**	**54,706**	**(64)**	**946,872**
EBITDAF	**59,593**	**196,447**	**(12,956)**	**243,084**
Amortisation of intangible assets	**4,772**	**-**	**11,012**	**15,784**
Depreciation	**-**	**22,862**	**5,596**	**28,458**
Capital expenditure including business acquisitions	**-**	**13,446**	**14,424**	**27,870**
Asset impairment	**-**	**-**	**5,099**	**5,099**

The segment results for the year ended 31 March 2017 are as follows:

	Retail $000	Generation $000	Other $000	Total $000
Total segment revenue	850,928	214,939	4,867	1,070,734
Inter-segment revenue	-	(163,288)	(4,844)	(168,132)
Revenue from external customers	850,928	51,651	23	902,602
EBITDAF	44,965	168,687	(27,373)	186,279
Amortisation of intangible assets	4,305	-	11,244	15,549
Depreciation	-	23,198	5,995	29,193
Capital expenditure including business acquisitions	-	11,282	14,096	25,378
Asset impairment	-	95	3,384	3,479

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 4 for more information. Accounting policies have been consistently applied to all operating segments.

Notes to the financial statements

Retail

This section details the retail operations of Trustpower.

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 (2017: 276,000), supplies 37,000 customers with gas (2017: 33,000) and connects 87,000 (2017: 76,000) customers with telephone and broadband connections.

A retail profitability analysis is included in Note 4. This disclosure provides a detailed breakdown of the performance of Trustpower's retail operations.

This section includes the following notes:

Note 4: Retail Profitability Analysis
Note 5: Capitalised Customer Acquisition Costs
Note 6: Intangible Assets
Note 7: Retail Critical Accounting Estimates And Judgements
Note 8: Retail Financial Risk Management
Note 9: Retail Commitments

Note 4: Retail profitability analysis

	2018 $000	2018 $000	2017 $000	2017 $000
Operating revenue				
Electricity revenue				
Mass market* – fixed price	**502,730**		498,462	
Commercial & industrial – fixed price	**121,345**		119,871	
Commercial & industrial – spot price	**150,587**	**774,662**	131,522	749,855
Gas		**29,323**		28,545
Telco		**80,664**		65,896
Other operating revenue		**7,581**		6,632
		892,230		850,928
Operating expenses				
Electricity costs		**343,136**		320,565
Line costs		**290,954**		297,190
Telecommunications cost of sales		**54,906**		48,905
Employee benefits		**34,175**		34,185
Meter rental costs		**24,049**		23,207
Gas cost of sales		**22,022**		21,962
Market fees and costs		**6,098**		6,173
Marketing and acquisition costs		**16,881**		15,031
Other customer connection costs		**2,629**		2,520
Bad debts		**2,652**		1,601
Other operating expenses**		**35,135**		34,624
		832,637		805,963
EBITDAF		**59,593**		44,965
The analysis above includes the following transactions with the Generation segment:				
Electricity costs		**186,899**		161,047
Meter rental costs		**10,154**		10,348
Other operating expenses		**2,570**		2,570
		199,623		173,965

*Mass Market includes residential and small commercial customers

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

Notes to the financial statements

Note 4: Retail profitability analysis (continued)

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of electricity, gas, telecommunications and related services in the ordinary course of the Group's activities.

Customer consumption of electricity and gas is measured and billed by calendar month for half hourly metered customers and in line with meter reading schedules for non-half hourly metered customers. Accordingly revenues from electricity and gas sales include an estimated accrual for units sold but not billed at the end of the reporting period for non-half hourly metered customers.

Customer consumption of telecommunications services is measured and billed according to monthly billing cycles. Accordingly revenues from telecommunications services provided include an estimated accrual for services provided but not billed at the end of the reporting period.

Where a bundle of services is provided to a customer and a discount is provided for one of those services, the discount is allocated to each distinct performance obligation based on the relative stand alone selling price of those services.

Where a discount is offered for prompt payment revenue is initially recognised net of estimated discount based on accumulated experience used to estimate the amount of discounts taken by customers.

There are no significant timing differences between the payment terms and this policy.

Meter rental revenue is charged and recognised on a per day basis.

Other customer fees and charges are recognised when the service is provided.

Note 5: Capitalised customer acquisition costs

	2018 $000	2017 $000
Opening balance	**35,044**	28,921
Additions	**28,896**	19,936
Amortisation to electricity revenue	**(4,405)**	(4,338)
Amortisation to telecommunications revenue	**(2,094)**	(598)
Amortisation to marketing and acquisition costs	**(10,418)**	(8,877)
Closing balance	**47,023**	35,044
Current Portion	**19,811**	17,168
Non-current portion	**27,212**	17,876
	47,023	35,044

Contract assets

Trustpower capitalises all incremental costs directly attributable to the acquisition of a new mass market customer, such as customer incentives, upfront discounts and sales agent commissions, and amortises them over the expected average customer tenure of four years.

Costs that directly benefited the customer are amortised as a discount to revenue, all other costs are amortised on a straight line basis as an operating expense. Costs directly attributable to the retention of an existing customer over a fixed term are amortised over the period of the fixed term contract.

Notes to the financial statements

Note 6: Intangible assets

All the computer software assets of Trustpower are shown in the table below. Although not all software assets are used exclusively by the retail segment, most are, and so for simplicity all computer software assets have been disclosed in this section of the report.

	Customer Base Assets $000	Computer Software $000	Indefinite Life Goodwill $000	Total $000
Opening balance as at 1 April 2016				
Cost	82,696	78,946	4,171	165,813
Accumulated amortisation	(60,098)	(40,175)	–	(100,273)
	22,598	38,771	4,171	65,540
Additions at cost	–	9,905	–	9,905
Amortisation	(4,305)	(11,244)	–	(15,549)
Impairment	–	(3,384)	–	(3,384)
Disposals at net book value	–	–	–	–
Transfers	–	(33)	–	(33)
Closing balance as at 31 March 2017				
Cost	**82,696**	**85,449**	**4,171**	**172,316**
Accumulated amortisation	**(64,403)**	**(51,434)**	**–**	**(115,837)**
	18,293	**34,015**	**4,171**	**56,479**
Additions at cost	**–**	**8,698**	**–**	**8,698**
Amortisation	**(4,772)**	**(11,012)**	**–**	**(15,784)**
Impairment	**–**	**(5,099)**	**–**	**(5,099)**
Disposals at net book value	**–**	**(34)**	**–**	**(34)**
Transfers	**–**	**(170)**	**–**	**(170)**
Closing balance as at 31 March 2018				
Cost	**82,696**	**88,874**	**4,171**	**175,741**
Accumulated amortisation	**(69,175)**	**(62,446)**	**–**	**(131,621)**
	13,521	**26,428**	**4,171**	**44,120**

There are no individually material intangible assets.

Customer base assets

From time to time Trustpower acquires customer bases from other energy supply companies. These costs are recorded as customer base intangible assets. The costs of acquiring individual customers as part of its day to day business are treated in accordance with its revenue recognition policy (see note 5). The customer bases are reduced (amortised) evenly over a 12 to 20 year period. Each year an internal forecast is performed to determine whether the number of years the customer bases are amortising over is reasonable and also to ensure the total amount of the cost remaining is not too high.

Computer software

Trustpower capitalises the cost when it acquires a software licence or develops software which is expected to provide benefit over a number of years. Costs of bringing the software into operation are also capitalised. These costs can include employee costs and some overheads.

These costs are amortised evenly over the number of years it is expected the software will keep providing benefits. Generally this is three years but major billing software applications are spread over up to seven years.

Notes to the financial statements

Note 7: Retail critical accounting estimates and judgements

Unbilled sales estimate

Electricity and gas meters are read on a progressive basis throughout the period. This means that at balance date, except for large customers, nearly every customer will have used electricity or gas since their last meter reading but have not been billed for it. Trustpower therefore estimates the amount of unbilled electricity or gas.

This estimate is then used in the calculation of:

- Electricity and gas revenue
- Electricity and gas purchases
- Line costs paid to network companies for the use of their networks and the national grid.

This estimate is based on units bought from the wholesale electricity and gas markets as well as historical factors. Trustpower considers the estimate to be accurate as it:

- is prepared on an individual customer by customer basis
- is used consistently across both revenue and costs so therefore only impacts on the gross margin
- uses a well-established process based on each individual customer's historical data where this is available.

Even if there were a large error in the estimate, ten per cent for example, the impact on operating profit would be immaterial. If the estimated unbilled units had been 10% higher/lower, operating profit for the year would have increased/(decreased) by $668,000/$(668,000) (2017: increased/(decreased) by $950,000/$(950,000)).

Contract asset amortisation expense

Management judgement is involved in determining the expected average customer tenure over which capitalised customer acquisition costs are amortised. The appropriate period is reviewed at each balance date and considers actual churn over the past 12 months and any changes in churn between acquisition campaigns.

Note 8: Retail financial risk management

Risk management is carried out under policies approved by the Board.

Energy price risk

In New Zealand there is a wholesale electricity market that sets the price of electricity every half hour. This market is very volatile and the prices can vary significantly. Price volatility also exists for wholesale gas purchases and transmission, however gas price risk is much less significant to Trustpower than electricity price risk.

Trustpower sells energy on the retail market in two ways; firstly to "spot" customers who are charged based on the wholesale price (electricity customers only) and secondly "fixed price" customers who are sold energy (electricity and gas) at an agreed fixed price.

There is no electricity price risk with the spot customers. However if Trustpower was required to purchase energy from the wholesale spot market to supply its fixed price customers there is a risk that the price paid for the energy could exceed the revenue received. Trustpower manages this risk by:

- Generating its own electricity
- Buying energy from other parties at a fixed price
- Entering hedge agreements which fix the price paid for energy on the wholesale market.

Consequently these measures limit the amount of energy purchased which is exposed to spot pricing. Trustpower's Energy Trading Policy sets limits around the amount of fixed exposure permissible now and into the future.

Trustpower's electricity price risk is managed by Generation on behalf of Retail. Generation sells electricity to Retail at a fixed price under terms equivalent to those used by independent generators and retailers. The price paid is benchmarked against actual transactions with independent generators as well as prices quoted by the ASX electricity market.

Notes to the financial statements

Note 8: Retail financial risk management (continued)

Retail credit risk

Trustpower has no significant concentrations of credit risk in its Retail business (2017: none). It has policies in place to ensure that sales are only made to customers with an appropriate credit history. Where a potential customer does not have a suitable credit history a bond is required before the customer is accepted. Trustpower's Credit Policy ensures that all counterparties with which Trustpower has electricity price hedging in place are assigned a credit limit and that potential exposure does not exceed that limit.

Trustpower has around 246,000 customers (2017: 249,000). The largest single customer accounts for 1 per cent (2017: 1 per cent) of Trustpower's total accounts receivable. Included in other accounts payable and accruals is $504,000 (2017: $788,000) of bonds collected from customers who do not meet credit criteria.

Debtors that are unlikely to pay the money they owe Trustpower are not included as an asset in the balance sheet. This provision for doubtful debts is $2,400,000 (2017: $1,833,000). See notes A7 and A16(c) for further detail.

Note 9: Retail commitments

Electricity purchase commitments

Trustpower has contracts to purchase the future electricity output of a variety of generation stations. These physical supply commitments are not recognised as items on the balance sheet because their value is difficult to quantify. Their value is subject to variable inflows, shutdowns due to planned and unplanned maintenance, price reset mechanisms and location factor risk. If they were quantified, their fair value would not be material.

Counterparty	**Type of generation**
Eastland Networks Limited	Waihi Hydro station
Rotokawa Generation Limited	Rotokawa geothermal power station
Clearwater Hydro Limited	Hydropower stations
Amethyst Hydro Limited	Hydropower station
Ngawha Generation Limited	Geothermal power station
Tilt Renewables Limited	Wind farms
Ngati Tuwharetoa Electricity Ltd	Geothermal power station
Barrhill Chertsey Irrigation JV	Hydropower stations

Notes to the financial statements

Generation

This section details the generation operations of Trustpower.

Trustpower owns 433MW of mainly hydro generation assets throughout New Zealand. The Generation segment also includes metering and irrigation assets as well as Trustpower's energy trading function. Trustpower also holds a 80% (2017: 65%) controlling interest in King Country Energy Limited, which owns an additional 54MW of hydro generation assets.

A generation profitability analysis is included in Note 10. This disclosure provides a detailed breakdown of the performance of Trustpower's generation operations.

This section includes the following notes:
Note 10: Generation Profitability Analysis
Note 11: Property, Plant and Equipment
Note 12: Generation Critical Accounting Estimates and Judgements
Note 13: Generation Financial Risk Management
Note 14: Generation Commitments

Note 10: Generation profitability analysis

	2018 $000	2017 $000
Operating revenue		
Electricity revenue	**214,089**	183,740
Meter rental revenue	**15,961**	16,580
Net other operating revenue	**16,502**	14,619
	246,552	214,939
Operating expenses		
Generation production costs	**36,501**	37,438
Employee benefits	**15,512**	15,052
Generation development expenditure	**283**	601
Other operating expenses including electricity hedge settlements	**(2,191)**	(6,839)
	50,105	46,252
EBITDAF	**196,447**	168,687
The analysis above includes the following transactions with the Retail segment:		
Electricity revenue	**179,122**	150,370
Electricity hedge settlements	**7,777**	10,677
Meter rental revenue	**10,154**	10,348
Other operating revenue	**2,570**	2,570
	199,623	173,965

Generation development

An ongoing part of Trustpower's business is the development of new generation assets. All costs incurred prior to the commitment to build a new asset are expensed, including exploration, evaluation and consenting costs. All costs from the point of commitment are capitalised if appropriate (see note A5 for further details).

Notes to the financial statements

Note 11: Property, plant and equipment

While not all property, plant and equipment relates to Generation, almost all does and, for simplicity, all property, plant and equipment for Trustpower are included in this note.

	Generation Assets $000	Other Land and Buildings $000	Metering Equipment $000	Other Plant and Equipment $000	Total $000
Opening balance as at 1 April 2016					
Fair Value	2,222,886	–	–	–	2,222,886
Cost	–	36,444	68,148	41,565	146,157
Capital work in progress	10,909	–	–	–	10,909
Accumulated depreciation	–	(4,890)	(54,834)	(23,871)	(83,595)
	2,233,795	31,554	13,314	17,694	2,296,357
Additions at cost	9,909	313	–	6,537	16,759
Acquired as part of a business combination	–	–	–	–	–
Depreciation	(21,262)	(276)	(4,457)	(5,990)	(31,985)
Disposals at net book value	(4)	(930)	–	(307)	(1,241)
Foreign exchange movements	(3,454)	–	–	(3)	(3,457)
Revaluations	–	–	–	–	–
Transfers/impairments	257	(3,200)	75	2,529	(339)
Closing balance as at 31 March 2017					
Fair value	**2,220,418**	**–**	**–**	**–**	**2,220,418**
Cost	**6,161**	**27,994**	**68,148**	**49,306**	**151,609**
Capital work in progress	**14,502**	**–**	**–**	**–**	**14,502**
Accumulated depreciation	**(21,840)**	**(533)**	**(59,216)**	**(28,846)**	**(110,435)**
	2,219,241	**27,461**	**8,932**	**20,460**	**2,276,094**
Additions at cost	**11,595**	**2**	**1,272**	**6,303**	**19,172**
Depreciation	**(20,701)**	**(201)**	**(4,162)**	**(5,821)**	**(30,885)**
Disposals at net book value	**(176,998)**	**–**	**–**	**(61)**	**(177,059)**
Foreign exchange movements	**(4,288)**	**(2)**	**–**	**(213)**	**(4,503)**
Revaluation of discontinued operation (note 2)	**19,371**	**–**	**–**	**–**	**19,371**
Transfers/impairments	**278**	**(24)**		**(220)**	**33**
Closing balance as at 31 March 2018					
Fair value	**2,055,312**	**–**	**–**	**–**	**2,055,312**
Cost	**15,115**	**27,984**	**69,420**	**53,968**	**166,487**
Capital work in progress	**14,822**	**–**	**–**	**–**	**14,822**
Accumulated depreciation	**(36,751)**	**(748)**	**(63,379)**	**(33,520)**	**(134,398)**
	2,048,498	**27,236**	**6,041**	**20,448**	**2,102,223**

The depreciation figures in the table above include both continuing and discontinued operations. The split between these amounts is given over the page (see note 2 for more details).

Notes to the financial statements

Note 11: Property, plant and equipment (continued)

	2018 $000	2017 $000
Depreciation from continuing operations	**28,458**	29,193
Depreciation from discontinued operations	**2,427**	2,792
	30,885	31,985

Generation assets include land and buildings which are not separately identifiable from other generation assets. Generation assets were independently revalued, using a discounted cash flow methodology, as at 31 March 2016, to their estimated market value as assessed by Deloitte Corporate Finance. See note 12 for a description of the inputs used. A review of the fair value of generation assets has been undertaken, in conjunction with Deloitte Corporate Finance, as at 31 March 2018. While not a full revaluation exercise, this review has provided a range for the fair value of the generation assets. The carrying value of generation assets is within this fair value range and, as such, the Directors have determined that the carrying value is appropriate. See note A15 for historical cost information.

Property, plant and equipment

Generation assets are revalued, by independent external valuers, every three years or more frequently if there is evidence of a significant change in value. All other property, plant and equipment is stated at its original cost less depreciation and impairment.

Land is not depreciated. Depreciation on all other property, plant and equipment is calculated using the straight-line method at the following rates:

Freehold buildings	2%	Generation assets	0.5-8%
Metering equipment	5-15%	Plant and equipment	10-33%

Note 12: Generation critical accounting estimates and judgements

Fair value of generation property, plant and equipment

The valuation of Trustpower's generation assets is sensitive to the inputs used in the discounted cash flow valuation model.

A sensitivity analysis around some key inputs is given in the table below. The valuation is based on a combination of values that are generally at the midpoint of the range. The valuation impact is calculated as the movement in the fair value as a result of the change in the assumption and keeping all other valuation inputs constant.

Assumption	Low	High	Valuation impact
Forward electricity price path	Increasing in real terms from $72/MWh to $85/MWh by 2021. Thereafter held constant.	Increasing in real terms from $72/MWh to $100/MWh by 2023. Thereafter held constant.	-/+ $113,000,000
Generation volume	1,926 GWh	2,354 GWh	-/+ $192,000,000
Avoided Cost of Transmission	100% reduction in revenue from 2021	Current regulatory structure is unchanged.	-/+ $80,000,000
Operating costs	$29,100,000 p.a.	$39,100,000 p.a.	+/ - $52,600,000
Weighted average cost of capital	7.36%	8.36%	+$134,000,000 / - $113,000,000

Some of these inputs are not based on inputs observable in the market, and so under IFRS they are classified within level 3 of the fair value hierarchy. See note A17 for more information on the IFRS fair value hierarchy.

Depreciation expense

Management judgement is involved in determining the useful lives of Trustpower's generation assets based on engineering knowledge and expertise. The lives of longer lived assets are subject to a greater degree of judgement.

Sensitivity analysis

If the estimated useful lives of generation assets were 10% higher/lower, operating profit for the year would have increased/(decreased) by $1,882,000/$(2,300,000) (2017: $1,932,000/$(2,362,000)).

Notes to the financial statements

Note 13: Generation financial risk management

Electricity price risk

Exposure to electricity price risk in New Zealand is largely mitigated by selling electricity to the retail segment. See note 8 for more detail. This risk management strategy assumes that the electricity wholesale market that currently operates in New Zealand will continue to do so in the future. There is a possibility that future regulatory intervention may fundamentally alter the structure of this market. The likelihood and potential impact of such a change is unquantifiable. However, such an occurrence would likely necessitate a change to Trustpower's electricity price risk management policies and require a review of assets and liabilities held at fair value where electricity price is a key assumption in their value. Trustpower accepted electricity price risk with respect to its Australian operations (now discontinued) and did not attempt to mitigate it.

Volume risk

Over 99% of Trustpower's electricity generation is from renewable sources and, as such, varies due to weather. This risk is mitigated somewhat by operating in different regions of the country.

Damage to generation assets risk

There is potential for Trustpower to sustain major losses through damage to its generation plant and the resulting loss of earnings. The major portion of this risk has been mitigated by taking out appropriate insurance policies with insurers of high creditworthiness. This insurance covers both the repair and or replacement of the plant as well as the lost earnings.

Note 14: Generation commitments

	2018 $000	2017 $000
Capital commitments	**791**	1,201

The capital commitments figure above is comprised of a number of capital projects across Trustpower's generation schemes. None of these projects is individually material.

Notes to the financial statements

Funding

This section explains how Trustpower is funded.

Trustpower is listed on the New Zealand Stock Exchange under the code TPW. Trustpower has over 12,000 shareholders, the two largest being Infratil Limited (51.0%) and the Tauranga Energy Consumer Trust (26.8%). Trustpower's debt comprises a combination of bank facilities and senior and subordinated bonds that are listed on the New Zealand Stock Exchange.

This section includes the following notes:
Note 15: Borrowings
Note 16: Finance Income And Costs
Note 17: Equity
Note 18: Share Capital
Note 19: Dividends On Ordinary Shares
Note 20: Imputation Credit Account
Note 21: Funding Financial Risk Management

Note 15: Borrowings

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

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. Certain Group companies, which represent over 90% of the Group's assets, form a guaranteeing group under the negative pledge arrangement where every member of the guaranteeing group guarantees the debt of every other member.

					2018
	Unsecured bank loans				
	New Zealand dollar facilities $000	Australian dollar facilities $000	Total bank facilities $000	Senior Bonds $000	Subordinated Bonds $000
Repayment terms:					
Less than one year	**17,194**	**–**	**17,194**	**–**	**–**
One to two years	**85,000**	**–**	**85,000**	**–**	**114,163**
Two to five years	**65,000**	**–**	**65,000**	**210,780**	**–**
Over five years	**–**	**–**	**–**	**–**	**–**
Bond issue costs	**–**	**–**	**–**	**(2,019)**	**(604)**
	167,194	**–**	**167,194**	**208,761**	**113,559**
Current portion	**17,194**	**–**	**17,194**	**–**	**–**
Non-current portion	**150,000**	**–**	**150,000**	**208,761**	**113,559**
	167,194	**–**	**167,194**	**208,761**	**113,559**
Undrawn facilities					
Less than one year	**12,806**	**–**	**12,806**	**–**	**–**
One to two years	**15,000**	**–**	**15,000**	**–**	**–**
Two to five years	**170,000**	**–**	**170,000**	**–**	**–**
Over five years	**–**	**–**	**–**	**–**	**–**
	197,806	**–**	**197,806**	**–**	**–**
Weighted average interest rate:					
Less than one year	**2.7%**	**–**		**–**	**–**
One to two years	**1.6%**	**–**		**–**	**6.8%**
Two to five years	**1.5%**	**–**		**4.6%**	**–**
Over five years	**–**	**–**		**–**	**–**
	1.7%	**–**		**4.6%**	**6.8%**

Notes to the financial statements

Note 15: Borrowings (continued)

	Unsecured bank loans				2017
	New Zealand dollar facilities $000	Australian dollar facilities $000	Total bank facilities $000	Senior Bonds $000	Subordinated Bonds $000
Repayment terms:					
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
Undrawn facilities					
Less than one year	3,500	–	3,500	–	–
One to two years	–	29,482	29,482	–	–
Two to five years	84,517	–	84,517	–	–
Over five years	–	–	–	–	–
	88,017	29,482	117,499	–	–
Weighted average interest:					
Less than one year	2.5%	–		7.1%	–
One to two years	–	2.5%		–	–
Two to five years	2.3%	–		5.6%	6.8%
Over five years	–	–		4.0%	–
	2.4%	2.5%		5.1%	6.8%

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method.

A loan that matures within a year will still be considered non-current if Trustpower has an unconditional right to refinance the loan through non-current undrawn facilities with the same lender.

The fair value of Trustpower's bank loans and bonds is not materially different to the carrying values above. At 31 March 2018 the subordinated bonds had a fair value of $119,077,000 (31 March 2017: $121,040,000) and the senior bonds had a fair value of $216,392,000 (31 March 2017: $264,521,000). The bonds have been classified as level 1 in the fair value hierarchy, see note A17 for a definition of the levels.

Notes to the financial statements

Note 16: Finance income and costs

	2018 $000	2017 $000
Amortisation of debt issue costs	**1,077**	991
Interest paid on unsecured bank loans	**6,743**	7,550
Interest paid on unsecured subordinated bonds	**7,706**	8,417
Interest paid on unsecured senior bonds	**12,400**	16,316
Other interest costs and fees	**5,546**	1,195
Demerger related interest	–	7,190
Total interest expense	**33,472**	41,659
Interest received on cash at bank	**1,347**	506
Interest received on advances to Tilt Renewables	–	3,354
Total interest income	**1,347**	3,860

There was no capitalised interest in the year to 31 March 2018 (2017: none).

Notes to the financial statements

Note 17: Equity

	Share Capital	Invested Capital	Revaluation Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Shareholder's Equity	Non-controlling interest	Total Equity
Opening balance as at 1 April 2016	–	421,963	969,311	(1,494)	2,119	–	1,391,899	45,379	1,437,278
Profit after tax attributable to the shareholders of the Company	–	57,721	–	–	–	34,824	92,545	1,444	57,967
Disposal of revalued assets	–	–	–	–	–	–	–	–	–
Other comprehensive income – items that will not be reclassified to the profit or loss									
Revaluation gains on generation assets	–	–	–	–	–	–	–	–	–
Other comprehensive income – items that may be reclassified to the profit or loss									
Other currency translation differences	–	–	–	–	(2,291)	–	(2,291)	–	(4,192)
Fair value gains/(losses) on cash flow hedges									
Realised	–	–	–	8,379	–	–	8,379	–	3,968
Unrealised	–	–	–	(13,582)	–	–	(13,582)	–	(3,924)
Tax effect of the following:									
Revaluation gains on generation assets	–	–	–	–	–	–	–	–	–
Fair value gains/(losses) on cash flow hedges	–	–	–	1,457	–	–	1,457	–	(12)
Total other comprehensive income	–	–	–	(3,746)	(2,291)	–	(6,037)	–	(6,037)
Contributions by and distributions to non-controlling interest									
Acquisition of shares held by outside equity interest	–	–	–	–	–	–	–	(708)	(708)
Total contributions by and distributions to non-controlling interest	–	–	–	–	–	–	–	(708)	(708)
Transactions with owners recorded directly in equity									
Dividends paid	–	(53,713)	–	–	–	(49,976)		(2,439)	(2,439)
Total transactions with owners recorded directly in equity	–	(53,713)	–	–	–	–	(53,713)	–	(53,713)
Demerger on 31 October 2016	2	(425,971)	–	–	–	425,969	–	–	–
Closing balance as at 31 March 2017	2	–	969,311	(5,240)	(172)	410,817	1,374,718	43,676	1,418,394

Notes to the financial statements

Note 17: Equity (continued)

	Share Capital	Invested Capital	Revaluation Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Shareholder's Equity	Non-controlling interest	Total Equity
Opening balance as at 1 April 2017	**2**	**–**	**969,311**	**(5,240)**	**(172)**	**410,817**	**1,374,718**	**43,676**	**1,418,394**
Profit after tax attributable to the shareholders of the Company	–	–	–	–	–	**128,127**	**128,127**	**1,268**	**129,395**
Disposal of revalued assets (note 2)	–	–	**(54,520)**	–	–	**54,520**	–	–	–
Other comprehensive income – items that will not be reclassified to the profit or loss									
Revaluation gains on generation assets (note 2)	–	–	**19,371**	–	–	–	**19,371**	–	**19,371**
Other comprehensive income – items that may be reclassified to the profit or loss									
Disposal of foreign subsidiary	–	–	–	–	**3,022**	–	**3,022**	–	**3,022**
Other currency translation differences	–	–	–	–	**(2,850)**	–	**(2,850)**	–	**(2,850)**
Fair value gains/(losses) on cash flow hedges									
Realised	–	–	–	**(5,157)**	–	–	**(5,157)**	–	**(5,157)**
Unrealised	–	–	–	**8,605**	–	–	**8,605**	–	**8,605**
Tax effect of the following:									
Revaluation gains on generation assets (note 2)	–	–	**(5,811)**	–	–	–	**(5,811)**	–	**(5,811)**
Fair value gains/(losses) on cash flow hedges	–	–	–	**(965)**	–	–	**(965)**	–	**(965)**
Total other comprehensive income	–	–	**13,560**	**2,483**	**172**	–	**16,215**	–	**16,215**
Contributions by and distributions to non-controlling interest									
Acquisition of shares held by outside equity interest	–	–	–	–	–	**384**	**384**	**(19,356)**	**(18,972)**
Total contributions by and distributions to non-controlling interest	–	–	–	–	–	**384**	**384**	**(19,356)**	**(18,972)**
Transactions with owners recorded directly in equity									
Dividends paid	–	–	–	–	–	**(106,517)**	**(106,517)**	**(3,606)**	**(110,123)**
Total transactions with owners recorded directly in equity	–	–	–	–	–	**(106,517)**	**(106,517)**	**(3,606)**	**(110,123)**
Closing balance as at 31 March 2018	**2**	**–**	**928,351**	**(2,757)**	**–**	**487,331**	**1,412,927**	**21,982**	**1,434,909**

There are no restrictions on the distribution of any reserves to the equity holders of the Company.

The amount of share capital is increased or decreased by the amount paid or received when Trustpower buys or sells its own shares.

Notes to the financial statements

Note 18: Share capital

	2018 000's of Shares	2017 000's of Shares	2018 $000	2017 $000
Authorised and issued ordinary shares at beginning of period	**312,973**	–	**2**	
Share split prior to demerger	**–**	312,973	**–**	–
Transfer from invested capital	**–**	–		2
	312,973	312,973	**2**	2

All shares rank equally with one vote per share, have no par value and are fully paid.

Note 19: Dividends on ordinary shares

	2018 Cents Per Share	2017 Cents Per Share	2018 $000	2017 $000
Final dividend prior period	**17.0**	17.1	**53,312**	53,613
Interim dividend paid current period	**17.0**	16.0	**53,205**	50,076
	34.0	33.1	**106,517**	103,689
Final fully imputed dividend declared subsequent to the end of the reporting period payable 15 June 2018 to all shareholders on the register at 1 June 2018.	**17.0**	17.0	**53,205**	53,205

Dividend distribution

Dividends payable to Trustpower's shareholders are recognised as a liability in the financial statements in the period in which the dividend is approved by the Board.

Note 20: Imputation credit account

	2018 $000	2017 $000
Imputation credits available for use in subsequent reporting periods	**16,696**	19,822

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of taxation payable. The consolidated amounts include imputation credits that would be available to the parent if subsidiaries paid dividends.

Note 21: Funding financial risk management

Interest rate risk

All of Trustpower's bank facilities are on floating interest rates. Trustpower then uses Interest Rate Swaps (IRS) to fix most of the interest costs of the Group. This stabilises Trustpower's debt servicing costs. However for every dollar of debt protected against a potential rise in market interest rates, that same dollar is unable to take advantage of a potential fall in market interest rates. Payments made or received by IRS are recognised as a part of "Interest paid on unsecured bank loans".

The amount of interest rate risk taken in the current and future years is managed in accordance with a Board approved Treasury Policy. The policy is independently reviewed every three years.

Liquidity risk

The Group's ability to readily attract cost effective funding is largely driven by its credit standing.

Prudent liquidity risk management requires maintaining sufficient cash, marketable securities or unutilised committed credit facilities to provide cover for reasonably conceivable adverse conditions. The Group operates under a Board approved treasury policy which dictates the level of available committed facilities to be maintained. This is measured by forecasting debt levels under various adverse scenarios and comparing this to committed facility levels.

Refinancing risk

From time to time Trustpower's debt facilities mature and need to be refinanced. There is a risk that this could occur during adverse market conditions resulting in increased interest rates or in extreme events an inability to refinance at all. The Treasury Policy requires a spread of debt maturities to minimise the impact of this risk should it occur. This is measured by the proportion of debt maturing in various time bands.

Credit risk

Trustpower's banking facilities are with institutions that all have a Standard & Poor's long-term credit rating of A+ or higher.

Capital risk management objectives

When managing capital, Trustpower's objectives are to ensure sufficient funds are available to pay liabilities when they fall due and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, Trustpower has discretion to adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Trustpower's primary measure for monitoring its capital structure is net debt to EBITDAF. This is calculated below:

	Note	2018 $000	2017 $000
Net debt			
Unsecured bank debt	15	**167,194**	295,791
Unsecured subordinated bonds	15	**113,559**	113,133
Unsecured senior bonds	15	**208,761**	260,102
Cash and cash equivalents		**(19,790)**	(8,183)
		469,724	660,843
EBITDAF	A2	**243,084**	186,279
Net debt to EBITDAF		**1.9**	3.5

Trustpower has a medium term target of maintaining its net debt to EBITDAF ratio to between 2.5 and 4.0.

Notes to the financial statements

Note 21: Funding financial risk management (continued)

As a secondary measure, Trustpower also monitors its gearing ratio. This ratio is calculated as net debt divided by net debt plus equity.

The gearing ratio is calculated below:	Note	2018 $000	2017 $000
Net debt		**469,724**	660,843
Equity			
Total equity		**1,434,909**	1,418,394
Remove net effect of fair value of financial instruments after tax	17	**2,757**	5,240
		1,437,666	1,423,634
Total capital funding		**1,907,390**	2,084,477
Gearing ratio		**25%**	32%

Trustpower has a target of maintaining its gearing ratio between 25% and 50%.

Notes to the financial statements

Tax, related party and other notes

This section details tax disclosures, contingent liabilities, operating lease commitments and related party transactions.

This section includes the following notes:
Note 22: Income Tax Expense
Note 23: Deferred Income Tax
Note 24: Income Tax Critical Accounting Estimates And Judgements
Note 25: Contingent Liabilities And Subsequent Events
Note 26: Other Commitments
Note 27: Related Party Transactions

Note 22: Income tax expense

	2018 $000	2017 $000
Profit from continuing operations before income tax	**158,943**	104,084
Profit from discontinued operations before income tax	**18,798**	26,847
	177,741	130,931
Tax on profit @ 28%	**49,767**	36,661
Australian operations tax rate adjustment	**436**	537
Tax effect of non-deductible expenditure	**2,580**	5,739
Tax losses transferred from Tilt Renewables	**–**	(3,266)
Income tax (over)/under provided in prior year	**(1,232)**	(2,729)
	51,551	36,942
Income tax expense is attributable to:		
Profit from continuing operations	**44,915**	28,024
Profit from discontinued operations	**6,636**	8,918
	51,551	36,942
Represented by:		
Current tax	**48,126**	48,034
Deferred tax	**3,425**	(11,092)
	51,551	36,942

The 28% tax rate used above is the corporate tax rate payable by New Zealand corporate entities on taxable profit under New Zealand tax law.

Note 23: Deferred income tax

	Note	2018 $000	2017 $000
Balance at beginning of year		**284,418**	297,953
Current year changes in temporary differences recognised in profit or loss	22	**(1,580)**	(13,039)
Current year changes in temporary differences recognised in other comprehensive income		**6,777**	(1,770)
Reclassification of prior year temporary differences	22	**4,999**	1,948
Disposed as part of disposal of subsidiary	2	**(39,610)**	–
Exchange rate movements on foreign denominated deferred tax		**(921)**	(674)
Total deferred tax liabilities		**254,083**	284,418

Notes to the financial statements

Note 23: Deferred income tax (continued)

The tables below show the break down of the temporary differences that make up the deferred tax liabilities and their movement for the year.

	Opening Balance	Disposal of Discontinued Operation	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Closing Balance
For the year ended 31 March 2018					
Revaluations	**192,222**	**(21,530)**	**-**	**6,139**	**176,831**
Other property, plant and equipment movements	**87,134**	**(18,185)**	**(2,169)**	**(494)**	**66,286**
Employee benefits	**(2,127)**	**105**	**(1,223)**	**3**	**(3,242)**
Provision for impairment	**(513)**	**-**	**(162)**	**-**	**(675)**
Customer base assets	**5,122**	**-**	**(1,336)**	**-**	**3,786**
Financial instruments	**(3,991)**	**-**	**(573)**	**966**	**(3,598)**
Other	**6,571**	**-**	**8,124**	**-**	**14,695**
	284,418	**(39,610)**	**2,661**	**6,614**	**254,083**

	Opening Balance	Disposal of Discontinued Operation	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	Closing Balance
For the year ended 31 March 2017					
Revaluations	194,096	-	-	(1,874)	192,222
Other property, plant and equipment movements	95,082	-	(8,160)	212	87,134
Employee benefits	(2,176)	-	48	1	(2,127)
Provision for impairment	(574)	-	61	-	(513)
Customer base assets	6,327	-	(1,205)	-	5,122
Financial instruments	(3,938)	-	730	(783)	(3,991)
Other	9,136	-	(2,565)	-	6,571
	297,953	-	(11,091)	(2,444)	284,418

Notes to the financial statements

Note 24: Income tax critical accounting estimates and judgements

Income tax expense

Tax returns for Trustpower and the detailed calculations that are required for filing tax returns are not prepared until after the financial statements are prepared. Estimates of these calculations are made for the purpose of calculating income tax expense, current tax and deferred tax balances. As well as this, an assessment of the result of tax audit issues is also made. Any difference between the final tax outcomes and the estimations made in previous years will affect current year balances.

Note 25: Contingent liabilities and subsequent events

The Group is not aware of any material contingent liabilities at balance date that have not been disclosed elsewhere in these financial statements (2017: nil).

Other than disclosed in note 26 the Group is not party to any material operating leases at balance date (2017: nil).

The Group is not aware of any significant events that have occurred subsequent to balance date but prior to the signing of these financial statements.

Note 26: Other commitments

	2018 $000	2017 $000
Operating leases		
Not later than 1 year	**3,109**	3,063
Later than 1 year and not later than 5 years	**11,233**	10,748
Later than 5 years	**21,408**	23,976
	35,750	37,787

The operating leases relates to the rental of ten office buildings throughout New Zealand as well as Trustpower's head office.

Note 27: Related party transactions

Key management personnel

The key management personnel compensation (including Directors' fees) is as follows:

	Note	2018 $000	2017 $000
Salaries and other short-term employee benefits		**5,791**	6,344
Fair value movements in cash settled, share based incentives	A14	**4,376**	(141)
		10,167	6,203

$4,445,000 of this amount was unpaid at 31 March 2018 (2017: $701,000).

All key managers participate in a cash settled, share based incentive scheme (refer to note A14).

Notes to the financial statements

Note 27: Related party transactions (continued)

Tilt Renewables

Like Trustpower, Tilt Renewables is controlled by Infratil Limited (see below)

Transactions with Tilt Renewables since demerger are summarised below:

	2018 $000	2017 $000
Purchases of electricity from Tilt Renewables	**39,584**	18,315
Revenue from management services provided to Tilt Renewables	**16**	315

The sources of debt balances between Trustpower and Tilt Renewables are summarised below:

	2018 $000	2017 $000
Purchases of electricity	**(2,223)**	(3,467)
Settlement of tax liabilities	–	6,811
	(2,223)	3,344

King Country Energy Limited

During the year Trustpower purchased an additional 3,761,614 shares (2017: nil) for $18,808,000 (2017: nil) from minority shareholders to take its shareholding from 65% to 80%. On 29 March 2018, an agreement for King Country Energy Limited to sell its approximately 17,000 customers to Trustpower Limited for $15,000,000 was reached. This purchase was settled in cash subsequent to balance date.

Subsequent to balance date King Country Electric Power Trust, the 20% shareholder in King Country Energy Limited, reached an agreement to purchase 1,258,000 King Country Energy Limited shares from Trustpower for five dollars per share. This represents 5% of King Country Energy Limited's shares and a total purchase price of $6,291,000.

Shareholders

Trustpower is controlled by Infratil Limited (incorporated in New Zealand) which owns 51.0% of Trustpower Limited's voting shares. The Tauranga Energy Consumer Trust owns 26.8% and the residual balance of 22.2% is widely held.

H.R.L. Morrison & Co Limited manages Infratil Limited and Mr M Bogoievski, a Director of Trustpower Limited until 11 October 2017, is its Chief Executive. Mr P Ridley-Smith, Chairman of Trustpower Limited, is an executive of H.R.L Morrison & Co Limited, and Steven Fitzgerald, a Director of Trustpower Limited from 11 October 2017, is an executive of Infratil. Nothing (2017: $90,000) was paid to H.R.L. Morrison & Co Limited and related entities during the year for consultancy services. As at 31 March 2018 nothing (2017: $2,000) was unpaid.

Directors

Mr RH Aitken, a Director of Trustpower Limited, was the Executive Chairman of the engineering firm Beca Limited. $104,700 was charged by Beca Limited for engineering services (2017: $82,000). As at 31 March 2018 there were no outstanding amounts to be paid.(2017: nil).Mr Aitken resigned as the Executive Chairman of Beca Group Limited as at 30 April 2017.

Other

Except as noted above, no transactions took place with related parties during the year. All transactions with related parties took place on an arm's length basis. No related party debts were forgiven or written off during the year (2017: nil). Except as noted above there are no amounts outstanding at 31 March 2018 (2017: nil).

Appendix

Note A1: Significant accounting policies index

Policy	Note
Basis of Preparation	1
Trade Receivables and Prepayments	A7
Contract Assets	5
Property, Plant and Equipment	11
Intangible Assets	6
Revenue Recognition	4
Generation Development	10
Borrowings	15
Cash Flow Statement	A19
Share Capital	18
Trade Payables	A8
Dividend Distribution	19
Foreign Currency Translation	A19
Adoption Status of Relevant New Financial Reporting Standards and Interpretations	A19

Apart from note A19, accounting policies are denoted by the box surrounding them.

Note A2: Non-GAAP measures

Underlying earnings after tax

	Note	2018 $000	2017 $000
Profit after tax attributable to the shareholders of the Company ($000)		**128,127**	92,545
Fair value losses / (gains) on financial instruments	A9	**2,675**	(3,825)
Gain on sale of subsidiary after income tax	2	**(183)**	-
Asset impairments		**5,099**	3,479
Demerger related expenditure (including financing and operating costs)	16, A5	**-**	23,959
Adjustments before income tax		**7,591**	23,613
Change in income tax expense in relation to adjustments		**(749)**	(687)
Adjustments after income tax		**6,842**	22,926
Underlying Earnings After Tax		**134,969**	115,471

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.

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.

Appendix

Note A3: 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	2018	2017
Profit after tax attributable to the shareholders of the Company ($000)		**128,127**	92,545
Weighted average number of ordinary shares on issue (thousands)	18	**312,973**	312,973
Basic and diluted earnings per share (cents per share)		**40.9**	29.6
From continuing operations		**35.9**	23.6
From discontinued operation		**5.0**	6.0
		40.9	29.6
Underlying earnings after tax ($000)		**134,969**	114,561
Weighted average number of ordinary shares on issue (thousands)	18	**312,973**	312,973
Underlying earnings per share (cents per share)		**43.1**	36.6
From continuing operations		**38.1**	30.6
From discontinued operation		**5.0**	6.0
		43.1	36.6

Note A4: Net tangible assets per share

	Note	2018 $000	2017 $000
Total net assets		**1,434,909**	1,418,394
Less intangible assets (including capitalised customer acquisition costs)		**(91,143)**	(91,523)
Less net tangible assets attributed to non-controlling interest		**(26,357)**	(43,621)
Net tangible assets attributed to shareholders		**1,317,409**	1,283,250
Number of ordinary shares in issue (thousands)	18	**312,973**	312,973
Net tangible assets per share (dollars per share)		**4.21**	4.10

Note A5: Other operating expenses

	Note	2018 $000	2017 $000
Remuneration of auditors	A6	**655**	1,323
Bad debts written off	A16	**2,652**	1,601
Directors' fees		**787**	903
Donations		**762**	1,014
Loss/(gain) on foreign exchange		**(3,580)**	867
Generation development expenditure		**283**	601
Market fees and costs		**6,098**	6,173
Meter rental costs		**13,947**	12,859
Other customer connection costs		**2,629**	2,520
Net (gain)/loss on sale of property, plant and equipment		**(154)**	(1,465)
Sales and marketing expenditure		**16,881**	15,031
Computer maintenance and support costs		**14,037**	10,719
Other administration costs		**16,581**	15,892
Demerger related expenditure		**–**	16,769
Rental and operating lease costs		**3,333**	3,633
		74,911	88,440

Appendix

Note A6: Remuneration of auditors

	Note	2018 $000	2017 $000
During the year the following fees were payable to the auditors of Trustpower, PricewaterhouseCoopers:			
Audit and other assurance services			
Audit of financial statements		**436**	503
Other assurance services			
Assurance engagements related to regulatory returns[1]		**16**	36
Review of half year financial statements		**48**	47
		500	586
Taxation services			
Tax compliance[3]		**37**	12
Support for dispute with Inland Revenue	22	**–**	20
Tax consulting[4]		**68**	104
Tax pooling services		**–**	105
		105	241
Other services			
Purchase of benchmarking publication		**2**	–
Financial system migration process assessment		**40**	–
Anti-money laundering compliance advice		**8**	–
Demerger related services[2]		**–**	496
		50	496
Total remuneration of PricewaterhouseCoopers		**655**	1,323

[1] Regulatory returns include assurance services surrounding the Trustpower Insurance Limited solvency return and telecommunications development levy.

[2] Demerger related services include review of financial models, tax due diligence and issuance of investigating accountants report included within the demerger scheme booklet released in August 2016.

[3] Tax compliance services relate to the review of income tax returns and tax related correspondence.

[4] Tax consulting relates to general tax advisory services.

Appendix

Note A7: Accounts receivable and prepayments

	2018 $000	2017 $000
Billed debtors and unbilled sales	**79,839**	73,897
Provision for doubtful debts	**(2,410)**	(1,833)
Electricity market receivables	**730**	760
Other receivables	**19,161**	38,079
GST receivable	**2**	-
Prepayments	**2,904**	4,802
	100,226	115,705

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that Trustpower will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in the income statement. The criteria that Trustpower uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Trustpower, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; and
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

Note A8: Accounts payable and accruals

	2018 $000	2017 $000
Customer bond deposits	**504**	858
Electricity market payables	**2,115**	4,161
Employee entitlements	**11,600**	7,980
Interest accruals	**1,845**	1,424
GST payable	**9,088**	9,640
Other accounts payable and accruals	**28,096**	22,992
Trade accounts payable	**55,095**	46,174
	108,343	93,229

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Appendix

Note A9: Fair value gains/(losses) on financial instruments

The changes in the fair value of financial instruments recognised in the income statement and the cash flow hedge reserve for the year to 31 March 2018 are summarised below:

	2018 $000	2017 $000
Recognised in the income statement		
Interest rate derivatives	**(914)**	4,111
Electricity price derivatives	**(1,761)**	(286)
	(2,675)	3,825

	2018 $000	2017 $000
Recognised in the cash flow hedge reserve		
Interest rate derivatives	**–**	–
Electricity price derivatives	**3,448**	(4,950)
	3,448	(4,950)

Note A10: Cash flow hedge reserve

	2018 $000	2017 $000
Balance at beginning of year	**(5,240)**	(1,494)
Fair value (losses)/gains	**8,605**	(13,582)
Transfers to energy cost expense	**(5,157)**	8,379
	3,448	(5,203)
Tax on fair value losses/(gains)	**(2,409)**	3,803
Tax on transfers to energy cost expense	**1,444**	(2,346)
	(965)	1,457
	(2,757)	(5,240)

Appendix

Note A11: Derivative financial instruments

	2018 $000	2017 $000
Current		
Interest rate derivative assets	**–**	–
Electricity price derivative assets	**2,941**	4,432
	2,941	4,432
Interest rate derivative liabilities	**889**	650
Electricity price derivative liabilities	**7,937**	6,490
	8,826	7,140
Non-current		
Interest rate derivative assets	**–**	1,674
Electricity price derivative assets	**369**	1,571
	369	3,245
Interest rate derivative liabilities	**8,580**	8,641
Electricity price derivative liabilities	**4,452**	10,277
	13,032	18,918

Note A12: Investments in subsidiaries

	Country of incorporation and place of business	% owned by Trustpower 2018	% owned by Trustpower 2017	Nature of business
Parent and group				
Significant subsidiaries (31 March balance dates)				
Hopsta Limited	New Zealand	100	100	Electricity and telecommunications retailing
GSP Energy Pty Ltd (refer note 2)	Australia	–	100	Electricity generation
King Country Energy Holdings Limited	New Zealand	100	100	Asset holding
King Country Energy Limited	New Zealand	80	65	Electricity generation and retailing
Trustpower Insurance Limited	New Zealand	100	100	Captive insurance

Except as noted under note 15 there are no other guarantees or restrictions that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the Group.

Appendix

Note A13: Reconciliation of net cash from operating activities with profit after tax attributable to the shareholders

	Note	**2018 $000**	2017 $000
Profit from continuing activities		**114,028**	76,060
Items classified as investing/financing			
Interest paid		**32,069**	44,350
Interest received		**(1,482)**	(3,990)
		30,587	40,360
Non-cash items:			
Amortisation of debt issue costs		**1,077**	3,152
Non-cash transfer from cash flow hedge reserve to interest expense		**-**	(252)
Amortisation of intangible assets		**15,784**	15,549
Depreciation		**28,458**	29,193
Net (gain)/loss on sale of property, plant and equipment		**(154)**	(1,465)
Other fixed and investment asset charges/(credits)		**5,071**	3,501
Movement in derivative financial instruments taken to the income statement		**2,675**	(3,825)
Decrease in deferred tax liability excluding transfers to reserves		**3,634**	(11,981)
		56,545	33,872
Decrease/(increase) in working capital:			
Accounts receivable and prepayments		**(10,607)**	(11,075)
Taxation payable/receivable		**8,027**	14,325
Accounts payable and accruals excluding capital expenditure accruals		**11,817**	(3,325)
		9,237	(75)
Operating cash flows generated by discontinued operation	2	**27,859**	30,665
Net cash from operating activities		**238,256**	180,882

Note A14: Employee share based compensation

Members of Trustpower's executive management team and certain other employees (together defined as key management personnel) are eligible to receive payment under a cash settled share based payment scheme. The scheme is defined as follows:

Each tranche of the scheme covers a three year period. Key management personnel are eligible to receive a bonus payment at the end of each relevant period of the scheme, the sum of which is determined by the total return compared to the companies that comprise the NZX 50 index on a notional number of allocated shares. The return is calculated as the sum of dividends paid by Trustpower plus the increase in share price over the period. Payment is only made if the total shareholder return is greater than that of 50% of NZX 50 companies. Additionally the scheme has a set maximum return above which no increase in the bonus is received by the participants. The total return is calculated for the full period of each agreement with reference to the average share price over the ten days prior to the scheme closing.

The fair value of the liability at 31 March 2018 has been determined by reference to Trustpower's and all other NZX 50 companies' current share price and expected dividends and share price movements with comparison to the share price at the start of the relevant period and adjusted to reflect the present value of these future expected cash flows.

For the year ended 31 March 2018 the total expense recognised in the income statement was $5,715,000 (2017: $(172,000)) and the liability recognised in the statement of financial position as at 31 March 2018 was $4,590,000 (2017: $73,000).

Appendix

Note A15: Property, plant and equipment at historical cost

If generation assets were stated on an historical cost basis, the amounts would be as follows

	2018 $000	2017 $000
Generation assets (at cost)	**982,049**	1,051,820
Generation assets under construction (at cost)	**14,822**	14,502
Generation assets accumulated depreciation	**(242,966)**	(240,182)
	753,905	826,140

Note A16: Financial risk management

Financial risk management information that relates directly to the Retail and Generation segments has been included in notes 8 and 12.

(a) Liquidity risk

The tables below analyse Trustpower's financial liabilities excluding gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the period end date. The amounts in the tables are contractual undiscounted cash flows.

	Less than 1 month $000	1-6 months $000	6-12 months $000	Over 1 year $000
As at 31 March 2018				
Net settled electricity price derivatives	**1,740**	**4,914**	**3,297**	**2,773**
Net settled interest rate derivatives	**169**	**1,425**	**1,239**	**7,006**
Accounts payable and accruals	**106,498**	**–**	**–**	**–**
Unsecured subordinated bonds	**–**	**3,853**	**3,853**	**118,016**
Unsecured senior bonds	**–**	**4,899**	**4,899**	**242,846**
Unsecured bank loans	**966**	**–**	**17,194**	**150,000**
Total	**109,373**	**15,091**	**30,482**	**520,641**

	Less than 1 month $000	1-6 months $000	6-12 months $000	Over 1 year $000
As at 31 March 2017				
Net settled electricity price derivatives	1,148	5,597	3,738	7,195
Net settled interest rate derivatives	1,059	1,313	1,131	5,777
Accounts payable and accruals	88,338	–	–	–
Unsecured subordinated bonds	–	3,853	3,853	125,722
Unsecured senior bonds	–	6,524	70,370	215,834
Unsecured bank loans	–	112,500	–	164,289
Total	90,545	129,787	79,092	518,817

Appendix

Note A16: Financial risk management (continued)

(b) Interest rate risk

The aggregate notional principal amount of the outstanding interest rate derivative instruments at 31 March 2018 was $216,500,000 (31 March 2017: $399,544,000).

Interest payment transactions are expected to occur at various dates between one month and nine years from the end of the reporting period consistent with Trustpower's forecast total borrowings.

Weighted average interest rates for Trustpower are disclosed in note 15.

Sensitivity analysis

At 31 March 2018, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year and other components of equity would have been adjusted by the amounts in the table below, as a result of the fair value change in interest rate derivative instruments.

	2018 $000	2017 $000
Decrease to profit of a 100 basis point decrease in interest rates	**(7,099)**	(11,330)
Increase to profit of a 100 basis point increase in interest rates	**6,503**	10,394
Decrease to profit of a 100 basis point decrease in interest rates	**(7,099)**	(11,330)
Increase to profit of a 100 basis point increase in interest rates	**6,503**	10,394

(c) Credit risk

As of 31 March 2018, trade receivables of $6,178,000(2017: $4,060,000) were past due but not impaired.

The aged analysis of these trade receivables is as follows:

	2018 $000	2017 $000
Up to 3 months	**4,496**	3,868
3 to 6 months	**1,682**	192
	6,178	4,060

As of 31 March 2018, trade receivables of $2,410,000 (2017: $1,833,000) were past due and impaired.

The aged analysis of these trade receivables is as follows:

	2018 $000	2017 $000
Up to 3 months	**-**	-
Over 3 months	**2,410**	1,833
	2,410	1,833

For details of the receivables considered impaired refer to note A7.

Movements in the provision for impairment of trade receivables are as follows:

	2018 $000	2017 $000
Opening balance	**1,833**	2,050
Provision for receivables impairment	**2,652**	1,384
Bad debts written off	**(2,075)**	(1,601)
Closing balance	**2,410**	1,833

Appendix

Note A16: Financial risk management (continued)

(d) Electricity price risk

Trustpower has elected to apply cash flow hedge accounting to those instruments it deems material and which qualify as cash flow hedges while immaterial contracts are not hedge accounted.

The aggregate notional volume of the outstanding electricity derivatives at 31 March 2018 was 1,502 GWh (31 March 2017: 1,450 GWh).

The hedged anticipated electricity purchase transactions are expected to occur continuously throughout the next three years from the end of the reporting period consistent with Trustpower's forecast electricity generation and retail electricity sales. Gains and losses recognised in the cash flow hedge reserve on electricity derivatives as of 31 March 2018 will be continuously released to the income statement in each period in which the underlying purchase transactions are recognised in the income statement.

Sensitivity analysis

The following tables summarise the impact of increases/decreases of the relevant forward electricity prices on Trustpower's post-tax profit for the year and on other components of equity. The sensitivity analysis is based on the assumption that the relevant forward electricity prices had increased/decreased with all other variables held constant as a result of the fair value change in electricity price derivatives.

	2018 $000	2017 $000
Increase/(decrease) to profit of a 10% increase in electricity forward price	**95**	965
Increase/(decrease) to profit of a 10% decrease in electricity forward price	**(95)**	(965)
Increase/(decrease) to equity of a 10% increase in electricity forward price	**6,417**	5,122
Increase/(decrease) to equity of a 10% decrease in electricity forward price	**(6,417)**	(5,122)

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, electricity price hedges) is determined by using valuation techniques. Trustpower uses its judgement to select methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Trustpower has used discounted cash flow analysis for various electricity price hedges that are not traded in an active market. The forward curve is derived from a combination of market quoted prices and management's best estimates. The discount rate is assumed as the counterparty's cost of funds for the period of the instrument. See parts (b) and (d) of this note for sensitivity analysis.

Fair values

Except for subordinated bonds and senior bonds (see note 14), the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

Note A17: Fair value measurement

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.

Note A17: Fair value measurement (continued)

Valuation Input	*Source*
Interest rate forward price curve to value interest rate swaps	Published market swap rates
Foreign exchange forward prices to value foreign exchange contracts	Published spot foreign exchange rates and interest rate differentials
Electricity forward price curve	Market quoted prices where available and the Directors' best estimate based on their 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 adjusted by the cost of credit of the counterparty for assets and the cost of credit of Trustpower for liabilities.
Discount rate for valuing forward foreign exchange contracts	Published market interest rates as applicable to the remaining life of the instrument adjusted by the cost of credit of the counterparty for assets and the cost of credit of Trustpower for liabilities.
Discount rate for valuing electricity price derivatives	Assumed counterparty cost of funds ranging from 3.1% 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 earlier in this note for sensitivity analysis.

NZ IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy which represents the level of judgement and estimation applied in valuing the instrument:

- 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).

There were no transfers between level 1, 2 and 3 assets or liabilities within the fair value hierarchy (2017: none).

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
As at 31 March 2018				
Assets per the statement of financial position				
Interest rate derivative assets	–	–	–	–
Electricity price derivative assets	–	–	**3,310**	**3,310**
	–	–	**3,310**	**3,310**
Liabilities per the statement of financial position				
Interest rate derivative liabilities	–	**9,469**	–	**9,469**
Electricity price derivative liabilities	–	–	**12,389**	**12,389**
	–	**9,469**	**12,389**	**21,858**

Appendix

Note A17: Fair value measurement (continued)

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
As at 31 March 2017				
Assets per the statement of financial position				
Interest rate derivative assets	–	1,674	–	1,674
Electricity price derivative assets	–	–	6,003	6,003
	–	1,674	6,003	7,677
Liabilities per the statement of financial position				
Interest rate derivative liabilities	–	9,291	–	9,291
Electricity price derivative liabilities	–	–	16,767	16,767
	–	9,291	16,767	26,058

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

	2018 $000	2017 $000
Assets per the statement of financial position		
Opening balance	**6,003**	6,466
Acquired as part of a business combination	**–**	–
Gains and (losses) recognised in profit or loss		
Realised in energy cost expense	**4,298**	771
Unrealised	**(7,314)**	(930)
Gains and (losses) recognised in other comprehensive income		
Realised in energy cost expense	**7,772**	–
Unrealised	**(7,449)**	(304)
Closing balance	**3,310**	6,003
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	**(994)**	1,438
Liabilities per the statement of financial position		
Opening balance	**16,767**	11,993
(Gains) and losses recognised in profit or loss		
Realised in energy cost expense	**(5,016)**	(5,613)
Unrealised	**3,763**	5,741
(Gains) and losses recognised in other comprehensive income		
Realised in energy cost expense	**(2,616)**	(8,379)
Unrealised	**(509)**	13,025
Closing balance	**12,389**	16,767
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	**739**	6,484
Settlements during the year	**4,437**	(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 in section (d) of this note.

Appendix

Note A18: Financial instruments by category

	Loans and receivables $000	Assets at fair value through profit or loss $000	Derivatives used for hedging $000	Assets held to maturity $000
As at 31 March 2018				
Assets per the statement of financial position				
Derivative financial instruments	**–**	**2,987**	**323**	**–**
Trade and other receivables excluding prepayments	**97,322**	**–**	**–**	**–**
Cash and cash equivalents	**19,790**	**–**	**–**	**–**
Other deposits	**2,979**	**–**	**–**	**–**
Other investments	**–**	**–**	**–**	**8,842**
	120,091	**2,987**	**323**	**8,842**
As at 31 March 2017				
Assets per the statement of financial position				
Derivative financial instruments	–	7,677	–	–
Trade and other receivables excluding prepayments	104,092	–	–	–
Cash and cash equivalents	8,183	–	–	–
Other deposits	957	–	–	–
Other investments	–	–	–	8,008
	113,232	7,677	–	8,008

	Liabilities at fair value through profit or loss $000	Derivatives used for hedging $000	Other financial liabilities at amortised cost $000
As at 31 March 2018			
Liabilities per the statement of financial position			
Unsecured bank loans including bank overdrafts	**–**	**–**	**167,194**
Unsecured subordinated bonds	**–**	**–**	**113,559**
Unsecured senior bonds	**–**	**–**	**208,761**
Derivative financial instruments	**17,704**	**4,154**	**–**
Trade and other payables	**–**	**–**	**108,343**
	17,704	**4,154**	**597,857**
As at 31 March 2017			
Liabilities per the statement of financial position			
Unsecured bank loans including bank overdrafts	–	–	295,791
Unsecured subordinated bonds	–	–	113,133
Unsecured senior bonds	–	–	260,102
Derivative financial instruments	18,780	7,278	–
Trade and other payables	–	–	89,762
	18,780	7,278	758,788

See notes A16 and A17 for details on fair value estimation and details of the hedge relationships.

Appendix

Note A19: Supplementary accounting information

A19.1 Cash flow statement

The following are the definitions used in the cash flow statement:

- cash is considered to be cash on hand and deposits held at call with banks, net of bank overdrafts
- operating activities include all activities that are not investing or financing activities
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments in subsidiaries
- financing activities are those activities, which result in changes in the size and composition of the capital structure of the Group.

This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

A19.2 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in New Zealand currency units (NZD), which is Trustpower's functional and presentation currency.

A19.3 Adoption status of relevant new financial reporting standards and interpretations

The following new standards have been issued but are not yet effective:

NZ IFRS 16: *Leases* (Effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16, *Leases,* replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, *Revenue from Contracts with Customers.*

Trustpower's most significant lease is the lease of its head office building in Tauranga. The impact of the adoption of NZ IFRS 16 as applied to this lease only would be to increase total assets and total liabilities by approximately $24.9 million. EBITDAF would be increased by $2.7 million, depreciation expense increased by $1.8 million and net finance costs increased by $1.5 million. Trustpower has a number of much smaller leases for other office buildings throughout New Zealand which are not included in the numbers above but will not make a material difference. Trustpower is also considering whether contracts it has for the purchase of electricity, use of meters on customer premises and access to telecommunications equipment are deemed to contain leases as defined by NZ IFRS 16.

NZ IFRS 9: *Financial Instruments* (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 9, *Financial instruments,* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

Trustpower has updated its hedge accounting documentation to ensure compliance with NZ IFRS 9. Trustpower expects the impact of the adoption of NZ IFRS 9 on its financial statements to be immaterial. This includes the effect of recognising expected credit losses which, given the nature of Trustpower's financial assets, are unlikely to have expected credit losses that materially differ from doubtful debt provision currently recognised.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on Trustpower.

Statutory information

Interests register

The Company is required to maintain an Interests Register in which particulars of certain transactions and matters involving the Directors must be recorded.

The matters set out below were recorded in the Interests Register of the Company during the financial year.

General notice of interest by directors

The Directors of the Company have declared interests in the following identified entities as at 31 March 2018.

Director	Interest	Entity
Richard Hammond Aitken	Chairperson	Panuku – Development Auckland Limited
	Chairperson	Te Punaha Matatini Advisory Board
	Director	BGCF Trustee Limited
	Director	BGL Custodian Limited
	Director	BGLIR Trustee Limited
	Director	BGL Management Share Trustee Limited
	Director	BGS Trustee Limited
	Director	Derceto Trustee Limited
	Director	John Scotts Investments Limited
Alan Norman Bickers	Shareholder and Director	Jayal Enterprises Ltd
	Chairman	Trustpower Insurance Limited
	Chairman	Tauranga City Council's Greenfields Project Advisory Board
	Director	BRANZ Ltd
	Director	BRANZ Pty Ltd (Australia)
	Board Member	Building Research Association of New Zealand Inc (BRANZ)
	Member	Southland District Council's Te Anau Wastewater Disposal Committee
Steven John Fitzgerald	Director	Perth Energy Holdings Pty Limited
	Director	RA (Holdings) 2014 Pty Limited
	Director	Perth Airport Pty Ltd
	Director	Cullinan Parent Company Pty Ltd
	Director	Queensland Airports Limited
	Officer	HRL Morrison & Co (Australia) Pty Limited
	Officer	Infratil Limited
Ian Samuel Knowles	Chairman	OnBrand Limited
	Chairman	Adminis Limited
	Director	Umajin Limited
	Director	Rangitira Limited
	Director	Synlait Milk Limited
	Director	Magritek Limited
	Director	Montoux Limited
	Director	Fire Security Services 2016
Susan Ruth Peterson	Director	Xero Limited
	Director	Property For Industry Limited
	Director	Vista Group International Limited
	Director	P.F.I. Property No. 1 Limited
	Director	Organic Initiative Limited
	Director	ASB Limited
	Member	New Zealand Markets Disciplinary Tribunal
Paul Morton Ridley-Smith	Director	Arvida Group Limited
	Trustee	James Wallace Arts Trust
	Trustee	Wallace Foundation
	Employee	HRL Morrison & Co Limited

Statutory information

Geoffrey Jon Campbell Swier	Director	Farrier Swier Consulting Pty Ltd
	Board Member	Health Purchasing Victoria
	Director	Tilt Renewables Limited
	Director	Snowtown Wind Farm Pty Ltd
	Director	Snowtown South Wind Farm Pty Ltd
	Director	Snowtown North Solar Pty Ltd
	Director	Tilt Renewables Australia Pty Ltd
	Director	Tilt Renewables Investments Pty Ltd
	Director	Tilt Renewables Market Services Pty Ltd
	Director	Snowtown Wind Farm Stage 2 Pty Ltd
	Director	Dundonnell Wind Farm Pty Ltd
	Director	Wingeel Wind Farm Pty Ltd
	Director	Church Lane Wind Farm Pty Ltd
	Director	Salt Creek Wind Farm Pty Ltd
	Director	Blayney and Crookwell Windfarm Pty Ltd
	Director	Rye Park Renewable Energy Pty Ltd
	Director	Waddi Wind Farm Pty Ltd
	Director	Dysart 1 Pty Ltd
	Director	Nebo 1 Pty Ltd

Information used by directors

During the financial year there were no notices from Directors of the Company requesting to disclose or use Company information received in their capacity as Directors which would not otherwise have been available to them.

Directors holding office and their remuneration

During the year to 31 March 2018 Marko Bogoievski resigned effective 11 October 2017. The Board appointed Steven Fitzgerald effective from 11 October 2017 to fill the casual vacancy. All other Directors were Directors for the entire year.

The Directors holding office as at 31 March 2018 and during the year to 31 March 2018 are listed below. The total amount of the remuneration and other benefits received by each Director during the financial year, and responsibility held, is listed next to their names.

Director	Base Fee	Standing Committees	One-off payments	Total Remuneration	Responsibility Held during the year
Richard Hammond Aitken	$86,000			$86,000	Independent Director
Alan Norman Bickers	$86,000			$86,000	Non-executive Director
Marko Bogoievski	$43,000			$43,000	Non-executive Director (until 11 October 2017)
Steven John Fitzgerald	$43,000			$43,000	Non-executive Director (from 11 October 2017)
Ian Samuel Knowles	$86,000	$15,000		$101,000	Independent Director Member of Audit and Risk Committee
Susan Ruth Peterson	$86,000	$15,000	$15,000	$116,000	Independent Director Member of Audit and Risk Committee
Paul Morton Ridley-Smith	$176,500			$176,500	Chairman Non-executive Director Member of Remuneration Committee
Geoffrey Jon Campbell Swier	$86,000	$45,000		$131,000	Independent Director Chairman of Audit and Risk Committee Member of Remuneration Committee

Statutory information

Number of meetings held/attended

Director	Board meeting	Audit & Risk Committee	Remuneration Committee	Comments
Total Meetings held	15	4	2	Board meetings comprised 8 face to face meetings and 7 conference calls
Richard Hammond Aitken	15			
Alan Norman Bickers	12			
Marko Bogoievski	4			Resigned 11 October 2017
Steven John Fitzgerald	7			Joined 11 October 2017
Ian Samuel Knowles	15	4		Member of Audit and Risk Committee
Susan Ruth Peterson	14	4		Member of Audit and Risk Committee
Paul Morton Ridley-Smith	15		2	Member of Remuneration Committee
Geoffrey Jon Campbell Swier	15	4	2	Chairman of Audit and Risk Committee Member of Remuneration Committee

Overall remuneration philosophy

The Board has established a People and Remuneration Committee to assist it in developing and implementing its remuneration philosophy. The Committee charter and executive remuneration policy is available at https://www.trustpower.co.nz/Company-And-Investor-Information/Governance-Documents. The purpose of the Committee is to establish coherent people and remuneration strategies, policies and practices which:

- ensure the Company has the appropriate level of capability, culture, leadership and diversity within its workforce to meet its current and future requirements;
- ensure that there is appropriate succession planning;
- ensure that employees are treated fairly and respectfully, given opportunities for vocational and professional development, irrespective of identity, and that the employment environments are welcoming;
- enable the Company to attract, retain and motivate employees who will facilitate the efficient and effective management and operation of the Company and create value for shareholders;
- fairly and reasonably reward employees having regard to the performance of the Company, the performance of the employees and the external market; and
- comply with the relevant provisions of the Employment Relations Act, Holidays Act, Human Rights Act, Companies Act, NZX listing Rules and any other legal requirements relevant to people and remuneration issues.

Remuneration components

There are three components to employee remuneration; fixed remuneration, pay for performance remuneration and other benefits.

Fixed remuneration

Fixed remuneration is determined based on the role responsibilities, individual performance and experience, and available market remuneration data.

Pay for performance remuneration

Pay for performance remuneration recognises and rewards high performing employees and comprises short-term incentives (cash), and long-term incentives (paid in shares).

Short-term incentives (STIs)

The STIs are based 50% on employee performance and 50% based on Company performance. Employee performance is measured against key performance indicators (KPIs) linked directly to the employee's role. For FY17 results and paid in FY18 Company performance was based on operating earnings adjusted for key events outside employees control (such as weather, currency movements and one-off events) compared to target. This remained the same for most employees in FY18 however for the Chief Executive and senior leaders changed to:

- Shareholder return (25%)
- Health and safety (25%)
- Stakeholder management (25%)
- Operating performance (25%).

Employees receive STIs of up to 20% or 40% of their salary depending on seniority within the Company.

Statutory information

Long-term incentives (LTIs)

The long-term incentive is based on Trustpower's Total Shareholder Return (TSR) over a three year period relative to the TSR of the other NZX 50 companies. Each employee is issued a notional share parcel equivalent in value to the share price at the start of the scheme grown by the TSR over the three years of the scheme. Employees generally receive parcels of either 20,000, 40,000 or 80,000 notional shares depending on seniority (during the demerger adjustments were made to the number of notional shares which means schemes that were in place prior to the demerger may have different amounts of notional shares). No bonus is paid unless Trustpower's TSR is in the top half of all NZX 50 companies with 50% of the value of the notional share parcel paid if Trustpower is at the 50th percentile and the full value of the notional share parcel payable if Trustpower's TSR is at or above the 80th percentile. The bonus is settled in cash but employees are required to use the net after tax proceeds to compulsorily acquire Trustpower shares.

The Chief Executive and 12 other senior managers currently participate in the LTI scheme.

Chief executive's remuneration

During the year the total remuneration for the Chief Executive was as follows:

	Year ended 31 March 2018 $	Year ended 31 March 2017 $
Base Salary	**917,476**	898,058
Kiwisaver contribution	**44,720**	51,640
Short term incentives	**306,984**	381,825
Long term incentives	**266,204**	92,665
One-off bonus for demerger	–	323,750
Total	**1,535,384**	1,747,939

Short term incentives (STIs) were paid as follows:

Incentive	Basis of measurement	% of total Bonus Received	$ received
Company performance	Company operating earnings compared to target	73%	$146,000
Individual KPI	Achievement of individual KPIs	80%	$100,000
Board assessment	Subjective assessment by the Board of overall performance	90%	$76,500
Other	Correction of overpayment in prior year		$(15,516)
			$306,984

The Board retains the right to adjust any STI at its absolute discretion and may, if it chooses, not pay any STI payments at all.

The long-term incentives (LTI) methodology is described above. The Company's approach to reporting the value of the LTI is to report the value of cash received (or shares that vest) in the relevant financial year rather than the value of the LTI expensed/accrued in the relevant financial year. Accordingly, the details behind the payment to the Chief Executive were as follows:

	Commencement date	1 Nov 2016
	Vesting date	26 May 2017
A	Number of notional shares	59,649
	Opening share price (being the volume weighted share price in the ten trading days post commencement date)	$4.78
	Total Shareholder Return (TSR). Calculated using dividends paid and a closing share price based on the volume weighted share price for the ten days immediately post announcement of the annual result on 15 May 2017	13.02%
B	Share price of notional shares (being opening value adjusted for Trustpower TSR)	$5.40
	Ranking in NZX 50	70%
C	Bonus percentage	82.6%
	Bonus paid (A*B*C)	$266,204
	Valued accrued as at start of the year	$34

This payment was paid in cash. Contracts are now in place to require the compulsory purchase of shares for all future LTI payments. The fair value of the long term incentive payments accrued but not yet received by the Chief Executive was $988,156.

Statutory information

These unpaid incentives have not been included in the table on the previous page but are detailed in the table below. Also see note A14 in the financial statements for further detail.

Summary of unvested LTI rights

Commencement date	1 Nov 2016	1 Nov 2016	30 May 2017
Vesting date	15 Aug 2018	31 May 2019	31 May 2020
Notional shares	81,810	79,707	80,000
Strike price/share	$4.78	$4.78	$5.03
Accrued value as at 31 March 2018	$426,252	$326,920	$234,984
Accrued value as at 31 March 2017	$6,876	$10,028	N/A

Employee remuneration

During the financial year the number of employees or former employees (including employees holding office as directors of subsidiaries) who received remuneration and other benefits in their capacity as employees of the Company and its subsidiaries, the value of which was or exceeded $100,000 per annum is shown in the following table.

The value of remuneration benefits analysed includes:

- fixed remuneration including allowance/overtime payments
- employer superannuation contributions
- short-term cash incentives relating to FY17 performance but paid in FY18
- the value of equity-based long term incentives paid during FY18
- redundancy and other payments made on termination of employment.

The figures do not include amounts paid post 31 March 2018 that relate to the year ended 31 March 2018.

Further details of the remuneration of the Chief Executive can be found on page 92.

Numbers of employees by band

	Current	Discontinued	Total
$100,000-109,999	17	1	18
$110,000-119,999	18	1	19
$120,000-129,999	20	–	20
$130,000-139,999	17	1	18
$140,000-149,999	14	–	14
$150,000-159,999	9	–	9
$160,000-169,999	5	–	5
$170,000-179,999	1	1	2
$180,000-189,999	3	–	3
$190,000-199,999	7	1	8
$200,000-209,999	1	–	1
$210,000-219,999	1	–	1
$230,000-239,999	1	–	1
$240,000-249,999	3	–	3
$250,000-259,999	–	1	1
$280,000-289,999	2	–	2
$310,000-319,999	1	–	1
$330,000-339,999	–	1	1
$340,000-349,999	1	–	1
$350,000-359,999	1	–	1
$380,000-389,999	1	–	1
$440,000-449,999	1	–	1
$490,000-499,999	1	–	1
$550,000-559,999	1	–	1
$620,000-629,999	1	–	1
$710,000-719,999	1	–	1
$1,530,000-1,539,999	1	–	1

Statutory information

Indemnification and insurance of directors and executives

During the financial year the Company paid insurance premiums in respect of Directors' and certain executive employees' liability insurance, as permitted by the Company's Constitution and the Companies Act 1993. The policies do not specify the premium for individuals. This insurance extends to Directors and certain executive employees acting in the capacity of a director or on behalf of a subsidiary or related company.

The Directors' and executive employees' liability insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their capacity as director or executive employee unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

The Company has entered into deeds of indemnity in respect of each Director, the Chief Executive, Chief Financial Officer and Company Secretary, General Manager Strategy and Growth, General Manager Generation, General Manager Customer Operations, General Manager Business Solutions and Technology, General Manager People and Culture, and General Manager Markets whereby each such Director and executive employee is indemnified against the types of liability and costs described above, as permitted by the Company's Constitution and the Companies Act 1993.

The Company has also entered into deeds of indemnities with certain Trustpower officers acting as representatives on boards of other entities.

Subsidiary company directors

Set out below are details of the directors of Trustpower's subsidiaries as at 31 March 2018.

Director as at 31 March 2018	Trustpower Group Company
Alan Norman Bickers	Trustpower Insurance Limited
Peter Stuart Calderwood	King Country Energy Limited
Robert Welsford Carter	King Country Energy limited
Vincent James Hawksworth	Trustpower Metering Limited Trustpower Insurance Limited Hopsta Limited King Country Energy Holdings Limited
Kevin John Palmer	King Country Energy Limited

The remuneration and other benefits received by employees acting as directors of subsidiaries during the financial year is disclosed in the relevant bandings for employee remuneration. No remuneration has been paid to directors of Trustpower who act as directors of its subsidiaries.

General Notice of interests by directors of subsidiary companies

Director	Interest	Entity
Alan Norman Bickers*		
Vincent James Hawksworth	Chief Executive	Trustpower Limited
Peter Stuart Calderwood	GM Strategy & Growth	Trustpower Limited
Kevin John Palmer	Chief Financial Officer	Trustpower Limited

*Refer General Notice of Interests by Directors

Information used by directors of subsidiaries

During the financial year there were no notices from directors of subsidiary companies requesting to disclose or use subsidiary company information received in their capacity as directors which would not otherwise have been available to them.

Statutory information

Directors' transactions and relevant interests in securities of the company

The relevant interests of Directors in securities of the Company as at 31 March 2018 are listed below.

Director	Class of Security	Interests in Trustpower Limited		Interests in Associated Companies	
				Infratil Limited	Tilt Renewables Limited
		Number Held at 31 March 2018	Number Held at 31 March 2017	Number Held at 31 March 2018	Number Held at 31 March 2018
RH Aitken (beneficial)	Ordinary Shares	27,576	27,576	2,097	27,576
AN & EJ Bickers (beneficial)	Ordinary Shares	6,102	6,102	9,560	16,102
	Bonds	–	–	20,000	–
SJ Fitzgerald	Ordinary Shares	–	–	–	–
IS Knowles (beneficial)	Ordinary Shares	42,716	42,716	60,000	42,716
	Bonds	–	–	50,000	–
SR Peterson	Ordinary Shares	–	–	–	–
PM Ridley-Smith	Ordinary Shares	–	–	38,256	–
Maclagen Pty Ltd as Trustee for the Swier Family Trust (beneficial)	Ordinary Shares	63,846	63,846	–	92,999

The Company was not advised of any security transactions in the Company by any Director during the year.

Security holder information

Substantial security holders

The Company's register of substantial security holders, prepared in accordance with Section 35C of the Securities Markets Act 1988 recorded the following information as at 20 April 2018.

As at 20 April 2018, Trustpower Limited had 312,973,000 ordinary shares on issue.

Security Holder	Class of Security	Number
Infratil Limited	Shares	159,742,389
TECT Holdings Limited	Shares	83,878,838

Spread of holders as at 20 April 2018

Shares	Holders	%	Shares	%
1 to 999	1,609	12.96%	769,504	0.25%
1,000 to 1,999	2,012	16.21%	2,460,956	0.79%
2,000 to 4,999	7,222	58.20%	17,550,235	5.61%
5,000 to 9,999	969	7.81%	6,237,128	1.99%
10,000 to 49,999	536	4.32%	9,060,947	2.90%
50,000 to 99,999	34	0.27%	2,252,639	0.72%
100,000 to 499,999	16	0.13%	2,563,996	0.82%
500,000 to 999,999	4	0.03%	2,783,414	0.89%
1,000,000 plus	9	0.07%	269,294,181	86.03%
	12,411	**100.00%**	**312,973,000**	**100.00%**

Subordinated Bonds	Holders	%	Subordinated Bonds	%
1 to 4,999	-	0.00%	-	0.00%
5,000 to 9,999	347	15.62%	1,931,000	1.69%
10,000 to 49,999	1,555	70.02%	29,081,000	25.47%
50,000 to 99,999	215	9.68%	12,283,000	10.76%
100,000 to 499,999	88	3.96%	12,226,000	10.71%
500,000 to 999,999	4	0.18%	2,160,000	1.89%
1,000,000 plus	12	0.54%	56,482,000	49.48%
	2,221	**100.00%**	**114,163,000**	**100.00%**

Senior Bonds	Holders	%	Senior Bonds	%
1 to 4,999	-	0.00%	-	0.00%
5,000 to 9,999	227	10.89%	1,232,000	0.58%
10,000 to 49,999	1,373	65.89%	27,469,000	13.03%
50,000 to 99,999	302	14.49%	16,872,000	8.00%
100,000 to 499,999	155	7.44%	23,010,000	10.92%
500,000 to 999,999	4	0.19%	2,655,000	1.26%
1,000,000 plus	23	1.10%	139,542,000	66.21%
	2,084	**100.00%**	**210,780,000**	**100.00%**

Shares	Holders	%	Shares	%
New Zealand	12,134	97.77%	312,268,001	99.78%
Australia	181	1.46%	449,263	0.14%
United Kingdom	30	0.24%	47,437	0.02%
United States of America	21	0.17%	38,243	0.01%
Other	45	0.36%	170,056	0.05%
	12,411	**100.00%**	**312,973,000**	**100.00%**

Security holder information

Subordinated bonds	Holders	%	Subordinated Bonds	%
New Zealand	2,220	99.95%	114,156,000	99.99%
United Kingdom	1	0.05%	7,000	0.01%
	2,221	**100.00%**	**114,163,000**	**100.00%**

Senior bonds	Holders	%	Senior Bonds	%
New Zealand	2,070	99.33%	210,204,000	99.73%
Australia	4	0.19%	135,000	0.06%
United Kingdom	3	0.14%	66,000	0.03%
United States of America	2	0.10%	170,000	0.08%
Other	5	0.24%	205,000	0.10%
	2,084	**100.00%**	**210,780,000**	**100.00%**

Voting rights

Every shareholder present in person, by proxy or by representative, on a vote by voices or a show of hands has one vote, and on a poll has one vote for each fully paid share held. Shares held as treasury stock do not have voting rights.

Stock exchange listing

The Company's shares are listed on the NZSX and its senior and subordinated bonds are listed on the NZDX.

Current credit rating status

Trustpower does not currently have an external credit rating.

Current NZX waivers

Trustpower has no current NZX waivers.

NZX disciplinary action

There has been no action taken by NZX in relation to the Company under Listing Rule 5.4.2.

Largest security holders (as at 20 April 2018)

Rank	Holder Name	Shares	%
1	Infratil Limited	159,742,389	51.04%
2	TECT Holdings Limited	83,878,838	26.80%
3	HSBC Nominees (New Zealand) Limited*	7,814,230	2.50%
4	Citibank Nominees (New Zealand) Limited*	3,650,683	1.17%
5	Custodial Services Limited	7,494,547	2.40%
6	TEA Custodians Limited*	2,188,655	0.69%
7	Accident Compensation Corporation*	1,865,656	0.60%
8	BNP Paribas Nominees (NZ) Limited*	1,447,442	0.46%
9	Forsyth Barr Custodians Limited	1,211,741	0.39%
10	JBWERE (NZ) Nominees Limited	774,928	0.25%
11	Investment Custodial Services Limited	876,743	0.28%
12	FNZ Custodians Limited	589,608	0.19%
13	New Zealand Depository Nominee Limited	542,135	0.17%
14	Public Trust Class 10 Nominees (NZ) Limited	471,186	0.15%
15	ASB Nominees Limited	344,574	0.11%
16	Brett Anthony Hart	304,000	0.10%
17	Brett Anthony Hart + Lynn Marion Fitness + Judith Louise Burney	300,000	0.10%
18	PT (Booster Investments) Nominees Limited	204,377	0.07%
19	JP Morgan Chase Bank NA	199,318	0.06%
20	BGS Trustee Limited	178,700	0.06%
		273,735,521	**87.59%**

*These names are registered in the name of New Zealand Central Securities Depository Limited.

directory

Board of directors

Paul M Ridley-Smith - Chairman
Richard H Aitken
Alan N Bickers
Steven J Fitzgerald
I Sam Knowles
Susan R Peterson
Geoffrey JC Swier

Registered office

Trustpower Building
108 Durham Street
Tauranga 3110

Postal address

Private Bag 12023
Tauranga Mail Centre
Tauranga 3110
Telephone: 07 572 9800
Facsimile: 07 572 9825

Email address

trustpower@trustpower.co.nz

Auditors

PricewaterhouseCoopers
188 Quay Street
Auckland 1142

Share registrar

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
Telephone: 09 488 8700
Facsimile: 09 488 8787

Shareholders with enquiries about transactions, change of address or dividend payments should contact the Share Registrar.

Stock exchange listing

New Zealand Exchange Limited
Level 2 NZX Centre
11 Cable Street
Wellington 6011

Website

www.trustpower.co.nz

financial calendar

01 / June 2018
Record date of final dividend

15 / June 2018
Payment date of final dividend

15 / June 2018
Payment of June bond interest

13 / July 2018
First quarter operating information

23 / July 2018
Annual Meeting

17 / Sept 2018
Payment September bond interest

15 / Oct 2018
Second quarter operating information

05 / Nov 2018
Half year announcement

23 / Nov 2018
Record date interim dividend

07 / Dec 2018
Payment interim dividend

17 / Dec 2018
Payment December bond interest

21 / Jan 2019
Third quarter operating information

15 / March 2019
Payment of March bond interest

15 / April 2019
Fourth quarter operating information

13 / May 2019
Full year announcement


Trust
power™