



JOIN THE EVOLUTION

INTERIM REPORT 2019

TRUSTPOWER LIMITED UNAUDITED FINANCIAL RESULTS

For the six months ended 30 September 2019

Trustpower Limited (NZX:TPW) today announced its interim financial results for the six months to 30 September 2019 and is pleased to declare a fully imputed interim dividend supported by strong operating cash flows.

Generation volumes were down 177GWh (15%) on the same period last year, due to some plant outages and materially lower North Island inflows (22% decline) compared to the above-average H1 FY-19. This is representative of the variable nature of hydro power generation. Wholesale prices were materially above the comparative period in FY-19 and remain above long-run averages.

Trustpower is one of the fastest growing telcos in New Zealand, reaching 100,000 telco customers in October 2019. Total retail utility accounts reached 406,000, up 7,000 on the same time last year, while customers with two or more products rose 8.8% to over 111,000. Total retail revenues of \$507m million were up 4% on the same period last year.

Leveraging the successful bundling strategy remains a key growth opportunity for the future, with customers who take up the bundle offer demonstrating increased loyalty, satisfaction, and higher long-term value.

During this period Trustpower has invested significantly in developing capability for the future across both the Retail and Generation divisions. Operational highlights include the successful implementation of ISP network strengthening, development of wireless broadband capability, continued investment into building capability and our ability to respond to Generation asset management challenges, such as those faced at Highbank and Waipori.

Trustpower Chair Paul Ridley-Smith said the Board was “focused on ensuring the business has the platforms and capability to succeed in a low emission electricity sector and an ever-increasing desire for data and quality digital access”.

Chief Executive Vince Hawksworth said the result, whilst down on the same period last year, was impacted heavily by reduced Generation volumes and costs associated with a three month unplanned outage at the Highbank scheme in Canterbury, as well as climate and hydrology, which were inherent variables in hydro power generation and retailing. Purposeful investment into Trustpower’s ISP network and continued growth in the capability of the business also impacted the result.

“Trustpower is a multi-layered business with Generation, Retail and a growing ISP; we are committed to investing in these platforms to create a robust future-focused business that is primed to deliver future value,” said Mr Hawksworth.

Generation

Asset enhancements continue to be a key strategic priority for Trustpower to help fill the expected long-term New Zealand energy gap. Trustpower is implementing a structured generation enhancement programme over the next five years with an anticipated increase in average annual output (once commissioned) of ~60GWh per year.

An unplanned machine shut down of Trustpower’s fourth largest machine, located at Highbank Power Station, resulted in a three-month forced outage. This represents the worst single machine point of failure across the Trustpower Generation fleet but demonstrates the resiliency of a diverse portfolio. The outage represented a 43 GWh loss during this time which while significant, represented only ~2% of total annual Trustpower output.

Retail Operations

Retail was impacted by generally warm weather through Autumn, increased electricity input prices

and a continuation of investment in customer acquisition and service. Retail EBITDAF* for the period was \$13.9m and continues to show strong underlying performance.

The retail environment remains competitive despite prolonged heightened wholesale electricity prices. “Our strategy continues to resonate with customers, and new offerings will continue the positive trajectory” said Mr Hawksworth.

Trustpower launching wireless broadband offerings in market and continued development of mobile are further evidence of the evolution of the multi-product strategy.

Our focus and investment in customer centric service offerings is paying dividends, with over 72% of all customer contacts handled via digital channels this year, and ~80,000 customers now enjoying new functionality on our app.

ISP network upgrades to cater for increased data consumption and quality provides a platform to leverage for growth and continued increase of customer experience, with Trustpower topping the Netflix speed rankings for the previous eight consecutive months (and 19 of the last 22 months).

Outlook

Trustpower has previously indicated it expects FY-20 EBITDAF guidance to be at the bottom end of its guidance range (\$205m - \$225m). Trustpower confirms that it expects its FY-20 EBITDAF to be in the range \$200m - \$215m), assuming currently observable pricing and expected hydrology.

Trustpower remains positive on the longer-term outlook from both an industry point of view and due to the investments we have made internally, and our market positioning.

“Trustpower’s strong balance sheet and operational capability means is in a good position to capitalise on opportunities, and the future is very exciting,” said Mr Ridley-Smith.

*EBITDAF is a non-GAAP measure. Please refer to note 9 of the financial statements for more details.

Highlights

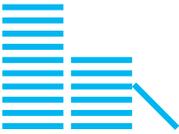
for the six months ended 30 September 2019

\$39 million

profit after tax of \$39 million,
down \$26 million or 40%

\$107 million

operating earnings (EBITDAF)*
down \$23 million or 17%



17 cents

fully imputed interim
dividend of 17 cents

\$14 million

retail earnings (EBITDAF)*
of \$14 million

406,000

total utility accounts reached
406,000, a 2% increase from
399,000 at 30 September 2018

111,000

customers with two or more products
reached 111,000, a 9% increase
from 102,000 at 30 September 2018



\$95 million

New Zealand generation
production resulted in
operating earnings of
\$95 million

72%

of customer interactions
are now handled via
a digital channel



100,000

reached 100,000
telco customers

Launched Mobile



Launched Wireless
Broadband

Upgraded ISP network
to 100G

Key Metrics

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	2019	2018	2017	2016	2015
Profit After Tax (\$M)	39	65	82	45	
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF)* (\$M)	107	130	159	110	
Underlying earnings after tax (\$M)*	49	65	83	56	
Basic earnings per share (cents per share)	12	20	26	15	
Underlying earnings per share (cents per share)*	16	21	26	18	
Dividends paid during the period (cents per share)	32	17	17	17	
Net debt to annualised EBITDAF*	3.0	1.9	2.0	3.4	
Net tangible assets per share (dollars per share)	3.72	4.53	4.44	4.35	
Customers, Sales and Service					
Electricity connections (000s)	266	270	273	278	252
Telecommunication customers (000s)	100	91	80	69	51
Gas connections (000s)	40	38	37	33	30
Total utility accounts	406	399	390	380	333
Customers with two or more utilities (000s)	111	102	94	84	66
Mass market sales – fixed price (GWh)	1,025	1,067	1,090	1,066	981
Time of use sales – fixed price (GWh)	418	434	426	417	414
Time of use sales – spot price (GWh)	546	535	566	652	752
Total customer sales (GWh)	1,989	2,036	2,082	2,135	2,147
Average spot price of electricity purchased (\$/MWh)	91	84	91	58	60
Gas Sales (TJ)	636	687	714	664	744
Annualised customer churn rate	18%	20%	21%	17%	16%
Annualised customer churn rate – total market	22%	22%	22%	21%	22%
Generation Production and Procurement					
North Island hydro generation production (GWh)	479	611	732	518	381
South Island hydro generation production (GWh)	510	555	593	541	574
Total New Zealand generation production (GWh)	989	1,166	1,325	1,059	955
Average spot price of electricity generated (\$/MWh)	89	83	89	55	54
Net third party fixed price volume purchased (GWh)	770	771	770	871	805
Other Information					
Resource consent non-compliance events	10	5	6	4	4
Staff numbers (full time equivalents)	812	798	787	813	675

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.

*EBITDAF and Underlying Earnings are non-GAAP measures. Please refer to note 9 of the financial statements for more detail.

Income Statement

	Unaudited 6 Months September 2019 \$'000	Unaudited 6 Months September 2018 \$'000
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019		
	Note	
Operating Revenue		
Electricity revenue	447,676	432,556
Telecommunications revenue	46,805	43,267
Gas revenue	17,511	17,829
Revenue allocated to customer incentives	15,622	8,101
Other operating revenue	11,766	10,438
	539,380	512,191
Operating Expenses		
Line costs	151,604	154,839
Electricity costs	123,205	87,255
Generation production costs	22,270	18,620
Employee benefits	37,464	33,814
Telecommunications cost of sales	32,764	24,829
Gas cost of sales	13,183	13,146
Other cost of sales	15,058	10,261
Other operating expenses	36,729	39,784
	432,277	382,548
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF)*	9	107,103
		129,643
Impairment of assets	2,381	291
Net fair value losses on financial instruments	12,249	1,033
Amortisation of intangible assets	4,984	7,821
Depreciation	14,784	17,078
Operating Profit	72,705	103,420
Interest paid	17,278	14,395
Interest received	(335)	(1,032)
Net finance costs	16,943	13,363
Profit Before Income Tax	55,762	90,057
Income tax expense	17,084	25,188
Profit After Tax	38,678	64,869
Profit after tax attributable to the shareholders of the Company	38,101	63,790
Profit after tax attributable to non-controlling interests	577	1,079
Basic and diluted earnings per share (cents per share)	12.2	20.4

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 7 November 2019.

*EBITDAF is a non-GAAP measure. Refer to note 9 for more information.

The accompanying notes form part of these interim financial statements

Statement of Comprehensive Income

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019		
Profit after tax	38,678	64,869
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on cash flow hedges	21,435	11,249
Tax effect of the following:		
Fair value gains on cash flow hedges	(6,002)	(3,150)
Total Other Comprehensive Income	15,433	8,099
Total Comprehensive Income	54,111	72,968
Attributable to shareholders of the Company	53,534	71,889
Attributable to non-controlling interests	577	1,079

The accompanying notes form part of these interim financial statements

Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019	Note	Share capital \$'000	Revaluation reserve \$'000	Cash flow hedge reserve \$'000	Retained earnings \$'000	Total Shareholders' Equity \$'000	Non-controlling interest \$'000	Total Equity \$'000
Opening balance as at 1 April 2018		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)
Unaudited closing balance as at 30 September 2018		2	928,351	5,342	497,916	1,431,611	24,794	1,456,405
Opening balance as at 1 April 2019		2	801,920	28,856	393,625	1,224,403	24,570	1,248,973
Total comprehensive income for the period		-	-	15,433	38,101	53,534	577	54,111
<i>Transactions with owners recorded directly in equity</i>								
Dividends paid	8	-	-	-	(100,151)	(100,151)	(1,072)	(101,223)
Total transactions with owners recorded directly in equity		-	-	-	(100,151)	(100,151)	(1,072)	(101,223)
Unaudited closing balance as at 30 September 2019		2	801,920	44,289	331,575	1,177,786	24,075	1,201,861

The accompanying notes form part of these interim financial statements

Statement of Financial Position

AS AT 30 SEPTEMBER 2019	Note	Unaudited September 2019 \$000	Audited March 2019 \$000
Equity			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital		2	2
Revaluation reserve		801,920	801,920
Retained earnings		331,575	393,625
Cash flow hedge reserve		44,289	28,856
Non-controlling interests		24,075	24,570
Total Equity		1,201,861	1,248,973
<i>Represented by:</i>			
Current Assets			
Cash at bank		7,519	8,204
Other deposits		1,899	4,669
Accounts receivable and prepayments		126,610	125,104
Assets held for sale		523	-
Right-of-use asset	7	6,726	-
Capitalised customer acquisition costs	4	35,320	30,211
Derivative financial instruments		15,371	17,484
		193,968	185,672
Non Current Assets			
Property, plant and equipment		1,920,128	1,924,724
Right-of-use assets	7	30,089	-
Capitalised customer acquisition costs	4	20,893	22,810
Derivative financial instruments		51,035	35,410
Other investments		8,845	8,845
Intangible assets		38,574	37,042
		2,069,564	2,028,831
Total Assets		2,263,532	2,214,503
Current Liabilities			
Accounts payable and accruals		104,757	112,453
Unsecured subordinated bonds	6	-	113,982
Unsecured bank loans	6	-	35,011
Lease liabilities	7	6,185	-
Derivative financial instruments		5,833	9,875
Taxation payable		168	12,995
		116,943	284,316
Non Current Liabilities			
Unsecured bank loans	6	211,716	113,500
Unsecured senior bonds	6	431,824	307,774
Lease liabilities	7	30,711	-
Derivative financial instruments		31,800	23,431
Deferred tax liability		238,617	236,509
		944,728	681,214
Total Liabilities		1,061,671	965,530
Net Assets		1,201,861	1,248,973
Net Tangible Assets Per Share		\$3.72	\$3.62

The accompanying notes form part of these interim financial statements

Cash Flow Statement

		Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019			
	Note		
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from customers		521,168	484,083
		521,168	484,083
<i>Cash was applied to:</i>			
Payments to suppliers and employees		428,049	393,848
Taxation paid		33,802	28,752
		461,851	422,600
Net Cash Flow from Operating Activities	11	59,317	61,483
Cash Flows from Investing Activities			
<i>Cash was provided from:</i>			
Return of electricity market security deposits		5,000	3,600
Interest received		335	1,032
		5,335	4,632
<i>Cash was applied to:</i>			
Lodgement of electricity market security deposits		2,231	7,619
Purchase of property, plant and equipment		9,914	6,298
Purchase of other investments		-	1
Purchase of intangible assets		6,512	3,547
		18,657	17,465
Net Cash Flow used in Investing Activities		(13,322)	(12,833)
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Bank loan proceeds		233,506	148,396
Senior bond issue proceeds		123,806	-
Sale of shares to outside equity interest in subsidiary		-	6,291
		357,312	154,687
<i>Cash was applied to:</i>			
Repayment of bank loans		170,300	145,300
Repayment of subordinated bonds		114,163	-
Interest paid		16,217	14,289
Repayment of lease liability		2,856	-
Dividends paid to owners of the Company		100,151	53,205
Dividends paid to non-controlling shareholders in subsidiary companies		305	4,561
		403,992	217,355
Net Cash Flow used in Financing Activities		(46,680)	(62,668)
Net Decrease in Cash, Cash Equivalents and Bank Overdraft		(685)	(14,018)
Cash, cash equivalents and bank overdrafts at beginning of the period		8,204	19,790
Cash, Cash Equivalents and Bank Overdrafts at End of the Period		7,519	5,772

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 2019.

Basis of preparation

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2019. 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 2019 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 key inputs include the future wholesale price of electricity and Trustpower's weighted average cost of capital. The Directors have determined that the carrying values appropriately represent fair value.

Note 2: Segment Information

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

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

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

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.

The unaudited segment results for the six months ended 30 September 2019 are as follows:

	Retail \$000	Generation \$000	Other \$000	Total \$000
Total segment revenue	507,227	120,365	3,188	630,780
Inter-segment revenue	-	(89,462)	(1,938)	(91,400)
Revenue from external customers	507,227	30,903	1,250	539,380
EBITDAF	13,912	94,621	(1,430)	107,103
Amortisation of intangible assets	835	-	4,149	4,984
Depreciation	-	9,098	5,686	14,784
Capital expenditure	-	2,857	12,302	15,159
Asset impairment	-	2,381	-	2,381

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

	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)
Revenue from external customers	487,420	24,765	6	512,191
EBITDAF	27,917	108,078	(6,352)	129,643
Amortisation of intangible assets	2,047	-	5,774	7,821
Depreciation	-	11,778	5,300	17,078
Capital expenditure including business acquisitions	-	7,193	4,248	11,441
Asset impairment	-	291	-	291

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 3 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 266,000 homes and businesses (September 2018: 270,000, March 2019: 267,000), supplies 40,000 customers with gas (September 2018: 38,000, March 2019: 39,000) and connects 100,000 (September 2018: 91,000, March 2019: 96,000) customers with telephone and broadband services.

Note 3: Retail Profitability Analysis

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
Operating Revenue		
Electricity revenue		
Mass market – fixed price	265,708	277,687
Commercial & industrial – fixed price	64,637	65,836
Commercial & industrial – spot price	91,512	69,636
Total electricity revenue	421,857	413,159
Gas revenue	17,511	17,829
Telecommunications revenue	46,805	43,267
Revenue allocated to customer incentives	15,622	8,101
Other operating revenue	5,432	5,064
	507,227	487,420
Operating Expenses		
Electricity costs	214,151	193,057
Line costs	151,604	154,839
Telecommunications cost of sales	32,764	24,829
Employee benefits	18,409	18,763
Meter rental costs	12,812	12,067
Gas cost of sales	13,183	13,146
Market fees and costs	3,444	3,618
Marketing and acquisition costs	7,177	7,663
Other retail cost of sales	15,058	10,271
Bad debts	1,379	1,091
Other operating expenses*	23,334	20,159
	493,315	459,503
EBITDAF	13,912	27,917
The analysis above includes the following transactions with the Generation segment:		
Electricity costs	90,946	105,802
Meter rental costs	4,311	4,972
Other operating expenses	1,298	1,285
	96,555	112,059

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

Note 4: Capitalised Customer Acquisition Costs

	Unaudited September 2019 \$000	Unaudited September 2018 \$000	Audited March 2019 \$000
Opening balance	53,021	47,023	47,023
Additions	21,801	14,880	33,004
Amortisation to electricity revenue	(9,592)	(4,826)	(12,045)
Amortisation to telecommunications revenue	(4,148)	(1,687)	(4,527)
Amortisation to marketing and acquisition costs	(4,869)	(5,679)	(10,434)
Closing balance	56,213	49,711	53,021
Current portion	35,320	21,277	30,211
Non-current portion	20,893	28,434	22,810
	56,213	49,711	53,021

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.

Note 5: Generation Profitability Analysis

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
Operating Revenue		
Electricity revenue	108,485	121,976
Meter rental revenue	7,286	7,826
Net other operating revenue	4,594	3,799
	120,365	133,601
Operating Expenses		
Generation production costs	22,270	18,620
Employee benefits	8,699	7,184
Generation development expenditure	155	115
Other operating expenses including electricity hedge settlements	(5,380)	(396)
	25,744	25,523
EBITDAF	94,621	108,078
The analysis above includes the following transactions with the Retail segment:		
Electricity revenue	83,853	102,579
Meter rental revenue	4,311	4,972
Other operating revenue	1,298	1,285
Total inter-segment revenue	89,462	108,836
Electricity hedge settlements	7,093	3,223
Total inter-segment transactions	96,555	112,059

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 6: Borrowings

	Unaudited 30 September 2019		
	Unsecured bank loans \$000	Senior Bonds \$000	Subordinated Bonds \$000
<i>Repayment terms:</i>			
Less than one year	-	-	-
One to two years	106,000	-	-
Two to five years	105,716	210,780	-
Over five years	-	225,000	-
Bond issue costs	-	(3,956)	-
	211,716	431,824	-
Current portion	-	-	-
Non-current portion	211,716	431,824	-
	211,716	431,824	-
	Audited 31 March 2019		
<i>Repayment terms:</i>			
Less than one year	55,011	-	114,163
One to two years	48,000	-	-
Two to five years	45,500	210,780	-
Over five years	-	100,000	-
Bond issue costs	-	(3,006)	(181)
	148,511	307,774	113,982
Current portion	35,011	-	113,982
Non-current portion	113,500	307,774	-
	148,511	307,774	113,982

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

The fair value of Trustpower's bank loans are not materially different to the carrying values above. At 30 September 2019 the senior bonds had a fair value of \$461,024,000 (31 March 2019: \$321,788,000).

Note 7: Leases

NZ IFRS 16 *Leases* replaces NZ IAS 17 *Leases* and removes the classification of leases as either operating leases or finance leases and consequently, for the lessee, all leases (other than short term or low value leases) are recognised on the balance sheet. This has resulted in the Group recognising right-of-use assets and related lease liabilities on the statement of financial position. As a result, payments for leases previously classified as operating leases, which include leases of land and buildings and telecommunications equipment, have been reclassified from other operating expenses to depreciation and interest expense. Lessor accounting remains materially unchanged from current practice under the new standard.

Trustpower has adopted NZ IFRS 16 retrospectively from 1 April 2019 but has not restated comparatives for previous periods. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. Trustpower has utilised the recognition practical expedients specified in NZ IFRS 16 in respect of short-term and low value leases where appropriate. Trustpower also used hindsight to determine the lease term where the contract contained options to extend or terminate the lease.

The lease liabilities were measured at the present value of the remaining fixed lease payments and remaining variable lease payments dependent on an index or rate as appropriate. Lease payments are discounted at Trustpower's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to lease liabilities at 1 April 2019 was 4.0%. The associated right-of-use assets for leases were measured at the amount equal to the lease liability determined as at 1 April 2019, with no overall change in net assets.

In the process of adopting NZ IFRS 16, a number of judgements and estimates have been made. These include:

- incremental borrowing rate, being the rate that Trustpower would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions;
- lease terms, including any rights of renewal where it is reasonably certain they will be exercised; and
- foreign exchange conversion rates

The impact of adoption of NZ IFRS 16 on Trustpower's Statement of Financial Position is summarised in the table below:

	Unaudited September 2019 \$000	Unaudited 1 April 2019* \$000
Right-of-use assets		
Buildings	29,573	30,895
Telecommunications equipment	7,002	1,647
Other	240	400
	36,815	32,942
Current assets	6,726	4,285
Non-current assets	30,089	28,657
	36,815	32,942
Lease liabilities		
Current liabilities	6,185	3,736
Non-current liabilities	30,771	29,206
	36,956	32,942

Note 7: Leases (continued)

When compared to the accounting policies applied in the prior comparative period, the adoption of NZ IFRS 16 on Trustpower's Income Statement for the six months to 30 September 2019 is summarised in the table below:

	Pre NZ IFRS 16 \$000	Adjustments \$000	Post NZ IFRS 16 \$000
Operating expenses	435,815	(3,538)	432,277
Depreciation	11,787	2,997	14,784
Interest paid	16,596	682	17,278
Income tax expense	17,123	(39)	17,084

Of the operating expense adjustments listed above, \$1,805,000 relates to the Retail segment and \$1,733,000 relates to the Other segment.

The adoption of NZ IFRS 16 increased net cash flow from operations and net cash used in financing activities by \$3,538,000 for the six months to 30 September 2019.

\$000

Reconciliation of lease commitments to lease liabilities

Operating lease commitments disclosed as at 31 March 2019	34,610
Operating lease commitments as at 31 March 2019 not previously disclosed	6,326
	40,936
Discounted at the incremental borrowing rate at the date of initial application	(7,994)
Net present value of future lease liability as at 1 April 2019	32,942

Operating lease commitments as at 31 March 2019 not previously disclosed

As part of Trustpower's adoption of NZ IFRS 16 certain operating lease commitments were identified that were not disclosed as part of Trustpower's 2019 financial statements. Trustpower has evaluated the impact of this non-disclosure and has determined that the impact is not material. 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. Additionally this non-disclosure had no impacts on the financial position, performance or cash flows of Trustpower and impacted the other commitments note only.

Equity

Note 8. Dividends

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
Final dividend prior year	53,205	53,205
Special dividend paid current period	46,946	–
Total dividend	100,151	53,205

A fully imputed interim dividend of 17 cents per share has been declared and is payable on 6 December 2019 to all shareholders on the register at 22 November 2019.

Additional Notes

Note 9. Non-GAAP Measures

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

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
Profit after tax	38,678	64,869
Fair value losses / (gains) on financial instruments	12,249	1,033
Asset impairments	2,381	291
Adjustments before income tax	14,630	1,324
Change in income tax expense in relation to adjustments	(4,096)	(371)
<i>Adjustments after income tax</i>	10,534	953
Underlying Earnings After Tax	49,212	65,822

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 10. 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 2019 \$000	Unaudited 6 Months September 2018 \$000
Profit after tax attributable to the shareholders of the Company (\$000)	38,101	63,790
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
Basic and diluted earnings per share (cents per share)	12.2	20.4
Underlying Earnings After Tax (\$000)	49,212	65,822
Weighted average number of ordinary shares in issue (thousands)	312,973	312,973
Underlying earnings per share (cents per share)	15.7	21.0

Note 11: Reconciliation of Net Cash Flow from Operating Activities with Profit After Tax

	Unaudited 6 Months September 2019 \$000	Unaudited 6 Months September 2018 \$000
Profit after tax	38,678	64,869
Interest paid	16,217	14,289
Interest received	(335)	(1,032)
Amortisation of debt issue costs	425	457
Fixed, intangible and investment asset charges	21,964	25,022
Movements in financial instruments taken to the income statement	12,249	1,033
Decrease in deferred tax liability excluding transfers to reserves	(3,894)	630
(Increase)/decrease in working capital	(25,987)	(43,785)
Net Cash Flow from Operating Activities	59,317	61,483

Note 12: Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 30 September 2019 (31 March 2019: nil).

Note 13: Subsequent Events

Other than those disclosed elsewhere in these financial statements there have been no material events subsequent to 30 September 2019 (30 September 2018: none, 31 March 2019: none).

Note 14: 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.

Note 14. Financial Risk Management *(continued)*

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).

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
30 September 2019				
Assets per the statement of financial position				
Interest rate derivative assets	-	2,481	-	2,481
Electricity price derivative assets	-	-	63,925	63,925
	-	2,481	63,925	66,406
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	26,380	-	26,380
Electricity price derivative liabilities	-	-	11,253	11,253
	-	26,380	11,253	37,653

Note 14. Financial Risk Management *(continued)*

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
31 March 2019				
Assets per the statement of financial position				
Interest rate derivative assets	–	719	–	719
Electricity price derivative assets	–	–	52,175	52,175
	–	719	52,175	52,894

Liabilities per the statement of financial position

Interest rate derivative liabilities	–	17,377	–	17,377
Electricity price derivative liabilities	–	–	15,929	15,929
	–	17,377	15,929	33,306

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

	Unaudited 6 Months September 2019 \$000	Audited 12 Months March 2019 \$000
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Assets per the statement of financial position

Opening balance	52,175	3,310
Gains or (losses) recognised in profit or loss	(7,915)	6,628
Gains or (losses) recognised in other comprehensive income	19,665	42,237
Closing balance	63,925	52,175
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	28,689	48,474

Liabilities per the statement of financial position

Opening balance	15,929	12,389
(Gains) or losses recognised in profit or loss	(2,906)	5,926
(Gains) or losses recognised in other comprehensive income	(1,770)	(2,386)
Closing balance	11,253	15,929
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	(5,716)	6,256

Settlements during the period	22,774	24,851
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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 2019 \$000	Audited 12 Months March 2019 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(1,464)	(2,516)
Increase/(decrease) to profit of a 10% decrease in electricity forward price	1,464	2,516
Increase/(decrease) to equity of a 10% increase in electricity forward price	19,791	18,753
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(19,791)	(18,753)



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