PROFITS, CASHFLOW ALLOCATIONS, ASSETS INCOME, EQUITY, THE NUMBERS.

TRUSTPOWER TWENTY SEVENTEEN FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Trustpower is pleased to present its audited financial statements. These are the first financial statements of Trustpower since the demerger that created Trustpower and Tilt Renewables Limited in October 2016. These financial statements have been prepared as if the demerged Trustpower had been a stand alone entity since 1 April 2015, the start of the prior comparative period. More information on how the pre-demerger financial information was separated can be found in note 1.

The notes to our 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 3 – 8
Generation	Notes 9 – 13
Funding	Notes 14 – 20
Tax, Related Parties & Other Notes	Notes 21 – 26

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 3 and 9 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 the blue box surrounding them.

KEY METRICS

	2017	2016	2015	2014	2013
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF) ($M)	**218**	208			
Profit After Tax ($M)	**94**	68			
Underlying earnings after tax ($M)	**115**	84			
Basic earnings per share (cents per share)	**30**	22			
Underlying earnings per share (cents per share)	**37**	27			
Dividends paid during the year (cents per share)	**33**	34			
Net debt to EBITDAF	**3.0**	3.5			
Net tangible assets per share (dollars per share)	**4.21**	4.24			
Customers, Sales and Service					
Electricity connections (000s)	**276**	277	242	224	206
Telecommunication connections (000s)	**76**	62	38	31	27
Gas connections (000s)	**33**	31	24	14	–
Total utility accounts	**385**	370	304	269	233
Customers with two or more services (000s)	**90**	77	52	38	22
Mass market sales – fixed price (GWh)	**1,895**	1,820	1,659	1,578	1,613
Time of use sales – fixed price (GWh)	**835**	823	810	601	710
Time of use sales – spot price (GWh)	**1,244**	1,389	1,465	1,333	1,360
Total customer sales (GWh)	**3,974**	4,032	3,934	3,512	3,683
Average spot price of electricity purchased ($/MWh)	**55**	64	77	73	86
Gas Sales (TJ)	**1,013**	1,046	903	593	–
Annualised customer churn rate	**17%**	16%	14%	14%	12%
Annualised customer churn rate – total market	**20%**	21%	19%	21%	19%
Generation Production and Procurement					
North Island generation production (GWh)	**1,010**	639	532	571	725
South Island generation production (GWh)	**1,007**	949	1,034	965	967
Total New Zealand generation production (GWh)	**2,017**	1,588	1,566	1,536	1,692
Average spot price of electricity generated ($/MWh)	**52**	60	71	67	83
Net third party fixed price volume purchased (GWh)	**1,309**	1,626	1,400	1,234	1,267
Australian generation production (GWh)	**359**	254	278	–	–
Average spot price of electricity generated (A$/MWh, excludes large-scale generation certificate revenue)	**78**	43	31	–	–
Other Information					
Resource consent non-compliance events	**15**	7	7	4	5
Staff numbers (full time equivalents)	**786**	727	628	572	481

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 2017.

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 2017 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

Geoff Swier
Director

Company Registration Number
565426

Dated: 15 May 2017

Independent auditor's report

To the shareholders of Trustpower Limited

The consolidated financial statements comprise:

- the statement of financial position as at 31 March 2017;
- 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 consolidated 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 2017, 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 consolidated 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 services and advice specifically surrounding review of income tax returns and advice on provisional tax, tax pooling services and sundry tax compliance. Additionally our firm has assisted the Group by reviewing responses to Inland Revenue in respect of tax disputes. Our firm has also carried out demerger related services including review of financial models, tax due diligence and issuance of the investigating accountant's report included within the Scheme Booklet for the demerger of Trustpower Limited released in August 2016. The provision of these other services has not impaired our independence as auditor of the Group.

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Our audit approach

Overview

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

Overall group materiality: $6.5 million, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is a benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark.

Key Audit Matters

- Accounting for demerger
- NZ IFRS 15 – *Revenue from Contracts with Customers* - early adoption
- Generation asset carrying value

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 consolidated 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 consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated 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 consolidated 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 Australian businesses. In New Zealand we instruct the auditors of King Country Energy to perform work on our behalf and review key aspects of the work performed.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting for the demerger The Trustpower Group underwent a demerger on 31 October 2016 which split Trustpower Group into two new Groups being the new Trustpower Limited and Tilt Renewables Limited. Prior to the demerger Trustpower reorganised the Group in accordance with the demerger steps contained within the Separation Deed. The demerger was voted on by the shareholders on 9 September 2016 and was implemented effective 31 October 2016. The reorganisation was accomplished by allocating assets, liabilities and contracts existing under the Group between the two new Groups. The reorganisation was a common control transaction, in that the two new Groups were controlled by the same parties as the Group at the time of the reorganisation. Under common control accounting rules the Group was able to utilise existing book values in the allocation of assets and liabilities to the two new Groups. The demerged new Trustpower has presented historic financial information as though the demerger had occurred on 1 April 2015. This is disclosed in Note 1- Basis of preparation. Demerger accounting is included as a key audit matter due to the significance of the transaction to the reporting group and level of audit effort involved.	We performed our own independent assessment and determined management's application of common control accounting principles under New Zealand accounting standards were appropriate to use in accounting for the reorganisation prior to the demerger. We have performed procedures to ensure the assets and liabilities were appropriately allocated between the two new Groups in preparation for the demerger including: - Validating that the transfer of assets and liabilities were executed with reference to the demerger steps contained within the Separation Deed and agreeing the material balances to the post reorganisation accounting records. - Sighting evidence that intercompany balances, novations, advances, share redemptions and dividends were appropriately reflected in the post reorganisation accounting records and occurred as detailed in the demerger steps. - Obtaining representation that contracts have been appropriately allocated to the respective new Groups. With respect to the impact of the pre-demerger activity on the disclosures of comparative period information we have tested that the historic financial information contained within previously audited Group consolidation schedules and underlying accounting records were appropriately reflected in the new Trustpower Limited financial statements. Our procedures did not result in any significant findings surrounding management's accounting for the demerger.
NZ IFRS 15 - Revenue from Contract with Customers - early adoption In the year ended 31 March 2017 the Group has early adopted *NZ IFRS 15- Revenue from Contracts with Customers*. This accounting standard which becomes mandatory for annual periods beginning on or after 1 January 2018 specifies the accounting treatment of revenue and related transactions. The early adoption of this accounting standard has impacted both how the	We gained comfort over the completeness of the figures used for the restatement by agreeing the amounts to previously audited accounting records. In relation to the criteria utilised by management to determine the appropriate level of revenue to be recognised we have, on a sample basis, tested that: • Performance obligations identified were consistent with the Terms and Conditions in the underlying contract;

Group recognises revenue and the treatment of costs to obtain customer contracts. In order to adopt the new standard management undertook a process to identify customer contracts relating to services provided. For each type of contact identified management determined the performance obligations that exist under the contract and the transaction price which represents revenue expected to be received under the contract. The revenue has then been allocated to the performance obligations under the contract utilising a proportionate allocation method. Revenue is recognised proportionately as performance obligations are satisfied. The second key impact is that incremental customer acquisition costs incurred to obtain a customer under contract are now capitalised and amortised over the expected life of the relationship with that customer. Previously these costs were expensed as incurred. The early adoption has been retrospectively applied with comparative periods being restated in the financial statements. The matter is disclosed in Note 1- Basis of preparation, Note 3- Retail profitability analysis and Note 4- Contract assets.	• The transaction price agreed to executed customer contracts; and • The value of performance obligations used in allocating the transaction price were determined using market rates for each stand-alone service provided. With respect to customer acquisition costs we have, on a sample basis: • Tested these costs back to supporting documentation to ensure that the costs were incremental in nature and incurred in the process of obtaining a customer contract; • Tested that incremental costs are appropriately amortised over the expected life of the relationship with the customer; and • Evaluated the appropriateness of the expected life of the relationship with the customer by observing past customer behaviour and assessing internal customer churn data. We have agreed the restatement Note 1- Basis of preparation, including the impact on the statement of financial position, income statement and earnings per share to the underlying calculations and reperformed those calculations. Our procedures did not identify any significant findings surrounding the adoption of *NZ IFRS 15 – Revenue from Contracts with Customers.*

Generation asset carrying value
Generation assets are carried at fair value and are re-valued at least every 3 years by an independent valuer. Valuation of generation assets contains a number of significant assumptions including the forward electricity prices, future generation volumes and the rate used to discount future cashflows. All these assumptions involve judgements on the future.
Generation assets carrying value is $2,219 million as at 31 March 2017 and was based on the last independent valuation at 31 March 2016.
 	
Management considered the key assumptions and determined that to the best of their knowledge there were no significant changes to those
	Our procedures included:
	• Utilising our internal valuation experts, we assessed whether or not key assumptions used in the 2016 valuation report remained appropriate as at March 2017, this included:
	  ○ Assessing the movement in the forward electricity price path by comparing the forward price path used for the 2016 valuation to current externally derived market forecast data; and
	  ○ Assessing any changes to the weighted average cost of capital by assessing rates received by other market participants.
	• Obtaining comfort over the accuracy of the future generation volumes used in the 2016 valuation by

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assumptions which would warrant performing a full revaluation at 31 March 2017.

The matter is disclosed in Note 10- Property, plant and equipment and Note 11- Generation critical accounting estimates and judgements.

Given the significance of generation assets and the judgements applied to determining that key assumptions about the future have not changed significantly to warrant an independent valuation at 31 March 2017 we considered this to be a key area of focus in our audit.

comparing forecast volumes for FY17 with actual realised volumes.

- Assessing if there were any changes to the operating cost structure of generation sites impacting the expected future cash flows by comparing forecast operating costs for FY17 with actual operating costs incurred.
- Specific consideration was given to the 17 May 2016 Electricity Authority proposed reform of Avoided Cost of Transmission. We determined there was no impact on the valuation as there was no further clarity than existed at 31 March 2016. The impacts of the potential abolishment of the Avoided Cost of Transmission regime is disclosed in Note 11- Generation critical accounting estimates and judgements of the financial statements.
- Because of the subjectivity involved in determining values for individual generation assets we performed sensitivity analysis on the range of assumptions to evaluate whether there has been a material change in values between 2016 and 2017. The change in assumptions between 2016 and 2017 were within an acceptable range.

As a result of our procedures the values determined by management were within ranges that were considered appropriate in the context of our audit.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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://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 Graeme Pinfold.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
15 May 2017

Auckland

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017	Note	2017 $000	Restated 2016 $000
Operating Revenue			
Electricity revenue	3, 9	**819,843**	802,848
Telecommunications revenue	3	**65,896**	49,810
Gas revenue	3	**28,545**	27,255
Other operating revenue		**25,575**	24,820
		939,859	904,733
Operating Expenses			
Line costs		**297,190**	289,750
Electricity costs		**159,518**	192,596
Generation production costs		**41,259**	38,905
Employee benefits		**65,291**	54,761
Telecommunications cost of sales		**47,937**	38,188
Gas cost of sales		**21,962**	20,000
Other operating expenses	A5	**88,871**	62,832
		722,028	697,032
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF)	A2	**217,831**	207,701
Impairment of assets		**3,479**	3,476
Discount on acquisition		**–**	(2,114)
Net fair value (gains) / losses on financial instruments	A9	**(4,735)**	10,480
Amortisation of intangible assets	5	**15,549**	14,900
Depreciation	10	**31,985**	27,639
Operating Profit		**171,553**	153,320
Interest paid	15	**44,545**	49,226
Interest received	15	**(3,923)**	(5,340)
Net finance costs		**40,622**	43,886
Profit Before Income Tax		**130,931**	109,434
Income tax expense	21	**36,942**	40,940
Profit After Tax		**93,989**	68,494
Profit after tax attributable to the shareholders of the Company		**92,545**	67,798
Profit after tax attributable to non-controlling interests		**1,444**	696
Basic and diluted earnings per share (cents per share)	A3	**29.6**	21.7

The accompanying notes form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017	Note	2017 $000	Restated 2016 $000
Profit after tax		**93,989**	68,494
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Revaluation gains on generation assets	16	**–**	42,191
Items that may be reclassified to profit or loss:			
Other currency translation differences	16	**(2,291)**	9,526
Fair value gains/(losses) on cash flow hedges	A10	**(5,203)**	(8,750)
Tax effect of the following:			
Revaluation gains on generation assets	16	**–**	(9,462)
Fair value gains/(losses) on cash flow hedges	A10	**1,457**	2,450
Total Other Comprehensive Income		**(6,037)**	35,955
Total Comprehensive Income		**87,952**	104,449
Attributable to shareholders of the Company		**86,508**	103,753
Attributable to non-controlling interests		**1,444**	696

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Share capital $000	Invested capital $000	Revaluation reserve $000	Cash flow hedge reserve $000	Foreign currency translation reserve $000	Retained earnings $000	Total Shareholders' Equity $000	Non-controlling interest $000	Total Equity $000
Opening balance as at 1 April 2015		–	450,121	936,669	4,806	(7,407)	–	1,384,189	–	1,384,189
Adjustment to opening balance following adoption of NZ IFRS 15	1	–	10,436	–	–	–	–	10,436	–	10,436
Restated opening balance as at 1 April 2015		–	460,557	936,669	4,806	(7,407)	–	1,394,625	–	1,394,625
Total comprehensive income for the period		–	67,798	32,729	(6,300)	9,526	–	103,753	696	104,449
Disposal of revalued assets		–	87	(87)	–	–	–	–	–	–
Contributions by and distributions to non-controlling interest										
Minority interest arising on acquisition of subsidiary		–	–	–	–	–	–	–	57,370	57,370
Acquisition of shares held by outside equity interest		–	–	–	–	–	–	–	(12,687)	(12,687)
Transactions with owners recorded directly in equity										
Purchase of treasury shares by Directors	26	–	310	–	–	–	–	310	–	310
Dividends paid	18	–	(106,789)	–	–	–	–	(106,789)	–	(106,789)
Total transactions with owners recorded directly in equity		–	(106,479)	–	–	–	–	(106,479)	–	(106,479)
Closing balance as at 31 March 2016		–	421,963	969,311	(1,494)	2,119	–	1,391,899	45,379	1,437,278
Movements 1 April 2016 – 31 October 2016										
Total comprehensive income for the period		–	57,721	–	32	(4,192)	–	53,561	246	53,807
Disposal of revalued assets		–	–	–	–	–	–	–	–	–
Contributions by and distributions to non-controlling interest										
Minority interest arising on acquisition of subsidiary		–	–	–	–	–	–	–	–	–
Acquisition of shares held by non-controlling interest		–	–	–	–	–	–	–	(708)	(708)

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Note	Share capital $000	Invested capital $000	Revaluation reserve $000	Cash flow hedge reserve $000	Foreign currency translation reserve $000	Retained earnings $000	Total Shareholders' Equity $000	Non-controlling interest $000	Total Equity $000
Transactions with owners recorded directly in equity										
Purchase of treasury shares by Directors		–	–	–	–	–	–	–	–	–
Dividends paid		–	(53,713)	–	–	–	–	(53,713)	(1,277)	(54,990)
Total transactions with owners recorded directly in equity		–	(53,713)	–	–	–	–	(53,713)	(1,277)	(54,990)
Demerger on 31 October 2016	1	2	(425,971)	–	–	–	425,969	–	–	–
Balance as at 31 October 2016		2	–	969,311	(1,462)	(2,073)	425,969	1,391,747	43,640	1,435,387
Movements 1 November 2016 – 31 March 2017										
Total comprehensive income for the period		–	–	–	(3,778)	1,901	34,824	32,947	1,198	34,145
Disposal of revalued assets		–	–	–	–	–	–	–	–	–
Contributions by and distributions to non-controlling interest										–
Minority interest arising on acquisition of subsidiary		–	–	–	–	–	–	–	–	–
Acquisition of shares held by non-controlling interest		–	–	–	–	–	–	–	–	–
Transactions with owners recorded directly in equity										
Purchase of treasury shares by Directors	26	–	–	–	–	–	–	–	–	–
Dividends paid	18	–	–	–	–	–	(49,976)	(49,976)	(1,162)	(51,138)
Total transactions with owners recorded directly in equity		–	–	–	–	–	(49,976)	(49,976)	(1,162)	(51,138)
Closing balance as at 31 March 2017		2	–	969,311	(5,240)	(172)	410,817	1,374,718	43,676	1,418,394

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017	Note	2017 $000	Restated 2016 $000	Restated 2015 $000
Equity				
Capital and reserves attributable to shareholders of the Company				
Share capital	16	**2**	–	–
Invested capital	16	**–**	421,963	460,557
Revaluation reserve	16	**969,311**	969,311	936,669
Retained earnings	16	**410,817**	–	–
Cash flow hedge reserve	A10	**(5,240)**	(1,494)	4,806
Foreign currency translation reserve	16	**(172)**	2,119	(7,407)
Non-controlling interests	16	**43,676**	45,379	–
Total Equity		**1,418,394**	1,437,278	1,394,625
Represented by:				
Current Assets				
Cash at bank		**8,183**	7,642	5,046
Accounts receivable from Tilt Renewables	26	**3,344**	93,171	69,844
Other deposits		**957**	3,647	2,740
Accounts receivable and prepayments	A7	**108,894**	103,515	99,628
Land and buildings held for sale		**–**	7,189	–
Contract assets	4	**35,044**	28,921	14,494
Derivative financial instruments	A11	**4,432**	3,492	2,821
Taxation receivable		**260**	–	5,145
		161,114	247,577	199,718
Non-Current Assets				
Property, plant and equipment	10	**2,276,094**	2,296,357	2,074,985
Derivative financial instruments	A11	**3,245**	4,272	10,648
Other investments		**8,008**	8	1,892
Intangible assets	5	**56,479**	65,540	72,207
		2,343,826	2,366,177	2,159,732
Total Assets		**2,504,940**	2,613,754	2,359,450
Current Liabilities				
Accounts payable and accruals	A8	**89,762**	94,724	82,227
Accounts payable to Tilt Renewables	26	**–**	17,408	8,693
Unsecured subordinated bonds	14	**–**	–	100,000
Unsecured senior bonds	14	**51,992**	65,000	–
Unsecured bank loans	14	**80,000**	180,200	–
Derivative financial instruments	A11	**7,140**	4,925	1,968
Taxation payable		**17,282**	2,091	195
		246,176	364,348	193,083
Non-Current Liabilities				
Unsecured bank loans	14	**215,791**	175,373	116,023
Unsecured subordinated bonds	14	**113,133**	139,069	138,671
Unsecured senior bonds	14	**208,110**	178,704	243,140
Derivative financial instruments	A11	**18,918**	21,029	9,908
Deferred tax liability	22	**284,418**	297,953	264,000
		840,370	812,128	771,742
Total Liabilities		**1,086,546**	1,176,476	964,825
Net Assets		**1,418,394**	1,437,278	1,394,625

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017	Note	2017 $000	2016 $000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers		933,405	916,984
		933,405	916,984
Cash was applied to:			
Payments to suppliers and employees		723,072	726,600
Taxation paid		29,451	31,848
		752,523	758,448
Net Cash from Operating Activities	A13	180,882	158,536
Cash Flows from Investing Activities			
Cash was provided from:			
Sale of property, plant and equipment		9,867	57
Sale of other investments		–	1,884
Return of bond deposits on trust		–	800
Return of electricity market security deposits		3,069	8,773
Return of advances to Tilt Renewables		72,419	–
Interest received		3,929	164
		89,284	11,678
Cash was applied to:			
Advances to subsidiaries		–	5,659
Lodgement of electricity market security deposits		411	10,482
Purchase of property, plant and equipment		16,385	32,048
Purchase of other investments		8,000	–
Purchase of business		–	63,912
Purchase of intangible assets		9,992	5,803
		34,788	117,904
Net Cash from / (used in) Investing Activities		54,496	(106,226)
Cash Flows from Financing Activities			
Cash was provided from:			
Bank loan proceeds		225,148	488,590
Senior bond issue proceeds		100,000	–
Issue of shares		–	310
		325,148	488,900
Cash was applied to:			
Bond brokerage costs		2,825	–
Repayment of bank loans		295,449	280,927
Repayment of subordinated bonds		25,837	100,000
Repayment of senior bonds		82,228	–
Interest paid		47,104	38,020
Purchase of minority interest		708	12,687
Dividends paid to owners of the company		103,689	106,788
Dividends paid to non-controlling shareholders in subsidiary companies		2,437	–
		560,277	538,422
Net Cash used in Financing Activities		(235,129)	(49,522)
Net Increase in Cash and Cash Equivalents		249	2,788
Cash and cash equivalents at beginning of the period		7,642	5,046
Exchange gains/(losses) on cash and cash equivalents		292	(192)
Cash and Cash Equivalents at End of the Period		8,183	7,642

The accompanying notes form part of these financial statements

NOTE 1: BASIS OF PREPARATION

Reporting Entity

The reporting entity is the consolidated group comprising Trustpower Limited (previously known as Bay Energy Limited as changed on 31 October 2016) 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 2017.

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

The financial information presented in these consolidated financial statements is based on actual figures as an independent group after the demerger and carve-out figures from Old Trustpower prior to the demerger. The carve-out financial information presented in these consolidated financial statements reflects the financial performance of the business units responsible for the ownership and operation of hydro generation assets and the retail sale of energy and telecommunications services (Trustpower Business) prior to the demerger. Accordingly, the consolidated statement of financial position as at 31 March 2017, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period November 2016 – March 2017 and the related key figures are based on actual figures as an independent group. The financial information for the periods before 31 October 2016 is based on carve-out financial information of Trustpower Business information from Old Trustpower. See the 'Basis of accounting for the carve-out financial information' below for more detail.

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. 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.

Judgements and key assumptions

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

- fair value of Trustpower's generation assets (Note 10)
- useful lives of generation assets for depreciation (Note 10)
- useful lives of intangible assets for amortisation (Note 5)
- fair value of derivatives and other financial instruments (Note A17)
- electricity gross margin relating to unread electricity meters (Note 6)
- basis of accounting for carve-out financial information (Note 1)

NOTE 1: BASIS OF PREPARATION (CONTINUED)

Adoption of new accounting policy

Trustpower has elected to early adopt NZ IFRS 15 *Revenue from Contracts with Customers and clarifications to NZ IFRS 15 Revenue from Contracts with Customers*. One effect of the early adoption of this standard is a change to Trustpower's accounting policy relating to the treatment of incremental costs directly incurred acquiring new customers and retaining existing customers including sales commissions and customer incentives such as discounted services for an initial period.

Trustpower's previous policy was to expense these costs immediately in the period in which they occurred. The new policy will see those costs capitalised and amortised over the expected life of the customer relationship. The amortisation of direct customer incentives will now be shown as a discount to revenue rather than other operating expenses. Where Trustpower bundles more than one service to a customer any discount is spread across the revenue from all services in that bundle. The early adoption of NZ IFRS 15 was made due to the additional clarity it provides to accounting for these customer acquisition costs combined with the increase in Trustpower's customer acquisition activity over recent years. No practical expedients on transition have been applied and the standard has been applied retrospectively.

The effect of this change in accounting policy is shown below:

12 months ended 31 March 2016	Original March 2016 $000	Adjustment $000	Restated March 2016 $000
Consolidated Income Statement effect			
Electricity revenue	806,274	(3,426)	802,848
Telecommunications revenue	50,792	(982)	49,810
Other operating expenses	81,668	(18,836)	62,832
Income tax expense	36,900	4,040	40,940
Profit After Tax	58,106	10,388	68,494
Earnings per share (cents per share)	18.4	3.3	21.7
Consolidated Statement of Financial Position effect			
Invested capital	401,140	20,823	421,963
Contract assets	–	28,921	28,921
Deferred tax liability	289,855	8,098	297,953

The adjustments to the 31 March 2015 statement of Financial Position were increases in 'Contract assets' of $14,494,000, 'Invested capital' of $10,436,000 and 'Deferred tax liability' of $4,058,000.

Basis of accounting for the carve-out financial information

The carve-out financial information of Trustpower for the year ended 31 March 2016 and for the seven month period ended 31 October 2016 has been prepared on a carve-out basis from Old Trustpower's consolidated financial statements, which comply with NZ IFRS, comprising the historical income and expenses, assets and liabilities and cash flows attributable to the Trustpower Business. Trustpower's carve-out financial information includes all those legal entities that have historically carried out Trustpower Business within the Old Trustpower group.

Where the operations of Old Trustpower entities transferred in their entirety to Trustpower or Tilt Renewables the financial information of those entities have been assigned wholly to Trustpower or Tilt Renewables respectively. Where the operations of an Old Trustpower entity comprised both the operations of Trustpower and Tilt Renewables the income and expenses have been allocated based on the business units that generated the income and expenditure. Assets and liabilities have been allocated based on methods specific to each line item. Where a line item has required additional adjustments or recalculations an explanation is given below.

The carve-out financial information may not be indicative of Trustpower's future performance and it does not necessarily reflect what its combined results of operations, financial position and cash flows would have been had Trustpower operated as an independent group and had it presented standalone financial statements during the periods presented.

The following summarises the main carve-out adjustments and allocations made in preparing the carve-out financial information. The Directors of Trustpower consider that the allocations described below have been made on a reasonable basis but are not necessarily indicative of the costs that would have been incurred if Trustpower had been a standalone entity.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

Intercompany transactions and related party transactions

Intercompany transactions and assets and liabilities between Trustpower entities have been eliminated in the carve-out financial information. Transactions with other Old Trustpower companies transferred to Tilt Renewables have been treated as related party transactions.

Accounts receivable from and payables to other group companies as at 31 March 2016 reflect the accounts receivable and payable between Trustpower entities and Tilt Renewables entities. Some carve-out adjustments have been applied to these balances reflecting the fact that the operations of some Old Trustpower entities were split between Trustpower and Tilt Renewables.

Invested capital

The net assets of Trustpower are represented firstly by revaluation reserve, cash flow hedge reserve, foreign currency translation reserve and non-controlling interest where these components of equity relate directly to the entities comprising Trustpower. The surplus of net assets over these components of equity represents the balance of contributed equity shown as "invested capital". The consolidated statement of changes in equity shows that invested capital is transferred to retained earnings and share capital on 31 October 2016.

Financing

Treasury management was centralised within Old Trustpower so that all external debt was held within one New Zealand entity and one Australian entity. Upon demerger all debt facilities of Old Trustpower were refinanced or reallocated to Trustpower and Tilt Renewables.

The external debt financing and related interest expense of demerging the Old Trustpower group that were directly attributable to the operations of Trustpower, were included in the carve-out financial information. This carve-out allocation was also consistent with the debt allocations that occurred upon the implementation of the demerger. The refinancing of the retail bonds has been treated as a modification rather than an extinguishment because the underlying terms of the bonds did not change.

Income tax

Where 100% of the operations of an Old Trustpower entity were transferred to Trustpower or Tilt Renewables, the tax expenses and tax liabilities and receivables in the carve-out financial information is based on actual taxation.

Where the operations of an entity were split between Trustpower and Tilt Renewables the taxes allocated to Tilt Renewables have been recalculated as if it had been a separate taxpayer. The remaining taxes have been allocated to Trustpower. Deferred tax has been allocated on the basis of where the tax will be ultimately realised.

Dividends

Dividends were allocated to Tilt Renewables based on its stated dividend policy. All remaining dividends have been allocated to Trustpower.

Earnings per share and net tangible assets per share

In order to facilitate the demerger Trustpower's shares were split from 2 shares to 312,973,000 during the year. In order to provide a meaningful comparison the final number of shares have been used for calculating earnings per share and net tangible assets per share for both 2016 and 2017.

NOTE 2: 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 and Australia.

The Board has further segregated Generation into New Zealand and Australian operations. Generation New Zealand also includes the lease of legacy meters to the Retail segment and to other retailers, and the supply of water to Canterbury irrigators. There is also an Other segment that exists to include any unallocated revenues and expenses. This relates mostly to unallocated corporate functions including the costs of the demerger.

NOTE 2: SEGMENT INFORMATION (CONTINUED)

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

	Retail $000	Generation New Zealand $000	Generation Australia $000	Other $000	Total $000
Total segment revenue	850,928	214,939	37,257	4,867	1,107,991
Inter-segment revenue	–	(163,288)	–	(4,844)	(168,132)
Revenue from external customers	850,928	51,651	37,257	23	939,859
EBITDAF	44,965	168,687	31,549	(27,370)	217,831
Amortisation of intangible assets	4,305	–	–	11,244	15,549
Depreciation	–	23,198	2,792	5,995	31,985
Capital expenditure including business acquisitions	–	11,282	1,286	14,096	26,664
Asset impairment	–	95	–	3,384	3,479

The segment results for the year ended 31 March 2016 (restated) are as follows:

	Retail $000	Generation New Zealand $000	Generation Australia $000	Other $000	Total $000
Total segment revenue	837,671	190,297	16,347	2,250	1,046,565
Inter-segment revenue	–	(140,395)	–	(1,437)	(141,832)
Revenue from external customers	837,671	49,902	16,347	813	904,733
EBITDAF	56,098	149,580	12,325	(10,302)	207,701
Amortisation of intangible assets	4,383	–	–	10,517	14,900
Depreciation	–	21,541	2,212	3,886	27,639
Capital expenditure including business acquisitions	6,076	181,537	442	27,751	215,806
Asset impairment	–	3,476	–	–	3,476

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

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 276,000 homes and businesses (2016: 277,000), supplies 33,000 customers with gas (2016: 31,000) and connects 76,000 (2016: 62,000) customers with telephone and broadband connections.

A retail profitability analysis is included in Note 3. This disclosure provides a detailed breakdown of the performance of Trustpower's retail operations.

This section includes the following notes:

Note 3: Retail Profitability Analysis
Note 4: Contract Assets
Note 5: Intangible Assets
Note 6: Retail Assumptions and Judgements
Note 7: Retail Financial Risk Management
Note 8: Retail Commitments

NOTE 3: RETAIL PROFITABILITY ANALYSIS

	Note	2017 $000	2017 $000	Restated 2016 $000	Restated 2016 $000
Operating Revenue					
Electricity revenue					
Mass market – fixed price		498,462		477,180	
Commercial & industrial – fixed price		119,871		125,516	
Commercial & industrial – spot price		131,522	749,855	153,275	755,971
Gas			28,545		27,255
Telco			65,896		49,810
Other operating revenue			6,632		4,635
			850,928		837,671
Operating Expenses					
Electricity costs			320,565		333,164
Line costs			297,190		289,750
Telecommunications cost of sales			48,905		38,188
Employee benefits			34,185		30,408
Meter rental costs			23,207		20,798
Gas cost of sales			21,962		20,000
Market fees and costs			6,173		6,542
Marketing and acquisition costs			15,031		9,713
Other customer connection costs			2,520		2,449
Bad debts			1,601		1,794
Other operating expenses*			34,624		28,767
			805,963		781,573
EBITDAF			44,965		56,098
The analysis above includes the following transactions with the Generation segment:					
Electricity costs			161,047		140,568
Meter rental costs			10,348		10,639
Other operating expenses			2,570		2,570
			173,965		153,777

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

NOTE 3: 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 4: CONTRACT ASSETS

	2017 $000	Restated 2016 $000
Opening balance	28,921	14,494
Additions	19,936	23,142
Amortisation to electricity revenue	(4,338)	(2,831)
Amortisation to telecommunications revenue	(598)	(197)
Amortisation to marketing and acquisition costs	(8,877)	(5,687)
Closing balance	35,044	28,921

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. Incremental costs directly attributable to the retention of an existing customer over a fixed term are amortised over the period of the fixed term contract.

NOTE 5: 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 $000	Total $000
Opening balance as at 1 April 2015				
Cost	79,891	73,788	4,171	157,850
Accumulated amortisation	(55,715)	(29,928)	–	(85,643)
	24,176	43,860	4,171	72,207
Additions at cost	2,805	5,802	–	8,607
Amortisation	(4,383)	(10,517)	–	(14,900)
Impairment	–	–	–	–
Disposals at net book value	–	(370)	–	(370)
Transfers	–	(4)	–	(4)
Closing balance as at 31 March 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**

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 expensed as they are incurred. 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 expect 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 spread (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.

NOTE 6: RETAIL ASSUMPTIONS AND JUDGEMENTS

Unbilled sales estimate

One of the uncertainties that comes with selling electricity and gas is that 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 not have 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 $950,000/$(950,000) (2016: increased/(decreased) by $380,000/$(380,000)).

NOTE 7: 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.

Retail Credit Risk

Trustpower has no significant concentrations of credit risk in its Retail business (2016: 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. Hedge agreements to limit energy price risk noted above are generally only made with other large electricity market participants (all have a Standard & Poor's long-term credit rating of at least BBB). Where a potential counterparty does not meet these credit criteria the maximum level of credit exposure is set individually by the Board.

Trustpower has around 249,000 customers (2016: 247,000). The largest single customer accounts for 1 per cent (2016: 5 per cent) of Trustpower's total accounts receivable. Included in other accounts payable and accruals is $788,000 (2016: $1,084,000) 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 $1,833,000 (2016: $2,050,000). See notes A7 and A16(c) for further detail.

NOTE 8: 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 Limited	Geothermal power station
Barrhill Chertsey Irrigation JV	Hydropower stations

GENERATION

This section details the generation operations of Trustpower.

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

A generation profitability analysis is included in Note 9. This disclosure provides a detailed breakdown of the performance of Trustpower's generation operations.

This section includes the following notes:

Note 9: Generation Profitability Analysis
Note 10: Property, Plant and Equipment
Note 11: Generation Critical Accounting Estimates and Judgements
Note 12: Generation Financial Risk Management
Note 13: Generation Commitments

NOTE 9: GENERATION PROFITABILITY ANALYSIS

New Zealand	2017 $000	2016 $000
Operating Revenue		
Electricity revenue	183,740	158,091
Meter rental revenue	16,580	18,085
Net other operating revenue	14,619	14,121
	214,939	190,297
Operating Expenses		
Generation production costs	37,438	36,578
Employee benefits	15,052	12,945
Generation development expenditure	601	663
Other operating expenses including electricity hedge settlements	(6,839)	(9,469)
	46,252	40,717
EBITDAF	168,687	149,580
The analysis above includes the following transactions with the Retail segment:		
Electricity revenue	150,370	127,186
Electricity hedge settlements	10,677	13,382
Meter rental revenue	10,348	10,639
Other operating revenue	2,570	2,570
	173,965	153,777

Australia	2017 $000	2016 $000
Operating Revenue		
Electricity revenue	37,257	16,347
Operating Expenses		
Generation production costs	3,821	2,327
Employee benefits	1,453	1,226
Other operating expenses	434	469
	5,708	4,022
EBITDAF	31,549	12,325

There are no internal transactions in the Australian Generation business.

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).

NOTE 10: 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 $100	Other Land and Buildings $100	Metering Equipment $100	Other Plant and Equipment $100	Total $100
Opening balance as at 1 April 2015					
Fair Value	2,007,980	–	–	–	2,007,980
Cost	–	32,873	68,178	29,274	130,325
Capital work in progress	12,591	–	–	–	12,591
Accumulated depreciation	(1,497)	(4,538)	(49,983)	(19,893)	(75,911)
	2,019,074	28,335	18,195	9,381	2,074,985
Additions at cost	9,179	10,761	–	11,929	31,869
Acquired as part of a business combination	172,800	–	–	–	172,800
Depreciation	(18,608)	(351)	(4,873)	(3,807)	(27,639)
Disposals at net book value	(106)	–	–	(22)	(128)
Foreign exchange movements	8,743	–	–	22	8,765
Revaluations	42,191	–	–	–	42,191
Transfers/impairments	522	(7,191)	(8)	191	(6,486)
Closing balance as at 31 March 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
Closing balance as at 31 March 2017 by Country					
New Zealand	2,057,037	27,461	8,932	20,036	2,113,466
Australia	162,204	–	–	424	162,628
	2,219,241	27,461	8,932	20,460	2,276,094

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 11 for a description of the inputs used. 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 11: 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
New Zealand Assets			
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	1,926GWh	2,354GWh	-/+ $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
Australian Assets			AUD
Forward electricity price path (including renewable energy credits)	(Stated in AUD) Increasing in real terms from $110/MWh to $120/MWh by 2026 then dropping to $100/MWh. Thereafter held constant.	(Stated in AUD) Increasing in real terms from $110/MWh to $120/MWh by 2024 then dropping to $100/MWh. Thereafter held constant. This is the base case.	– $8,000,000
Generation volume	219GWh	268GWh	-/+ $21,000,000
Weighted average cost of capital	7.39%	8.39%	+$8,700,000 / – $8,400,000

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 $1,932,000/$(2,362,000) (2016: $1,691,000/$(2,067,000)).

NOTE 12: 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 7 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 accepts electricity price risk with respect to its Australian operations and does 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. In both New Zealand and Australia 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 13: GENERATION COMMITMENTS

	2017 $000	2016 $000
Capital Commitments	1,201	415

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.

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 in New Zealand and Australia, and senior and subordinated bonds that are listed on the New Zealand Stock Exchange.

This section includes the following notes:

NOTE 14: 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.

	2017				
	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	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 rate:					
Less than one year	2.5%	–		7.1%	–
One to two years	2.7%	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%

NOTE 14: BORROWINGS (CONTINUED)

	2016				
	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	185,200	–	185,200	65,000	–
One to two years	20,000	–	20,000	75,000	–
Two to five years	72,659	–	72,659	–	140,000
Over five years	–	77,714	77,714	105,000	–
Bond issue costs	–	–	–	(1,296)	(931)
	277,859	77,714	355,573	243,704	139,069
Current portion	180,200	–	180,200	65,000	–
Non-current portion	97,659	77,714	175,373	178,704	139,069
	277,859	77,714	355,573	243,704	139,069
Undrawn facilities					
Less than one year	39,800	–	39,800	–	–
One to two years	–	–	–	–	–
Two to five years	37,358	–	37,358	–	–
Over five years	–	–	–	–	–
	77,158	–	77,158	–	–
Weighted average interest:					
Less than one year	3.1%	3.2%		8.0%	-
One to two years	2.6%	3.2%		7.1%	-
Two to five years	3.3%	3.2%		-	6.8%
Over five years	3.4%	4.9%		5.6%	-
	3.1%	4.9%		6.7%	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 2017 the subordinated bonds had a fair value of $121,040,000 (31 March 2016: $152,863,000) and the senior bonds had a fair value of $264,521,000 (31 March 2016: $259,266,000). The bonds have been classified as level 1 in the fair value hierarchy, see note A17 for a definition of the levels.

NOTE 15: FINANCE INCOME AND COSTS

	2017 $000	2016 $000
Amortisation of debt issue costs	**991**	1,422
Interest paid on unsecured bank loans	**9,966**	7,959
Interest paid on unsecured subordinated bonds	**8,417**	15,254
Interest paid on unsecured senior bonds	**16,316**	16,499
Other interest costs and fees	**1,665**	8,092
Demerger related interest	**7,190**	–
Total Interest Expense	**44,545**	49,226
Interest received on cash at bank	**569**	453
Interest received on advances to Tilt Renewables Limited	**3,354**	4,887
Total Interest Income	**3,923**	5,340

There was no capitalised interest in the year to 31 March 2017 (2016: none).

NOTE 16: EQUITY

	Share capital	Invested capital	Revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total Shareholders' Equity	Non-controlling interest	Total Equity
Opening balance as at 1 April 2015	–	450,121	936,669	4,806	(7,407)	–	1,384,189	–	1,384,189
Adjustment to opening balance following adoption of NZ IFRS 15	–	10,436	–	–	–	–	10,436	–	10,436
Restated opening balance as at 1 April 2015	–	460,557	936,669	4,806	(7,407)	–	1,394,625	–	1,394,625
Profit after tax attributable to the shareholders of the Company	–	67,798	–	–	–	–	67,798	696	68,494
Disposal of revalued assets	–	87	(87)	–	–	–	–	–	–
Other comprehensive income – items that will not be reclassified to the profit or loss									
Revaluation gains on generation assets	–	–	42,191	–	–	–	42,191	–	42,191
Other comprehensive income – items that may be reclassified to the profit or loss									
Other currency translation differences	–	–	–	–	9,526	–	9,526	–	9,526
Fair value gains/(losses) on cash flow hedges									
Realised	–	–	–	6,150	–	–	6,150	–	6,150
Unrealised	–	–	–	(14,900)	–	–	(14,900)	–	(14,900)
Tax effect of the following:									
Revaluation gains on generation assets	–	–	(9,462)	–	–	–	(9,462)	–	(9,462)
Fair value gains/(losses) on cash flow hedges	–	–	–	2,450	–	–	2,450	–	2,450
Total other comprehensive income	–	–	32,729	(6,300)	9,526	–	35,955	–	35,955

NOTE 16: EQUITY (CONTINUED)

	Share capital	Invested capital	Revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total Shareholders' Equity	Non-controlling interest	Total Equity
Contributions by and distributions to non-controlling interest									
Minority interest arising on acquisition of subsidiary	–	–	–	–	–	–	–	57,370	57,370
Acquisition of shares held by outside equity interest	–	–	–	–	–	–	–	(12,687)	(12,687)
Total contributions by and distributions to non-controlling interest	–	–	–	–	–	–	–	44,683	44,683
Transactions with owners recorded directly in equity									
Purchase of treasury shares by Directors	–	310	–	–	–	–	310	–	310
Dividends paid	–	(106,789)	–	–	–	–	(106,789)	–	(106,789)
Total transactions with owners recorded directly in equity	–	(106,479)	–	–	–	–	(106,479)	–	(106,479)
Closing balance as at 31 March 2016	–	421,963	969,311	(1,494)	2,119	–	1,391,899	45,379	1,437,278
Opening balance as at 1 April 2016	**–**	**421,963**	**969,311**	**(1,494)**	**2,119**	**–**	**1,391,899**	**45,379**	**1,437,278**
Movements 1 April 2016 – 31 October 2016									
Profit after tax attributable to the shareholders of the Company	–	57,721	–	–	–	–	57,721	246	57,967
Disposal of revalued assets	–	–	–	–	–	–	–	–	–
Other comprehensive income – items that may be reclassified to the profit or loss									
Other currency translation differences	–	–	–	–	(4,192)	–	(4,192)	–	(4,192)
Fair value gains/(losses) on cash flow hedges									
Realised	–	–	–	3,968	–	–	3,968	–	3,968
Unrealised	–	–	–	(3,924)	–	–	(3,924)	–	(3,924)
Tax effect of the following:									
Revaluation gains on generation assets	–	–	–	–	–	–	–	–	–
Asset impairments	–	–	–	–	–	–	–	–	–
Disposal of revalued assets	–	–	–	–	–	–	–	–	–
Other currency translation differences	–	–	–	–	–	–	–	–	–
Fair value gains/(losses) on cash flow hedges	–	–	–	(12)	–	–	(12)	–	(12)
Total other comprehensive income	–	–	–	32	(4,192)	–	(4,160)	–	(4,160)

NOTE 16: EQUITY (CONTINUED)

	Share capital	Invested capital	Revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total Shareholders' Equity	Non-controlling interest	Total Equity
Contributions by and distributions to non-controlling interest									
Minority interest arising on acquisition of subsidiary	–	–	–	–	–	–	–	–	–
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									
Purchase of treasury shares by Directors	–	–	–	–	–	–	–	–	–
Dividends paid	–	(53,713)	–	–	–	–	(53,713)	(1,277)	(54,990)
Total transactions with owners recorded directly in equity	–	(53,713)	–	–	–	–	(53,713)	(1,277)	(54,990)
Demerger on 31 October 2016	2	(425,971)	–	–	–	425,969	–	–	–
Balance as at 31 October 2016	2	–	969,311	(1,462)	(2,073)	425,969	1,391,747	43,640	1,435,387
Movements 1 November 2016 – 31 March 2017									
Profit after tax attributable to the shareholders of the Company	–	–	–	–	–	34,824	34,824	1,198	36,022
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	–	–	–	–	1,901	–	1,901	–	1,901
Fair value gains/(losses) on cash flow hedges									
Realised	–	–	–	4,411	–	–	4,411	–	4,411
Unrealised	–	–	–	(9,658)	–	–	(9,658)	–	(9,658)

NOTE 16: EQUITY (CONTINUED)

	Share capital	Invested capital	Revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Retained earnings	Total Shareholders' Equity	Non-controlling interest	Total Equity
Tax effect of the following:									
Revaluation gains on generation assets	–	–	–	–	–	–	–	–	–
Fair value gains/(losses) on cash flow hedges	–	–	–	1,469	–	–	1,469	–	1,469
Total other comprehensive income	–	–	–	(3,778)	1,901	–	(1,877)	–	(1,877)
Contributions by and distributions to non-controlling interest									
Minority interest arising on acquisition of subsidiary	–	–	–	–	–	–	–	–	–
Acquisition of shares held by outside equity interest	–	–	–	–	–	–	–	–	–
Total contributions by and distributions to non-controlling interest	–	–	–	–	–	–	–	–	–
Transactions with owners recorded directly in equity									
Purchase of treasury shares by Directors	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	(49,976)	(49,976)	(1,162)	(51,138)
Total transactions with owners recorded directly in equity	–	–	–	–	–	(49,976)	(49,976)	(1,162)	(51,138)
Closing balance as at 31 March 2017	2	–	969,311	(5,240)	(172)	410,817	1,374,718	43,676	1,418,394

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.

NOTE 17: SHARE CAPITAL

	2017 000's of Shares	2016 000's of Shares	2017 $000	2016 $000
Authorised and issued ordinary shares at beginning of period	–	–	–	–
Share split prior to demerger	312,973	–	–	–
Transfer from invested capital	–	–	2	–
	312,973	–	2	–

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

Prior to the demerger of Old Trustpower (see note 1 for more details), the shares of Trustpower Limited were split resulting in Trustpower Limited having the same number of shares as Old Trustpower. This split facilitated the distribution of one Trustpower Limited share for every share old Trustpower held by shareholders of Old Trustpower.

NOTE 18: DIVIDENDS ON ORDINARY SHARES

	2017 Cents per Share	2016 Cents per Share	2017 $000	2016 $000
Final dividend prior period	17.1	17.1	53,613	53,395
Interim dividend paid current period	16.0	17.1	50,076	53,394
Supplementary dividend paid	–	–	189	88
Foreign investor tax credit	–	–	(189)	(88)
	33.1	34.2	103,689	106,789
Final fully imputed dividend declared subsequent to the end of the reporting period payable 9 June 2017 to all shareholders on the register at 26 May 2017.	17.0	21.0	53,205	65,720

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 19: IMPUTATION CREDIT ACCOUNT

	2017 $000	2016 $000
Imputation credits available for use in subsequent reporting periods	19,560	10,372

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 20: 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", except for an immaterial number of these IRS which are instead hedge accounted.

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.

Exchange Rate Risk

A small proportion of Trustpower's assets operate in Australia. While the level of exchange rate risk on these assets is small relative to the size of its balance sheet, Trustpower has elected to denominate some of its borrowing in Australian dollars to reduce its exposure to changes in the value of the Australian dollar relative to the New Zealand dollar.

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 New Zealand and Australian dollar 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.

NOTE 20: FUNDING FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Note	2017 $000	Restated 2016 $000
Net debt			
Unsecured bank debt	14	**295,791**	355,573
Unsecured subordinated bonds	14	**113,133**	139,069
Unsecured senior bonds	14	**260,102**	243,704
Cash and cash equivalents		**(8,183)**	(7,642)
		660,843	730,704
EBITDAF	A2	**217,831**	207,701
Net debt to EBITDAF		**3.0**	3.5

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

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	2017 $000	Restated 2016 $000
Net debt		**660,843**	730,704
Equity			
Total equity		**1,418,394**	1,437,278
Remove net effect of fair value of financial instruments after tax	16	**5,240**	1,494
		1,423,634	1,438,772
Total capital funding		**2,084,477**	2,169,476
Gearing ratio		**32%**	34%

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

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 21: INCOME TAX EXPENSE

	2017 $000	Restated 2016 $000
Profit before income tax	**130,931**	109,434
Tax on profit @ 28%	**36,661**	30,642
Australian operations tax rate adjustment	**537**	236
Tax effect of non-deductible expenditure	**5,739**	1,512
Tax losses transferred from Tilt Renewables	**(3,266)**	–
Income tax (over)/under provided in prior year	**(2,729)**	5,788
Inland Revenue dispute tax expense adjustment*	**–**	2,762
	36,942	40,940
Represented by:		
Current tax	**48,034**	49,908
Deferred tax	**(11,092)**	(8,968)
	36,942	40,940

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. 30% is the corporate tax rate payable by Australian corporate entities.

*In Old Trustpower's March 2016 financial statements the result of the dispute with Inland Revenue was fully recognised following the Court of Appeal decision in Inland Revenue's favour. Since the March 2016 financial statements were published the Supreme Court has confirmed the Court of Appeal ruling. As this was fully provided for at March 2016 no material adjustment has been required in the year.

At March 2016 a contingent liability was disclosed as being up to $4,000,000 due to the uncertainty of Inland Revenue's position following the Court of Appeal ruling. Inland Revenue has since stated it will not apply the new approach from that ruling retrospectively therefore there is no longer a contingent liability to recognise.

NOTE 22: DEFERRED INCOME TAX

	Note	2017 $000	Restated 2016 $000
Balance at beginning of period		**297,953**	264,000
Current year changes in temporary differences recognised in profit or loss	21	**(13,039)**	(4,612)
Current year changes in temporary differences recognised in other comprehensive income		**(1,770)**	8,722
Reclassification of prior year temporary differences	21	**1,948**	83
Acquired as part of a business combination		**–**	28,278
Exchange rate movements on foreign denominated deferred tax		**(674)**	1,482
Total deferred tax liabilities		**284,418**	297,953

NOTE 22: 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.

For the year ended 31 March 2017 ($000)	Opening Balance	Acquired with Business Combination	Recognised in Profit or Loss	Recognised in Other Compre-hensive Income	Closing Balance
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

For the year ended 31 March 2016 ($000, Restated)	Opening Balance	Acquired with Business Combination	Recognised in Profit or Loss	Recognised in Other Compre-hensive Income	Closing Balance
Revaluations	181,562	–	–	12,534	194,096
Other property, plant and equipment movements	74,837	27,493	(7,374)	126	95,082
Employee benefits	(2,165)	–	(5)	(6)	(2,176)
Provision for impairment	(462)	–	(112)	–	(574)
Customer base assets	6,769	785	(1,227)	–	6,327
Financial instruments	159	–	(1,647)	(2,450)	(3,938)
Other	3,300	–	5,836	–	9,136
	264,000	28,278	(4,529)	10,204	297,953

NOTE 23: INCOME TAX 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 24: 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 (2016: nil).

Other than disclosed in note 25 the Group is not party to any material operating leases at balance date (2016: 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 25: OTHER COMMITMENTS

	2017 $000	2016 $000
Operating Leases		
Not later than 1 year	2,944	3,561
Later than 1 year and not later than 5 years	10,752	10,480
Later than 5 years	24,084	26,640
	37,780	40,681

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

NOTE 26: RELATED PARTY TRANSACTIONS

Key management personnel

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

	Note	2017 $000	2016 $000
Salaries and other short-term employee benefits		6,344	5,470
Fair value movements in cash settled, share based incentives	A14	(141)	(66)
		6,203	5,404

$701,000 of this amount was unpaid at 31 March 2017 (2016: $747,000).

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

Tilt Renewables

Like Trustpower, Tilt Renewables is controlled by Infratil Limited (see below) and was formed through the demerger of Old Trustpower (see note 1 for details). Transactions with Tilt Renewables since demerger are summarised below:

	2017 $000	2016 $000
Purchases of electricity from Tilt Renewables	18,315	–
Revenue from management services provided to Tilt Renewables	315	–

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

	2017 $000	2016 $000
Pre-demerger intercompany balances	–	75,763
Purchases of electricity	(3,467)	–
Settlement of pre-demerger tax liabilities	6,811	–
	3,344	75,763

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, is its Chief Executive. Mr P Ridley-Smith, Chairman of Trustpower Limited, is a senior executive of H.R.L Morrison & Co Limited. $90,000 (2016: $1,000) was paid to H.R.L. Morrison & Co Limited and related entities during the year for consultancy services. As at 31 March 2017 $2,000 (2016: nil) was unpaid.

Directors

Certain Directors participate in a share purchase plan where half of their Directors' fee is used to purchase Trustpower shares. These Directors purchased their shares directly from Trustpower treasury stock at a price set by the market price over the 20 business days prior to issue. No shares were purchased in 2017 (2016: 40,000 were purchased for $310,000) (see note 16).

Mr RH Aitken, a Director of Trustpower Limited, was the Executive Chairman of the engineering firm Beca Limited. $82,000 was charged by Beca Limited for engineering services (2016: $296,000). As at 31 March 2017 there were no outstanding amounts to be paid (2016: $14,000).

Other

Trustpower Limited owns 20.0% of the ordinary shares of Rangitata Diversion Race Management Limited (RDR) which owns and operates an irrigation canal in Canterbury. RDR's operating and capital expenditure is funded by advances from its shareholders. In 2016 RDR repaid an advance from Trustpower of $1,884,000. There are now no outstanding advances between Trustpower and RDR.

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 (2016: nil). Except as noted above there are no amounts outstanding at 31 March 2017 (2016: nil).

APPENDIX
NOTE A1: SIGNIFICANT ACCOUNTING POLICIES INDEX

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

NOTE A2: NON-GAAP MEASURES

Underlying Earnings after Tax	Note	2017 $000	Restated 2016 $000
Profit after tax attributable to the shareholders of the Company ($000)		**92,545**	67,798
Fair value losses / (gains) on financial instruments	A9	**(4,735)**	10,480
Discount on acquisition		**–**	(2,114)
Asset impairments		**3,479**	3,476
Demerger related expenditure (including financing and operating costs)	15, A5	**23,959**	1,659
Impact of Inland Revenue court case on interest expense	21	**–**	5,304
Adjustments before income tax		**22,703**	18,805
Change in income tax expense in relation to adjustments		**(687)**	(3,908)
Impact of Inland Revenue court case on income tax expense	21	**–**	1,277
Adjustments after income tax		**22,016**	16,174
Underlying Earnings after Tax		**114,561**	83,972

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.

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	2017	Restated 2016
Profit after tax attributable to the shareholders of the Company ($000)		92,545	67,798
Weighted average number of ordinary shares on issue (thousands)	1	312,973	312,973
Basic and diluted earnings per share (cents per share)		29.6	21.7
Underlying earnings after tax ($000)		114,561	83,972
Weighted average number of ordinary shares on issue (thousands)	1	312,973	312,973
Underlying earnings per share (cents per share)		36.6	26.8

NOTE A4: NET TANGIBLE ASSETS PER SHARE

	Note	2017 $000	Restated 2016 $000
Total net assets		1,418,394	1,437,278
Less intangible assets (including contract assets)		(91,523)	(94,461)
Less net tangible assets attributed to non-controlling interest		(43,621)	(43,596)
Net tangible assets attributed to shareholders		1,283,250	1,299,221
Number of ordinary shares in issue (thousands)	1	312,973	312,973
Net tangible assets per share (dollars per share)		4.10	4.15

NOTE A5: OTHER OPERATING EXPENSES

	Note	2017 $000	Restated 2016 $000
Remuneration of auditors	A6	1,323	760
Bad debts written off	A16	1,601	1,794
Directors' fees		903	672
Donations		1,014	751
Loss/(gain) on foreign exchange		866	(37)
Generation development expenditure		596	663
Market fees and costs		6,173	6,542
Meter rental costs		12,859	10,158
Other customer connection costs		2,520	2,449
Net (gain)/loss on sale of property, plant and equipment		(1,467)	363
Sales and marketing expenditure		15,031	9,713
Computer maintenance and support costs		10,719	8,793
Other administration costs		16,331	17,393
Demerger related expenditure		16,769	1,659
Rental and operating lease costs		3,633	1,159
		88,871	62,832

NOTE A6: REMUNERATION OF AUDITORS

	Note	2017 $000	2016 $000
During the year the following fees were payable to the auditors of Trustpower, PricewaterhouseCoopers:			
Audit and other assurance services			
Audit of financial statements		**503**	482
Other assurance services			
Audit of regulatory returns[1]		**36**	7
Review of half year financial statements		**47**	41
		586	575
Taxation services			
Tax compliance services		**12**	31
Support for dispute with Inland Revenue	21	**20**	5
Tax compliance advice		**104**	126
Tax pooling services		**105**	–
		241	162
Other services			
Benchmarking services		**–**	23
Demerger related services[2]		**496**	45
		496	68
Total remuneration of PricewaterhouseCoopers		**1,323**	760

[1] Regulatory returns include assurance services surrounding the Trustpower Insurance Limited solvency return, telecommunications development levy and anti-money laundering compliance reporting.

[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.

NOTE A7: ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Note	2017 $000	2016 $000
Current Portion:			
Billed debtors and unbilled sales		**73,897**	80,542
Provision for doubtful debts		**(1,833)**	(2,050)
Electricity market receivables		**760**	2,224
Other receivables		**31,268**	19,082
Prepayments		**4,802**	3,717
		108,894	103,515

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

	2017 $000	2016 $000
Customer bond deposits	858	1,084
Electricity market payables	4,161	7,968
Employee entitlements	7,980	8,283
Interest accruals	1,424	7,593
GST payable	9,640	6,763
Other accounts payable and accruals	22,992	16,613
Trade accounts payable	42,707	46,420
	89,762	94,724

Trade Payables

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

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 2017 are summarised below:

Recognised in the income statement	2017 $000	2016 $000
Interest rate derivatives	5,021	(6,479)
Electricity price derivatives	(286)	(4,001)
	4,735	(10,480)

Recognised in the cash flow hedge reserve	2017 $000	2016 $000
Electricity price derivatives	(4,950)	8,476
	(4,950)	8,476

NOTE A10: CASH FLOW HEDGE RESERVE

	2017 $000	2016 $000
Balance at beginning of year	(1,494)	4,806
Fair value (losses)/gains	(13,582)	(14,900)
Transfers to energy cost expense	8,379	6,150
	(5,203)	(8,750)
Tax on fair value losses/(gains)	3,803	4,172
Tax on transfers to energy cost expense	(2,346)	(1,722)
	1,457	2,450
	(5,240)	(1,494)

NOTE A11: DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $000	2016 $000
Current		
Interest rate derivative assets	–	1,298
Electricity price derivative assets	4,432	2,194
	4,432	3,492
Interest rate derivative liabilities	650	299
Electricity price derivative liabilities	6,490	4,626
	7,140	4,925
Non-current		
Interest rate derivative assets	1,674	–
Electricity price derivative assets	1,571	4,272
	3,245	4,272
Interest rate derivative liabilities	8,641	13,662
Electricity price derivative liabilities	10,277	7,367
	18,918	21,029

NOTE A12: INVESTMENTS IN SUBSIDIARIES

	Country of incorporation and place of business	% owned by Trustpower		Nature of business
Parent and Group				
Significant subsidiaries (31 March balance dates)		**2017**	2016	
Hopsta Limited (formerly known as Energy Direct NZ Limited)	New Zealand	100	100	Electricity and telecommunications retailing
GSP Energy Pty Limited	Australia	100	100	Electricity generation
King Country Energy Holdings Limited	New Zealand	100	100	Asset holding
King Country Energy Limited	New Zealand	65	65	Electricity generation and retailing
Trustpower Insurance Limited	New Zealand	100	100	Captive insurance

Except as noted under note 14 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.

NOTE A13: RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS

	2017 $000	Restated 2016 $000
Profit after tax	**93,989**	68,494
Items classified as investing/financing		
Interest paid	**47,104**	38,020
Interest received	**(3,929)**	(164)
	43,175	37,856
Non-cash items:		
Amortisation of debt issue costs	**3,152**	1,422
Non-cash transfer from cash flow hedge reserve to interest expense	**(252)**	(275)
Amortisation of intangible assets	**15,549**	14,900
Depreciation	**31,985**	27,639
Net (gain)/loss on sale of property, plant and equipment	**(1,467)**	363
Other fixed and investment asset charges/(credits)	**3,501**	1,361
Fair value increase of King Country Energy assets	**–**	(2,114)
Movement in derivative financial instruments taken to the income statement	**(4,735)**	10,480
Decrease in deferred tax liability excluding transfers to reserves	**(11,088)**	(10,642)
	36,645	43,134
Decrease/(increase) in working capital:		
Accounts receivable and prepayments	**(7,410)**	(9,318)
Taxation payable/receivable	**19,445**	6,745
Accounts payable and accruals excluding capital expenditure accruals	**(4,962)**	11,625
	7,073	9,052
Net cash from operating activities	**180,882**	158,536

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:

An incentive scheme for key management personnel was implemented November 2016. This is a cash-settled share-based payment scheme covering one, two and three-year periods. This scheme replaced the previous cash-settled share-based payment scheme operated under Old Trustpower.

Key management personnel are eligible to receive a bonus payment at the end of the 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 NZX50 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 2017 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 2017 the total expense recognised in the income statement was $(172,000) (2016: $(66,000)) and the liability recognised in the statement of financial position as at 31 March 2017 was $73,000 (2016: $245,000).

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:

	2017 $000	2016 $000
Generation assets (at cost)	**1,051,820**	1,045,504
Generation assets under construction (at cost)	**14,502**	10,909
Generation assets accumulated depreciation	**(240,182)**	(225,903)
	826,140	830,510

NOTE A16: FINANCIAL RISK MANAGEMENT

Financial risk management information that relates directly to the Retail and Generation segments has been included in notes 6 and 11.

(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 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**

	Less than 1 month $000	1-6 months $000	6-12 months $000	Over 1 year $000
As at 31 March 2016				
Net settled electricity price derivatives	1,446	3,366	1,774	5,502
Net settled interest rate derivatives	1,082	1,578	1,738	12,968
Accounts payable and accruals	87,131	–	–	–
Unsecured subordinated bonds	–	4,725	4,725	163,625
Unsecured senior bonds	5,200	19,455	71,918	212,073
Unsecured bank loans	833	190,828	5,628	137,316
Total	95,678	219,757	85,254	525,439

(b) Interest Rate Risk

The aggregate notional principal amounts of the outstanding interest rate derivative instruments at 31 March 2017 was $399,554,000 (31 March 2016: $766,313,000).

Interest payment transactions are expected to occur at various dates between one month and eight 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 14.

NOTE A16: FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

At 31 March 2017, 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.

	2017 $000	2016 $000
Decrease to profit of a 100 basis point decrease in interest rates	(11,330)	(5,050)
Increase to profit of a 100 basis point increase in interest rates	10,394	4,675
Decrease to equity of a 100 basis point decrease in interest rates	(11,330)	(5,050)
Increase to equity of a 100 basis point increase in interest rates	10,394	4,675

(c) Credit Risk

As of 31 March 2017, trade receivables of $4,060,000(2016: $3,438,000) were past due but not impaired.

The aged analysis of these trade receivables is as follows:

	2017 $000	2016 $000
Up to 3 months	3,868	3,438
3 to 6 months	192	–
	4,060	3,438

As of 31 March 2017, trade receivables of $1,833,000(2016: $2,050,000) were past due and impaired.

The aged analysis of these trade receivables is as follows:

	2017 $000	2016 $000
Up to 3 months	–	551
Over 3 months	1,833	1,499
	1,833	2,050

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

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

	2017 $000	2016 $000
Opening balance	2,050	1,650
Provision for receivables impairment	1,384	2,194
Bad debts written off	(1,601)	(1,794)
Closing balance	1,833	2,050

(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 2017 was 1,450GWh (31 March 2016: 1,743GWh).

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 2017 will be continuously released to the income statement in each period in which the underlying purchase transactions are recognised in the income statement.

NOTE A16: FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

	2017 $000	2016 $000
Increase/(decrease) to profit of a 10% increase in electricity forward price	965	(527)
Increase/(decrease) to cash flow hedge reserve of a 10% increase in electricity forward price	4,157	5,129
Increase/(decrease) to equity of a 10% increase in electricity forward price	5,122	4,602
Increase/(decrease) to profit of a 10% increase in electricity forward price	(965)	533
Increase/(decrease) to cash flow hedge reserve of a 10% increase in electricity forward price	(4,157)	(5,130)
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(5,122)	(4,597)

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.

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%

NOTE A17: FAIR VALUE MEASUREMENT (CONTINUED)

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 (2016: 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
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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2016				
Assets per the statement of financial position				
Interest rate derivative assets	–	1,298	–	1,298
Electricity price derivative assets	–	–	6,466	6,466
	–	1,298	6,466	7,764
Liabilities per the statement of financial position				
Interest rate derivative liabilities	–	13,961	–	13,961
Electricity price derivative liabilities	–	–	11,993	11,993
	–	13,961	11,993	25,954

NOTE A17: FAIR VALUE MEASUREMENT (CONTINUED)

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

	2017 $000	2016 $000
Assets per the statement of financial position		
Opening balance	6,466	11,514
Acquired as part of a business combination	–	602
Gains and (losses) recognised in profit or loss		
Realised in energy cost expense	771	1,016
Unrealised	(930)	153
Gains and (losses) recognised in other comprehensive income		
Realised in energy cost expense	–	(934)
Unrealised	(304)	(5,885)
Closing balance	6,003	6,466
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	1,438	581
Liabilities per the statement of financial position		
Opening balance	11,993	4,339
Acquired as part of a business combination	–	547
(Gains) and losses recognised in profit or loss		
Realised in energy cost expense	(5,613)	(3,384)
Unrealised	5,741	8,834
(Gains) and losses recognised in other comprehensive income		
Realised in energy cost expense	(8,379)	(8,226)
Unrealised	13,025	9,883
Closing balance	16,767	11,993
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	6,484	16,008
Settlements during the year	(13,221)	(11,451)

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 note A16.

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
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	–	–	–
Bond deposits on trust	957	–	–	–
Other investments	–	–	–	8,008
	113,232	7,677	–	8,008
31 March 2016				
Assets per the statement of financial position				
Derivative financial instruments	–	7,459	305	–
Trade and other receivables excluding prepayments	99,798	–	–	–
Cash and cash equivalents	7,642	–	–	–
Bond deposits on trust	3,647	–	–	–
Other investments	–	–	–	8
	111,087	7,459	305	8

	Liabilities at fair value through profit or loss $000	Derivatives used for hedging $000	Other financial liabilities at amortised cost $000
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
31 March 2016			
Liabilities per the statement of financial position			
Unsecured bank loans including bank overdrafts	–	–	355,573
Unsecured subordinated bonds	–	–	139,069
Unsecured senior bonds	–	–	243,704
Derivative financial instruments	23,322	2,632	–
Trade and other payables	–	–	94,724
	23,322	2,632	833,070

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

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

NZ IFRS 15, *Revenue from contracts with customers* has been early adopted during the period. See note 1 for more details.

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

NZ IFRS 16: Leases

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 intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

NZ IFRS 9: Financial Instruments

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 intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

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.

DIRECTORY

BOARD OF DIRECTORS

Paul M Ridley-Smith – Chairman
Richard H Aitken
Alan N Bickers
Marko Bogoievski
I Sam Knowles
Susan R Peterson
Geoffrey JC Swier

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FINANCIAL CALENDAR

Annual Report due	30 June 2017
Annual Meeting	25 July 2017
First quarter operating information	14 July 2017
Payment September bond interest	15 September 2017
Second quarter operating information	16 October 2017
Half year announcement	6 November 2017
Record date interim dividend	24 November 2017
Payment interim dividend	8 December 2017
Payment December bond interest	15 December 2017
Third quarter operating information	15 January 2018
Payment of March bond interest	15 March 2018
Fourth quarter operating information	16 April 2018
Full year announcement	14 May 2018
Record date of final dividend	25 May 2018
Payment date of final dividend	8 June 2018
Payment of June bond interest	15 June 2018

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