

The image features a large, multi-colored circular logo for Trustpower, composed of overlapping green, blue, orange, and red sections. The logo is suspended by thin lines from the top. Several small human figures are positioned around the base of the logo, appearing to work on it. One person on the left is pulling a thick rope that loops on the floor. Another person in the center is reaching up to touch the bottom of the logo. On the right, a person stands on a ladder, holding a cloth, while another person stands beside it. A silhouette of a person stands in the foreground with hands on hips. The background is a vibrant purple gradient.

# Trust power™

**all the  
little  
things**

TRUSTPOWER  
2018 INTERIM  
REPORT

# trustpower limited unaudited financial results

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

Trustpower Limited has delivered a sound half year result through implementation of its generation and retail strategies.

Generation volumes were up 70 GWh, 6 per cent higher than long run averages but 12 per cent below the highly favourable levels of HY2018. Wholesale prices also trended closer to long run averages, resulting in Trustpower's generation performance being lower than HY2018, but higher than HY2017.

Trustpower's telco customer numbers reached 91,000, up 11,000 or 14 per cent on the same time last year. Total utility accounts reached 399,000, up 2,000 from 31 March 2018, while customers with two or more products rose 2 per cent to 102,000. Overall retail revenues of \$487.4 million were in line with the same period last year however retail earnings were slightly down due to investment in capability.



## / Growing value

Trustpower's total shareholder return over the six months was 14.8 per cent compared to the NZX50 index of 12.4 per cent.

Our results reflect a strong retail business, sound management of our 27 generation schemes across New Zealand and our commitment to delivering long-term sustainable value for investors.

Operational highlights included the refurbishment of two generators at our Coleridge Scheme, as well as the successful migration of 13,000 new customers with 17,000 electricity connections over to Trustpower following the acquisition of the King Country Energy Limited retail business.

## / Dividend

An interim dividend of 17 cents per share, fully imputed, has been declared and is payable on 7 December 2018. We anticipate this level of dividend into the future, despite lower earnings following the sale of the Australian assets.

Following the sale of Green State Power in March 2018 and a consequent review of debt levels we also declared an unimputed special dividend of 25 cents, also payable on 7 December 2018. Post payment we are forecasting a debt/EBITDAF ratio of approximately 2.3 to 2.5 at year end based on the current market guidance range for EBITDAF. Trustpower will further review our debt levels, including the tenor of that debt, as at 31 March 2019 and may consider a further special dividend.

## / Award-winning performance

Trustpower now has New Zealand's fourth largest fixed-line internet service provider (ISP) customer base. This customer base is supported by a quality network coupled with a dedicated and talented operations team which has led to award winning performance. Netflix has rated Trustpower the best performing network in New Zealand for the last 10 months in a row. Trustpower was also named Home Phone Provider of the Year and Home Broadband Service Provider of the Year in the 2017 Roy Morgan New Zealand Customer Satisfaction Awards.

Our new app gained second place in the international Microsoft Global Partners awards for its customer focused technology development. The app, which offers functions such as online bill payment, faults and outages alerts and usage history, is just one of the many digital and human communications channels available to Trustpower customers.

## / Retail operations

The proof that Trustpower is delivering a high-quality value add service is the increase in telco connections of 5 per cent over the last six months.

Our loyal and strong customer base is taking more products from our offering. More existing electricity customers are taking up our broadband service and about 80 per cent of new customers are now purchasing more than one product. Our numbers are also telling us that customers are more satisfied and less likely to leave when they purchase more than just electricity from us.

Trustpower's bundled proposition has allowed us to form a new market segment that provides more value to customers and is less competitive than the separate electricity and telecommunications markets. Our multi-product retail business strategy bundling life's essential utilities including power, gas, internet and phone, continues to succeed and we intend to build on this.

## / FY2019 guidance

On 15 October Trustpower revised EBITDAF guidance for the current financial year to be in the range of \$215 million to \$235 million, an increase of \$10 million. This guidance assumes average hydrology and current forward wholesale electricity prices. This remains the guidance for the underlying EBITDAF.

## / Outlook

Trustpower is actively contributing to a number of regulatory reviews including the electricity price review and the mobile market study. In both cases we are supporting a well-functioning market that encourages innovation and provides value for customers.

Trustpower's prudent approach to risk means we are well prepared to manage the current high wholesale marketing pricing, which is being driven by low national hydrology levels and a gas field outage.

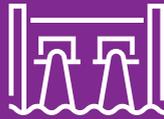
Looking ahead we have capacity to grow, and we are advancing plans to add more to the bundle proposition as well as making some strategic and targeted investments to continue to digitise the business and improve customer experience.

# highlights

/ for the six months ended 30 September 2018

## \$65 million

net profit after tax of \$65 million down 21% on last year's unusually high profit driven by a 'once in decade' combination of high levels and pricing



## \$130 million

operating earnings (EBITDAF) of \$130 million



## 17 cents

fully imputed interim dividend of 17 cents

## 25 cents

unimputed special dividend of 25 cents

## 80 per cent

around 80% of new customers are now purchasing more than one product from Trustpower

## \$28 million

retail earnings (EBITDAF) of \$28 million



## 5 per cent

Trustpower telco connections up 5%. Trustpower now has New Zealand's fourth largest fixed line internet service provider (ISP) base

## 70GWh

generation volume up 70 GWh or 6% compared to long run average



Netflix has rated Trustpower the best performing network in New Zealand for the last 10 months in a row

# key metrics

FOR THE SIX MONTHS ENDED 30 SEPTEMBER

2018	2018	2017	2016	2015	2014
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF) (\$M)	130	159	110		
Profit After Tax (\$M)	65	82	45		
Underlying earnings after tax (\$M)	65	83	56		
Basic earnings per share (cents per share)	20	26	15		
Underlying earnings per share (cents per share)	21	26	18		
Dividends paid during the period (cents per share)	17	17	17		
Net debt to annualised EBITDAF	1.9	2.0	3.4		
Net tangible assets per share (dollars per share)	4.53	4.44	4.35		
<b>Customers, Sales and Service</b>					
Electricity connections (000s)	270	273	278	252	234
Telecommunication customers (000s)	91	80	69	51	35
Gas connections (000s)	38	37	33	30	21
Total utility accounts	399	390	380	333	290
Customers with two or more utilities (000s)	102	94	84	66	46
Mass market sales - fixed price (GWh)	1,067	1,090	1,066	981	893
Time of use sales - fixed price (GWh)	434	426	417	414	410
Time of use sales - spot price (GWh)	535	566	652	752	748
Total customer sales (GWh)	2,036	2,082	2,135	2,147	2,051
Average spot price of electricity purchased (\$/MWh)	84	91	58	60	69
Gas Sales (TJ)	687	714	664	744	542
Annualised customer churn rate	20%	21%	17%	16%	14%
Annualised customer churn rate - total market	22%	22%	21%	22%	19%
<b>Generation Production and Procurement</b>					
North Island hydro generation production (GWh)	611	732	518	381	304
South Island hydro generation production (GWh)	555	593	541	574	606
Total New Zealand generation production (GWh)	1,166	1,325	1,059	955	910
Average spot price of electricity generated (\$/MWh)	83	89	55	54	63
Net third party fixed price volume purchased (GWh)	771	770	871	805	657
Australian generation production (GWh)	-	71	100	68	35
<b>Other Information</b>					
Resource consent non-compliance events	5	6	4	4	2
Staff numbers (full time equivalents)	798	787	813	675	611

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.

# income statement

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
<b>FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018</b>		
<b>Operating Revenue</b>		
Electricity revenue	432,556	445,289
Telecommunications revenue	43,267	38,146
Gas revenue	17,829	17,947
Other operating revenue	18,539	9,300
	<b>512,191</b>	<b>510,682</b>
<b>Operating Expenses</b>		
Line costs	154,839	158,935
Electricity costs	87,255	75,753
Generation production costs	18,620	17,072
Employee benefits	33,814	30,821
Telecommunications cost of sales	24,829	26,301
Gas cost of sales	13,146	13,132
Other operating expenses	50,045	36,462
	<b>382,548</b>	<b>358,476</b>
<b>Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF)</b>	<b>129,643</b>	<b>152,206</b>
Impairment of assets	291	-
Net fair value (gains)/losses on financial instruments	1,033	2,228
Amortisation of intangible assets	7,821	8,149
Depreciation	17,078	14,311
<b>Operating Profit</b>	<b>103,420</b>	<b>127,518</b>
Interest paid	14,395	17,452
Interest received	(1,032)	(293)
Net finance costs	13,363	17,159
<b>Profit Before Income Tax</b>	<b>90,057</b>	<b>110,359</b>
Income tax expense	25,188	31,064
<b>Profit From Continuing Operations</b>	<b>64,869</b>	<b>79,295</b>
<b>Profit From Discontinued Operations</b>	<b>-</b>	<b>2,900</b>
<b>Profit After Tax</b>	<b>64,869</b>	<b>82,195</b>
Profit after tax attributable to the shareholders of the Company	63,790	80,775
Profit after tax attributable to non-controlling interests	1,079	1,420
Basic and diluted earnings per share (cents per share)	20.4	25.8

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 5 November 2018.

*The accompanying notes form part of these interim financial statements*

# statement of comprehensive income

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
<b>FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018</b>		
Profit after tax	64,869	82,195
<b>Other Comprehensive Income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Currency translation differences	-	(316)
Fair value gains/(losses) on cash flow hedges	11,249	(1,175)
Tax effect of the following:		
Fair value (gains)/losses on cash flow hedges	(3,150)	329
<b>Total Other Comprehensive Income</b>	<b>8,099</b>	<b>(1,162)</b>
<b>Total Comprehensive Income</b>	<b>72,968</b>	<b>81,033</b>
Attributable to shareholders of the Company	71,889	79,613
Attributable to non-controlling interests	1,079	1,420

The accompanying notes form part of these interim financial statements

# statement of changes in equity

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018	Note	Share capital \$'000	Revaluation reserve \$'000	Cash flow hedge reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained earnings \$'000	Shareholder's Equity \$'000	Non-controlling interest \$'000	Total Equity \$'000
<b>Opening balance as at 1 April 2017</b>		2	969,311	(5,240)	(172)	410,817	1,374,718	43,676	1,418,394
Total comprehensive income for the period		-	-	(846)	(316)	80,775	79,613	1,420	81,033
<i>Contributions by and distributions to non-controlling interest</i>									
Acquisition of shares held by outside equity interest		-	-	-	-	-	-	(167)	(167)
<i>Transactions with owners recorded directly in equity</i>									
Dividends paid	8	-	-	-	-	(53,312)	(53,312)	(1,844)	(55,156)
Total transactions with owners recorded directly in equity		-	-	-	-	(53,312)	(53,312)	(1,844)	(55,156)
<b>Unaudited closing balance as at 30 September 2017</b>		2	969,311	(6,086)	(488)	438,280	1,401,019	43,085	1,444,104
<b>Opening balance as at 1 April 2018</b>		2	928,351	(2,757)	-	487,331	1,412,927	21,982	1,434,909
Total comprehensive income for the period		-	-	8,099	-	63,790	71,889	1,079	72,968
<i>Contributions by and distributions to non-controlling interest</i>									
Sale of shares to outside equity interest		-	-	-	-	-	-	6,291	6,291
<i>Transactions with owners recorded directly in equity</i>									
Dividends paid	8	-	-	-	-	(53,205)	(53,205)	(4,558)	(57,763)
Total transactions with owners recorded directly in equity		-	-	-	-	(53,205)	(53,205)	(4,558)	(57,763)
<b>Unaudited closing balance as at 30 September 2018</b>		2	928,351	5,342	-	497,916	1,431,611	24,794	1,456,405

The accompanying notes form part of these interim financial statements

# statement of financial position

AS AT 30 SEPTEMBER 2018	Note	Unaudited September 2018 \$000	Audited March 2018 \$000
<b>Equity</b>			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital	9	2	2
Revaluation reserve		928,351	928,351
Retained earnings		497,916	487,331
Cash flow hedge reserve		5,342	(2,757)
Non-controlling interests		24,794	21,982
<b>Total Equity</b>		<b>1,456,405</b>	<b>1,434,909</b>
<i>Represented by:</i>			
<b>Current Assets</b>			
Cash at bank		5,772	19,790
Other deposits		6,997	2,979
Accounts receivable and prepayments		116,559	100,226
Capitalised customer acquisition costs	5	21,277	19,811
Derivative financial instruments		4,715	2,941
Taxation receivable		2	395
		<b>155,322</b>	<b>146,142</b>
<b>Non Current Assets</b>			
Property, plant and equipment		2,091,626	2,102,223
Capitalised customer acquisition costs	5	28,434	27,212
Derivative financial instruments		5,606	369
Other investments		8,844	8,842
Intangible assets		39,540	44,120
		<b>2,174,050</b>	<b>2,182,766</b>
<b>Total Assets</b>		<b>2,329,372</b>	<b>2,328,908</b>
<b>Current Liabilities</b>			
Accounts payable and accruals		87,763	108,343
Unsecured subordinated bonds	7	113,772	-
Unsecured bank loans	7	15,290	17,194
Derivative financial instruments		6,208	8,826
Taxation payable		15,622	20,201
		<b>238,655</b>	<b>154,564</b>
<b>Non Current Liabilities</b>			
Unsecured bank loans	7	155,000	150,000
Unsecured subordinated bonds	7	-	113,559
Unsecured senior bonds	7	209,005	208,761
Derivative financial instruments		12,444	13,032
Deferred tax liability		257,863	254,083
		<b>634,312</b>	<b>739,435</b>
<b>Total Liabilities</b>		<b>872,967</b>	<b>893,999</b>
<b>Net Assets</b>		<b>1,456,405</b>	<b>1,434,909</b>
Net Tangible Assets Per Share		\$4.53	\$4.21

The accompanying notes form part of these interim financial statements

# cash flow statement

		Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
<b>FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018</b>			
	Note		
<b>Cash Flows from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from customers		484,083	485,884
		484,083	485,884
<i>Cash was applied to:</i>			
Payments to suppliers and employees		393,848	359,646
Taxation paid		28,752	25,066
		422,600	384,712
Net cash inflow from operating activities generated by discontinued operation		-	4,687
<b>Net Cash Flow from Operating Activities</b>	12	<b>61,483</b>	<b>105,859</b>
<b>Cash Flows from Investing Activities</b>			
<i>Cash was provided from:</i>			
Return of electricity market security deposits		-	969
Interest received		1,032	293
		1,032	1,262
<i>Cash was applied to:</i>			
Lodgement of electricity market security deposits		4,019	-
Purchase of property, plant and equipment		6,298	6,426
Purchase of other investments		1	690
Purchase of intangible assets		3,547	4,709
		13,865	11,825
Net cash outflow from investing activities generated by discontinued operation		-	(1,152)
<b>Net Cash Flow used in Investing Activities</b>		<b>(12,833)</b>	<b>(11,715)</b>
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from:</i>			
Bank loan proceeds		148,396	70,695
Sale of shares to outside equity interest in subsidiary		6,291	-
		154,687	70,695
<i>Cash was applied to:</i>			
Repayment of bank loans		145,300	88,700
Interest paid		14,289	16,297
Purchase of minority interest		-	167
Dividends paid to owners of the Company		53,205	53,311
Dividends paid to non-controlling shareholders in subsidiary companies		4,561	1,720
		217,355	160,195
Net cash outflow from financing activities generated by discontinued operation		-	(3,081)
<b>Net Cash Flow used in Financing Activities</b>		<b>(62,668)</b>	<b>(92,581)</b>
<b>Net (Decrease)/Increase in Cash, Cash Equivalents and Bank Overdrafts</b>		<b>(14,018)</b>	<b>1,563</b>
Cash, cash equivalents and bank overdrafts at beginning of the period		19,790	8,183
Exchange (losses)/gains on cash		-	(74)
<b>Cash, Cash Equivalents and Bank Overdrafts at End of the Period</b>		<b>5,772</b>	<b>9,672</b>

The accompanying notes form part of these interim financial statements

# notes to the interim financial statements

## Note 1: Basis of Preparation

### Reporting entity

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

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

The financial statements are presented for the half year ended 30 September 2018.

### Basis of preparation

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2018. These financial statements provide an update on the interim performance of Trustpower, and should be read in conjunction with the full year financial statements presented for the year ended 31 March 2018 from which the same accounting policies and methods of computation have been followed.

The interim financial statements are prepared in accordance with:

- NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.
- Generally Accepted Accounting Practice (GAAP).
- The accounting policies and methods of computation in the most recent annual financial statements.
- The Financial Markets Conduct Act 2013, and NZX equity listing rules.
- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit oriented entities.

In preparing the financial statements we have:

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

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.

### Seasonality

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

### Generation asset valuation

The appropriateness of the carrying value of generation assets has been assessed with reference to cash flows forecast to be earned from these assets. The Directors have determined that the carrying values are appropriate. The next generation asset revaluation will be carried out as at 31 March 2019.

## Note 2: Discontinued Operation

### Description

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

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

### (a) Financial performance information

The financial performance information is presented below for the period ended 30 September 2017.

Unaudited  
6 Months  
September  
2017  
\$000

#### Operating Revenue

Electricity revenue	9,396
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#### Operating Expenses

Generation production costs	1,652
Employee benefits	624
Other operating expenses	194

<b>EBITDAF</b>	<b>6,926</b>
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Net fair value (gains)/losses on financial instruments	302
Amortisation of intangible assets	-
Depreciation	1,609

<b>Operating Profit</b>	<b>5,015</b>
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Interest paid	1,152
Interest received	(191)
Net finance costs	961

<b>Profit Before Income Tax</b>	<b>4,054</b>
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Income tax expense	1,154
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<b>Profit from discontinued operation</b>	<b>2,900</b>
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## Note 3: Segment Information

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

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

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

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

Following the disposal of Trustpower's Australian business, the former 'Generation Australia' segment is no longer shown (see note 2 for more details).

### The unaudited segment results for the six months ended 30 September 2018 are as follows:

Note	Retail \$000	Generation \$000	Other \$000	Total \$000
Total segment revenue	487,420	133,601	3,026	624,047
Inter-segment revenue	-	(108,836)	(3,020)	(111,856)
<b>Revenue from external customers</b>	<b>487,420</b>	<b>24,765</b>	<b>6</b>	<b>512,191</b>
<b>EBITDAF</b>	<b>27,917</b>	<b>108,078</b>	<b>(6,352)</b>	<b>129,643</b>
Amortisation of intangible assets	2,047	-	5,774	7,821
Depreciation	-	11,778	5,300	17,078
Capital expenditure	-	7,193	4,248	11,441
Asset impairment	-	291	-	291

### The unaudited segment results for the six months ended 30 September 2017 are as follows:

	Retail \$000	Generation \$000	Other \$000	Total \$000
Total segment revenue	486,934	143,670	2,755	633,359
Inter-segment revenue	-	(120,010)	(2,667)	(122,677)
<b>Revenue from external customers</b>	<b>486,934</b>	<b>23,660</b>	<b>88</b>	<b>510,682</b>
<b>EBITDAF</b>	<b>29,578</b>	<b>126,638</b>	<b>(4,010)</b>	<b>152,206</b>
Amortisation of intangible assets	2,484	-	5,665	8,149
Depreciation	-	11,487	2,824	14,311
Capital expenditure including business acquisitions	-	4,378	6,922	11,300
Asset impairment	-	-	-	-

Transactions between segments (inter-segment) are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. The most significant inter-segment transaction is the sale of electricity hedges by Generation to Retail. See the retail note 4 for more information.

# retail

Trustpower is a multiproduct utility retailer. Trustpower supplies homes and businesses around the country with electricity, gas, broadband and telephone services. Trustpower provides electricity to 270,000 homes and businesses (September 2017: 273,000, March 2018: 273,000), supplies 38,000 customers with gas (September 2017: 37,000, March 2018: 37,000) and connects 91,000 (September 2017: 80,000, March 2018: 87,000 customers with telephone and broadband services.

## Note 4: Retail Profitability Analysis

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
<b>Operating Revenue</b>		
Electricity revenue		
Mass market - fixed price	277,687	283,906
Commercial and industrial - fixed price	65,836	66,276
Commercial and industrial - spot price	69,636	77,277
Total electricity revenue	413,159	427,459
Gas revenue	17,829	17,947
Telecommunications revenue	43,267	38,146
Other operating revenue	13,165	3,382
	487,420	486,934
<b>Operating Expenses</b>		
Electricity costs	193,057	199,180
Line costs	154,839	158,935
Telecommunications cost of sales	24,829	26,301
Employee benefits	18,763	16,620
Meter rental costs	12,067	11,819
Gas cost of sales	13,146	13,132
Market fees and costs	3,618	3,742
Marketing and acquisition costs	7,663	8,005
Other retail cost of sales	10,271	1,309
Bad debts	1,091	920
Other operating expenses*	20,159	17,393
	459,503	457,356
<b>EBITDAF</b>	<b>27,917</b>	<b>29,578</b>
The analysis above includes the following internal charges:		
Electricity costs	105,802	123,427
Meter rental costs	4,972	5,145
Other operating expenses	1,285	1,285
	112,059	129,857

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

## Note 5: Capitalised Customer Acquisition Costs

	Unaudited September 2018 \$000	Audited March 2018 \$000
Opening balance	47,023	35,044
Additions	14,880	28,896
Amortisation to electricity revenue	(4,826)	(4,405)
Amortisation to telecommunications revenue	(1,687)	(2,094)
Amortisation to marketing and acquisition costs	(5,679)	(10,418)
Closing balance	49,711	47,023
Current portion	21,277	19,811
Non-current portion	28,434	27,212
	49,711	47,023

### Change in treatment of customer acquisition costs

Trustpower early adopted NZ IFRS 15 *Revenue from Contracts with Customers* in its March 2017 financial year. On initial adoption, certain incentives provided to customers were assessed as being an incremental cost of obtaining a contract with a customer as described in NZ IFRS 15. Trustpower has reviewed the application of its policy with respect to the treatment of its acquisition costs under NZ IFRS 15 during the period and has now assessed these costs as being performance obligations in their own right. The most significant impact is to change the period over which these costs are amortised from the expected life of the customer relationship (which Trustpower has assessed as being four years) to the term of the contract (which averages approximately two years). Trustpower has evaluated the impact of these changes at each of the previous reporting dates and have determined that the impact is not material for any of the prior periods reported. This assessment is due to the size and non-cash nature of this item being such that it would not influence the economic decisions of users made on the basis of the financial information previously issued. The change in treatment is being applied to all costs associated with performance obligations incurred from 1 April 2018 onwards.

# generation

Trustpower owns 433MW of mainly hydro generation assets throughout New Zealand. The Generation segment also includes metering and irrigation assets as well as Trustpower's energy trading function. Trustpower also holds a 75% controlling interest in King Country Energy Limited, which owns an additional 54MW of hydro generation assets. During the period, 5% of the shares of King Country Energy Limited were sold for \$6.291m to the King Country Electric Power Trust.

## Note 6: Generation Profitability Analysis

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
<b>New Zealand</b>		
<b>Operating Revenue</b>		
Electricity revenue	121,976	131,598
Meter rental revenue	7,826	8,107
Net other operating revenue	3,799	3,965
	133,601	143,670
<b>Operating Expenses</b>		
Generation production costs	18,620	17,072
Employee benefits	7,184	7,879
Generation development expenditure	115	164
Other operating expenses including electricity hedge settlements	(396)	(8,083)
	25,523	17,032
<b>EBITDAF</b>	108,078	126,638
The analysis above includes the following internal charges:		
Electricity revenue	102,579	113,580
Electricity hedge settlements	3,223	9,847
Meter rental revenue	4,972	5,145
Other operating revenue	1,285	1,285
	112,059	129,857

# debt

Trustpower borrows under a negative pledge arrangement which, with limited exceptions, does not permit Trustpower to grant any security interest over its assets.

The negative pledge deed requires Trustpower to maintain certain levels of shareholders' funds and operate within defined performance and debt gearing ratios. The banking arrangements may also create restrictions over the sale or disposal of certain assets unless the bank loans are repaid or renegotiated. Throughout the period Trustpower has complied with all debt covenant requirements in these agreements.

## Note 7: Borrowings

	Unaudited 30 September 2018		
	Unsecured bank loans \$000	Senior Bonds \$000	Subordinated Bonds \$000
<i>Repayment terms:</i>			
Less than one year	15,290	-	114,163
One to two years	78,500	-	-
Two to five years	76,500	210,780	-
Over five years	-	-	-
Bond issue costs	-	(1,775)	(391)
	<b>170,290</b>	<b>209,005</b>	<b>113,772</b>
Current portion	15,290	-	113,772
Non-current portion	155,000	209,005	-
	<b>170,290</b>	<b>209,005</b>	<b>113,772</b>
	Audited 31 March 2018		
<i>Repayment terms:</i>			
Less than one year	17,194	-	-
One to two years	85,000	-	114,163
Two to five years	65,000	210,780	-
Over five years	-	-	-
Bond issue costs	-	(2,019)	(604)
	<b>167,194</b>	<b>208,761</b>	<b>113,559</b>
Current portion	17,194	-	-
Non-current portion	150,000	208,761	113,559
	<b>167,194</b>	<b>208,761</b>	<b>113,559</b>

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

The current subordinated bond is due in September 2019. Planning to refinance this bond has begun and Trustpower anticipates being able to finalise the refinancing plan by March 2019.

The fair value of Trustpower's bank loans and bonds is not materially different to the carrying values above. At 30 September 2018 the subordinated bonds had a fair value of \$117,572,000 (31 March 2018: \$119,077,000) and the senior bonds had a fair value of \$217,863,000 (31 March 2018: \$216,392,000).

# equity

## Note 8. Dividends

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
Final dividend prior year	53,205	53,312
<b>Total dividend</b>	<b>53,205</b>	<b>53,312</b>

A fully imputed interim dividend of 17 cents per share has been declared and is payable on 7 December 2018 to all shareholders on the register at 23 November 2018.

An unimputed special dividend of 25 cents per share has been declared and is payable on 7 December 2018 to all shareholders on the register at 23 November 2018.

## Note 9. Share Capital

	Unaudited 6 Months September 2018 \$000	Audited 12 Months March 2018 \$000
Authorised and issued ordinary share capital at beginning of the period	2	2
	2	2
	000's of Shares	000's of Shares
Authorised and issued ordinary shares at beginning of the period	312,973	312,973
	312,973	312,973

# additional notes

## Note 10. Non-GAAP Measures

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

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
Profit after tax attributable to the shareholders of the Company	63,790	80,775
Fair value losses / (gains) on financial instruments	1,033	2,228
Asset impairments	291	-
Adjustments before income tax	1,324	2,228
Change in income tax expense in relation to adjustments	(371)	(624)
Adjustments after income tax	953	1,604
<b>Underlying Earnings After Tax</b>	<b>64,743</b>	<b>82,379</b>

### Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF)

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

## Note 11. Earnings Per Share

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

	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
Profit after tax attributable to the shareholders of the Company (\$000)	63,790	80,775
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
<b>Basic and diluted earnings per share (cents per share)</b>	<b>20.4</b>	<b>25.8</b>
From continuing operations	20.4	24.9
From discontinued operation	-	0.9
	20.4	25.8
Underlying Earnings After Tax (\$000)	64,743	82,379
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
<b>Underlying earnings per share (cents per share)</b>	<b>20.7</b>	<b>26.3</b>
From continuing operations	20.7	25.3
From discontinued operation	-	1.0
	20.7	26.3

## Note 12: Reconciliation of Net Cash Flow from Operating Activities with Profit After Tax Attributable to the Shareholders

	Note	Unaudited 6 Months September 2018 \$000	Unaudited 6 Months September 2017 \$000
Profit from continuing operations		64,869	79,295
Interest paid		14,289	16,297
Interest received		(1,032)	(293)
Amortisation of debt issue costs		457	579
Fixed, intangible and investment asset charges		25,022	22,395
Movements in financial instruments taken to the income statement		1,033	2,228
Decrease in deferred tax liability excluding transfers to reserves		630	4,451
(Increase)/decrease in working capital		(43,785)	(23,780)
Operating cash flows generated by discontinued operation	2	-	4,687
<b>Net Cash Flow from Operating Activities</b>		<b>61,483</b>	<b>105,859</b>

## Note 13: Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 30 September 2018 (31 March 2018: nil).

## Note 14: Subsequent Events

Other than those disclosed elsewhere in these financial statements there have been no material events subsequent to 30 September 2018 (30 September 2017: none, 31 March 2018: none).

# Note 15: Financial Risk Management

## Fair Values

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

### Estimation of Fair Values

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

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

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

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

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

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

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

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

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

## Note 15. Financial Risk Management (continued)

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

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>30 September 2018</b>				
<b>Assets per the statement of financial position</b>				
Interest rate derivative assets	-	-	-	-
Electricity price derivative assets	-	-	10,321	10,321
	-	-	10,321	10,321

### Liabilities per the statement of financial position

Interest rate derivative liabilities	-	10,270	-	10,270
Electricity price derivative liabilities	-	-	8,382	8,382
	-	10,270	8,382	18,652

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>31 March 2018</b>				
<b>Assets per the statement of financial position</b>				
Interest rate derivative assets	-	-	-	-
Electricity price derivative assets	-	-	3,310	3,310
	-	-	3,310	3,310

### Liabilities per the statement of financial position

Interest rate derivative liabilities	-	9,469	-	9,469
Electricity price derivative liabilities	-	-	12,389	12,389
	-	9,469	12,389	21,858

## Note 15. Financial Risk Management (continued)

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

	Unaudited 6 Months September 2018 \$000	Audited 12 Months March 2018 \$000
<b>Assets per the statement of financial position</b>		
Opening balance	3,310	6,003
Gains or (losses) recognised in profit or loss	(4,382)	(3,016)
Gains or (losses) recognised in other comprehensive income	11,393	323
Closing balance	10,321	3,310
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	3,550	(994)

### Liabilities per the statement of financial position

Opening balance	12,389	16,767
(Gains) or losses recognised in profit or loss	(4,152)	(1,253)
(Gains) or losses recognised in other comprehensive income	145	(3,125)
Closing balance	8,382	12,389
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	4,308	739

Settlements during the period

	2,819	4,437
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Electricity price derivatives are classified as Level 3 because the assumed location factors which are used to adjust the forward price path are unobservable.

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

	Unaudited 6 Months September 2018 \$000	Audited 12 Months March 2018 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(305)	95
Increase/(decrease) to profit of a 10% decrease in electricity forward price	305	(95)
Increase/(decrease) to equity of a 10% increase in electricity forward price	10,979	6,417
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(10,979)	(6,417)



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