



Through change comes opportunity

Interim Results 2021

Trustpower and subsidiaries Interim Report 2021

Trustpower is New Zealand's fifth largest electricity generator and fourth largest energy retailer by market share, with approximately 12% electricity retail market share. It owns 27 hydro power schemes throughout New Zealand with a total installed capacity of 498MW. It operates a multi-product retail business, including electricity, gas and telecommunications products with approximately 265,000 electricity connections, 45,000 gas connections and 114,000 telecommunications connections. For further information see trustpower.co.nz

Trustpower reports lift in half year performance

HY2022 Results Summary:

- Net profit after tax of \$115.1 million, up 243 per cent on HY2021
- Total operating earnings (EBITDAF*) of \$122.2 million, up 11 per cent
- Operating earnings (EBITDAF*) from continuing operations of \$106.4 million, up 16 per cent
- Operating earnings (EBITDAF*) from discontinued operations of \$15.8 million, down 14 per cent
- Generation volumes of 1,000 GWh, up 6 per cent
- Fully imputed interim dividend of 17 cents payable on 3 December 2021

Trustpower Limited (NZX:TPW) has delivered a strong half year result ahead of its impending sale of the mass market retail business to Mercury NZ Limited (Mercury Energy), with two of the three conditions now met and the final condition expected before the financial year is over.

Net profit after tax climbed to \$115.1 million, up from \$33.6 million the previous year, largely due to a non-cash fair value gain on financial instruments. Underlying earnings** which exclude fair value gain on financial instruments were \$59 million for the six months to 30 September 2021, up from \$52.7 million in the prior period driven largely by higher generation volumes and wholesale prices.

Announcing its interim financials, Trustpower chair Paul Ridley-Smith said the company's results reflect a well-performing bundled retail business and sound management of its 27 generation schemes across New Zealand, enabling the business to deliver consistent returns for investors.

Trustpower shareholders approved the sale of its retail business to Mercury Energy at its Annual Shareholder Meeting on 22 September, and Mercury Energy had also been given the green light from the Commerce Commission, which said the \$441 million deal would not substantially lessen competition. The final condition of sale is the completion of the Tauranga Energy Consumer Trust (TECT) restructure, subject to a High Court hearing scheduled for 15-17 November 2021.

Chief executive David Prentice said there had been considerable effort within the company to prepare the business for sale. Despite this, and the impact of COVID-19 lockdowns, Trustpower delivered an 11 per cent increase in total combined (discontinued and continuing) operating earnings (EBITDAF*) of \$122.2 million, rising from \$110.4 million in the prior period.

The company has remained focused on its customers with a rise in customer connections and continued high levels of customer service. Operating earnings (EBITDAF*) from discontinued retail operations were \$15.8 million, down from \$18.3 million in the prior period. This decrease included a reduction in revenue of ~\$2.6 million resulting from the removal of the prompt payment discount structure, a cost of \$1.1 million relating to the retail sale, and increased gas costs which Trustpower largely absorbed. Trustpower's telco customer

numbers reached 114,000, up 8,000 or 7 per cent on the same time last year, including a new milestone of 10,000 mobile connections. All key retail metrics including fibre and mobile connections, products per customer and digital uptake, showed positive momentum.

"Energy only retailing is intensely competitive given current wholesale prices. Our multi-product retail business strategy bundling life's essential utilities including power, gas, internet and phone has been a tremendous success delivering greater returns and longer customer tenure," said Prentice.

Generation volumes at 1,000 GWh were up from 945 GWh the previous year, despite being impacted by extreme weather cycles. Trustpower's nationwide geographically dispersed portfolio of flexible generation schemes were able to take advantage of weather events, contributing to increased operating earnings (EBITDAF*) from continuing operations of \$106.4 million up from \$92.0 million in the prior period.

Improved asset reliability was delivered throughout the year and 3D modelling, digital simulation, and drone footage was being used to improve decision making and drive performance. Operational highlights included the refurbishment of a unit at the Coleridge Scheme, and commencement of construction of a new intake at the Branch Scheme which will allow the scheme to utilise its full consented intake, doubling capacity and increasing its annual generation once complete. Preparation was also underway to replace generators at Trustpower's Waipori and Cobb generation sites.

Dividend

An interim dividend of 17 cents per share, fully imputed, has been declared and is payable on 3 December 2021. Post sale, the Board has signalled its intention to issue an unimputed dividend of up to 65 cents.

Governance

Several changes to the Trustpower Board were announced at the recent Annual Meeting with former chief executive of Todd Energy and energy industry expert, Joanna Breare, along with business consultant, independent director and former chief executive of Counties Power, Sheridan Broadbent, joining the Board on 22 September. These appointments follow the retirement of Susan Peterson and David Prentice as Directors. Keith Turner also resigned effective 31 October.

Outlook

Ridley-Smith said Trustpower remains focused on its current business while building the capability to prosper under Manawa Energy – the recently announced new name for Trustpower assuming the retail sale goes ahead.

Looking forward, Manawa Energy will be focussed on developing new renewable generation capacity to help meet the anticipated significant increase in demand for electricity to meet New Zealand's climate targets as well as continuing to provide high levels of service to its existing commercial and industrial customer base.

A dedicated team has been formed to investigate options with a specific interest in wind and solar energy. Ridley-Smith said Trustpower has secured two wind and two solar utility-scale generation options across the North and South Islands although these projects were in the early stages of maturity. He said Trustpower was not limiting itself to greenfield developments and was looking at options to shorten time to market including partnerships, joint ventures, and acquisitions to execute developments and bring extra generation on stream by 2030.

"With electricity demand set to grow by 50 to 70 per cent over the next 30 years from electrification of transport and industry the potential for Manawa Energy is huge and the business is well poised to take advantage of the opportunities the market presents," said Ridley-Smith.

Guidance

Trustpower expects its FY22 EBITDAF to be in the range of \$210-\$225 million (excluding the costs of selling the retail business of ~\$9 million). This is within the earlier guidance range given on 18 May 2021.

*EBITDAF is a non-GAAP measure refer to note 9 for more details.

**Underlying Profit is a non-GAAP measure refer to note 9 for more details.

Snapshot

for the six months ended
30 September 2021

\$115.1
million

profit after tax
up 243%

\$106.4
million

continuing operations
(EBITDAF) up 16%

\$15.8
million

discontinued operations
(EBITDAF) down 14%

\$122.2
million

total EBITDAF
up 11%

17.0
cents

per share
interim dividend

1,000
GWh

generation volumes
up 6%

114
thousand

telco customers
up 8%

>10
thousand

mobile connections
up 1,000%

83
per cent

of broadband connections
are fibre

Key Metrics

for the six months ended 30 September	2021	2020	2019	2018	2017
Profit After Tax (\$M)	115	34	39	65	82
EBITDAF* from Continuing Operations (\$M)	106	92	107	130	159
EBITDAF* from Discontinued Operations (\$M)	16	18	–	–	–
Underlying earnings after tax (\$M)	59	53	49	65	83
Basic earnings per share (cents per share)	35	11	12	20	26
Underlying earnings per share (cents per share)	19	17	16	21	26
Dividends paid during the period (cents per share)	17	15.5	32	17	17
Net debt to annualised EBITDAF	2.7	3.0	3.0	1.9	2.0
Net tangible assets per share (dollars per share)	3.37	3.38	3.72	4.53	4.44
Customers, Sales and Service					
Electricity connections (000s)	264	263	266	273	278
Telecommunication customers (000s)	114	106	100	80	69
Gas connections (000s)	45	42	40	37	33
Total utility accounts	423	411	406	390	380
Customers with two or more utilities (000s)	125	122	111	94	84
Mass market sales – fixed price (GWh)	1,077	1,051	1,025	1,090	1,066
Time of use sales – fixed price (GWh)	206	250	418	426	417
Time of use sales – spot price (GWh)	427	428	546	566	652
Total customer sales (GWh)	1,710	1,729	1,989	2,082	2,135
Average spot price of electricity purchased (\$/MWh)	217	109	91	91	58
Gas Sales (TJ)	789	709	636	714	664
Annualised customer churn rate	18%	17%	18%	21%	17%
Annualised customer churn rate – total market	20%	20%	22%	22%	21%
Generation Production and Procurement					
North Island hydro generation production (GWh)	446	410	479	732	518
South Island hydro generation production (GWh)	554	535	510	593	541
Total New Zealand generation production (GWh)	1,000	945	989	1,325	1,059
Average spot price of electricity generated (\$/MWh)	208	107	89	89	55
Net third party fixed price volume purchased (GWh)	466	1,512	770	770	871
Other Information					
Resource consent non-compliance events	3	21	10	6	4
Staff numbers (full time equivalents)	766	809	812	787	813

*EBITDAF is a non-GAAP measure, refer to note 9 for more details.

Income Statement

for the six months ended 30 September 2021	Note	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Continuing Operations			
Operating Revenue			
Electricity revenue		281,647	240,699
Other operating revenue		9,547	4,622
		291,194	245,321
Operating Expenses			
Line costs		29,965	32,295
Electricity costs		112,447	81,762
Generation asset maintenance costs		11,527	10,617
Employee benefits		17,748	17,789
Other operating expenses		13,062	10,795
		184,749	153,258
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments and Asset Impairments (EBITDAF)*			
	9	106,445	92,063
Net fair value (gains)/losses on financial instruments	17	(78,467)	26,484
Amortisation of intangible assets		2,283	1,870
Depreciation (includes right-of-use asset depreciation)		9,576	8,821
Operating Profit		173,053	54,888
Interest paid		14,677	14,765
Interest received		(314)	(277)
Net finance costs		14,363	14,488
Profit Before Income Tax		158,690	40,400
Income tax expense		45,404	11,443
Profit From Continuing Operations		113,286	28,957
Profit from Discontinued Operations	2	1,835	4,654
Profit After Tax		115,121	33,611
Profit after tax attributable to the shareholders of the Company		110,610	33,180
Profit after tax attributable to non-controlling interests		4,511	431
Basic and diluted earnings per share from continuing operations (cents per share)		34.8	9.1
Basic and diluted earnings per share from discontinued operations (cents per share)		0.6	1.5
		35.4	10.6

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 8 November 2021.

*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

for the six months ended 30 September 2021	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Profit after tax	115,121	33,611
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on cash flow hedges	(79,014)	17,355
Tax effect of the following:		
Fair value losses/(gains) on cash flow hedges	22,124	(4,859)
Total Other Comprehensive Income	(56,890)	12,496
Total Comprehensive Income	58,231	46,107
Attributable to shareholders of the Company	53,720	45,676
Attributable to non-controlling interests	4,511	431
Total comprehensive income attributable to shareholders of the Company arises from:		
Continuing operations	51,885	41,022
Discontinued operations	1,835	4,654

The accompanying notes form part of these interim financial statements.

Statement of Changes in Equity

for the six months ended		Share	Revaluation	Cash flow	Retained	Total	Non-	Total
30 September 2021	Note	capital	reserve	hedge	earnings	Shareholder's	controlling	Equity
		\$000	\$000	reserve	\$000	Equity	interest	\$000
				\$000		\$000	\$000	\$000
Opening balance as at								
1 April 2020	2	732,898		7,987	335,340	1,076,227	23,787	1,100,014
Total comprehensive income for the period	-	-	-	12,496	33,180	45,676	431	46,107
<i>Transactions with owners recorded directly in equity</i>								
Dividends paid	8	-	-	-	(48,645)	(48,645)	(1,499)	(50,144)
Total transactions with owners recorded directly in equity	-	-	-	-	(48,645)	(48,645)	(1,499)	(50,144)
Unaudited closing balance as at 30 September 2020	2	732,898		20,483	319,875	1,073,258	22,719	1,095,977
Opening balance as at								
1 April 2021	2	732,898		69,254	267,472	1,069,626	17,278	1,086,904
Total comprehensive income for the period	-	-	-	(56,890)	110,610	53,720	4,511	58,231
<i>Transactions with owners recorded directly in equity</i>								
Dividends paid	8	-	-	-	(57,900)	(57,900)	(1,624)	(59,524)
Total transactions with owners recorded directly in equity	-	-	-	-	(57,900)	(57,900)	(1,624)	(59,524)
Unaudited closing balance as at 30 September 2021	2	732,898		12,364	320,182	1,065,446	20,165	1,085,611

The accompanying notes form part of these interim financial statements.

Statement of Financial Position

as at 30 September 2021	Note	Unaudited 6 months Sept 2021 \$'000	Unaudited 6 months Sept 2020 \$'000
Equity			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital		2	2
Revaluation reserve		732,898	732,898
Retained earnings		320,182	267,472
Cash flow hedge reserve		12,364	69,254
Non-controlling interests		20,165	17,278
Total Equity		1,085,611	1,086,904
Represented by:			
Current Assets			
Cash at bank		14,520	6,091
Electricity market security deposits	14	25,798	95,899
Accounts receivable and prepayments		54,589	110,306
Assets held for sale	2	187,945	–
Capitalised customer acquisition costs	5	–	34,959
Derivative financial instruments	16	9,964	75,994
Taxation receivable		–	17,618
		292,816	340,867
Non Current Assets			
Property, plant and equipment		1,820,645	1,839,150
Right-of-use assets	15	531	32,248
Capitalised customer acquisition costs	5	–	13,496
Derivative financial instruments	16	32,264	73,830
Other investments		–	7,333
Intangible assets		3,270	35,466
		1,856,710	2,001,523
Total Assets		2,149,526	2,342,390
Current Liabilities			
Accounts payable and accruals		93,168	109,636
Liabilities held for sale	2	34,968	–
Unsecured senior bonds	7	83,046	83,046
Unsecured bank loans	7	90,161	30,126
Lease liabilities	15	209	7,669
Derivative financial instruments	16	5,376	87,111
Taxation payable		15,368	–
		322,296	317,588
Non Current Liabilities			
Unsecured bank loans	7	155,000	273,168
Unsecured senior bonds	7	350,248	350,003
Lease liabilities	15	346	25,703
Derivative financial instruments	16	18,202	54,377
Deferred tax liability		217,823	234,647
		741,619	937,898
Total Liabilities		1,063,915	1,255,486
Net Assets		1,085,611	1,086,904
Net Tangible Assets Per Share		\$3.46	\$3.14

The accompanying notes form part of these interim financial statements.

Cash Flow Statement

for the six months ended 30 September 2021	Note	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from customers		303,465	248,517
		303,465	248,517
<i>Cash was applied to:</i>			
Payments to suppliers and employees		203,776	160,535
Taxation paid		7,829	28,812
		211,605	189,347
Net cash flow from operating activities generated by discontinued operation		1,711	11,878
Net Cash Flow from Operating Activities	11	93,571	71,048
Cash Flows from Investing Activities			
<i>Cash was provided from:</i>			
Return of electricity market security deposits	14	85,450	78,300
Sale of other investments		7,333	-
Interest received		314	277
		93,097	78,577
<i>Cash was applied to:</i>			
Lodgement of electricity market security deposits	14	26,637	108,960
Purchase of property, plant and equipment		2,224	3,113
Purchase of intangible assets		470	1,805
		29,331	113,878
Net cash flow used in investing activities generated by discontinued operation		(12,811)	(10,709)
Net Cash Flow used in Investing Activities		50,955	(46,010)
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Bank loan proceeds		77,667	142,585
Senior bond issue proceeds		-	-
		77,667	142,585
<i>Cash was applied to:</i>			
Repayment of bank loans		135,800	92,400
Repayment of subordinated bonds		-	-
Interest paid		14,345	14,468
Repayment of lease liability		129	77
Dividends paid to owners of the Company	8	57,900	48,645
Dividends paid to non-controlling shareholders in subsidiary companies	8	1,197	1,499
		209,371	157,089
Net cash flow used in financing activities generated by discontinued operation		(4,393)	(4,913)
Net Cash Flow used in Financing Activities		(136,097)	(19,417)
Net Decrease in Cash, Cash Equivalents and Bank Overdraft		8,429	5,621
Cash, cash equivalents and bank overdrafts at beginning of the period		6,091	8,662
Cash, Cash Equivalents and Bank Overdrafts at End of the Period		14,520	14,283

The accompanying notes form part of these interim financial statements.

Notes to the Financial Statements

Note 1: Basis of preparation

Reporting entity

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

Trustpower Limited is registered under the Companies Act 1993, and is listed on the New Zealand Stock Exchange (NZX). It is an FMC Reporting Entity under the Financial Markets Conducts Act 2013. The financial statements are presented for the half year ended 30 September 2021.

Basis of preparation

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2021. 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 2021 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.

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

Trustpower last revalued its generation assets at 31 March 2020. At 31 March 2021, following New Zealand Aluminium Smelters Limited announcing its intention to close its aluminium smelter at Tiwai Point and the Electricity Authority announcing its final Transmission Pricing Guidelines, a detailed review of the carrying value was undertaken and the Directors concluded that the value sits within a reasonable fair value range. An updated forecast of wholesale electricity prices and an updated assessment of Trustpower's weighted average cost of capital has been prepared and, along with latest cost forecast assumptions, the appropriateness of the carrying value has been reviewed at 30 September 2021. None of these inputs has changed materially from 31 March 2021 and, as a result, the fair value range has not changed materially. The Directors have concluded that the carrying value sits within a reasonable fair value range.

COVID-19

Trustpower has considered the potential impact of COVID-19 as part of its impairment testing of assets on its statement of financial position. The year to 31 March 2021 included national and regional lockdowns and the impact on Trustpower's business was not material. As such, no specific COVID-19 related impairments are considered appropriate for the six months to 30 September 2021.

Note 2: Assets held for Sale / Discontinued Operation

Description

On 21 June 2021, Trustpower announced a conditional sale of its mass market retail business to Mercury NZ Limited for \$441million, subject to Commerce Commission approval, Trustpower shareholder approval and the successful restructure of the Tauranga Energy Consumer Trust (TECT) trust deed.

Prior to 30 September 2021, Commerce Commission approval and Trustpower shareholder approval has been granted. Approval of the TECT trust deed will be considered by the High Court in November 2021. Assuming a satisfactory High Court approval, settlement is expected to occur in early 2022.

The mass market retail business meets the definition of a discontinued operation under NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as there is a signed sale and purchase agreement and only one condition left to satisfy. Based on professional advice, Trustpower believes it is probable the High Court will approve the restructure of TECT's trust deed.

NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires that where a non-current asset is classified as held for sale that asset must be carried at the lower of cost or the amount expected to be recovered on sale. The profit and cash flows must also be presented separately as discontinued operations. The gain on sale calculated below is provisional until the sale is settled.

(a) Financial performance and cash flow information

The financial performance and cash flow information is presented below for the period ended 30 September 2021 and 30 September 2020.

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Operating Revenue		
Electricity revenue	278,950	272,070
Gas revenue	20,718	18,146
Telecommunications revenue	57,793	50,726
Revenue allocated to customer incentives	19,259	11,959
Other operating revenue	7,239	5,000
	383,959	357,901
Operating Expenses		
Electricity costs	127,054	120,215
Line costs	103,623	100,906
Telecommunications cost of sales	37,505	32,762
Employee benefits	19,972	19,943
Meter rental costs	12,829	13,141
Gas cost of sales	19,483	15,172
Market fees and costs	5,104	4,540
Marketing and acquisition costs	5,790	5,260
Customer incentives	14,351	7,989
Bad debts	1,835	2,496
Other operating expenses*	20,642	17,140
	368,188	339,564
EBITDAF	15,771	18,337
Amortisation of intangible assets	5,627	3,768
Depreciation	6,993	7,447
Operating Profit	3,151	7,122
Net finance costs	603	658
Profit Before Income Tax	2,548	6,464
Income tax expense	713	1,810
Profit after income tax of discontinued operation	1,835	4,654

*Included within other operating expenses are \$1,139,000 of disposal costs (2020: nil).

Note 2: Assets held for Sale / Discontinued Operation continued

(b) Details of the sale

	Sept 2021 \$000
Consideration received or receivable	
Cash	441,000
Working capital adjustment based on working capital at 30 September 2021	49,423
Total disposal consideration	490,423
Carrying amount of net assets sold	152,977
Provisional gain on sale before costs of disposal	337,446
Costs of disposal	1,139
Provisional gain on sale	336,307
Indicative fair value range of hedge instrument at 30 September 2021	(151,000)–(185,000)

The provisional gain on sale calculated above reflects the working capital that would be included as part of the sale if settlement was 30 September 2021. Trustpower is retaining the accounts payable, other than staff entitlements, relating to the mass market retail business on settlement. This working capital adjustment will differ based on the working capital transferred on the actual sale date. Mercury NZ Limited and Trustpower will sign a pre-agreed electricity hedge agreement when the sale goes unconditional. This hedge instrument will be fair valued at settlement date and the final gain on sale will depend on that fair value. Based on the price of electricity futures traded on the ASX as at 30 September 2021, the indicative fair value of the hedge instrument would be negative \$151–185 million. This fair value is very sensitive to changes in the price of electricity futures and may fall outside that range by settlement date.

	Sept 2021 \$000
The carrying amounts of assets and liabilities as at 30 September 2021:	
Property, plant and equipment	17,534
Intangible assets	27,877
Capitalised customer acquisition costs	49,432
Right of use assets	30,976
Accounts receivable and prepayments	62,126
Total assets	187,945
Accounts payable and accruals	2,703
Lease liability	32,265
Total liabilities	34,968
Net assets	152,977

All figures in this note are provisional until settlement date.

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 services to commercial and industrial customers in New Zealand. The mass market portion of retail previously shown in the segment has now been discontinued. See Note 2 for more details.

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

Generation also includes 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 2021 are as follows:

	Retail \$000	Generation \$000	Other \$000	Total \$000
Total segment revenue	149,533	150,990	54	300,577
Inter-segment revenue	–	(9,357)	(26)	(9,383)
Revenue from external customers	149,533	141,633	28	291,194
EBITDAF (excluding discontinued operations)*	2,188	105,905	(1,648)	106,445
Amortisation of intangible assets	–	–	2,283	2,283
Depreciation	–	8,313	1,263	9,576
Capital expenditure	–	7,734	8,243	15,977

The unaudited segment results for the six months ended 30 September 2020 are as follows:

	Retail \$000	Generation \$000	Other \$000	Total \$000
Total segment revenue	118,732	122,203	23	240,958
Inter-segment revenue	–	2,925	1,438	4,363
Revenue from external customers	118,732	125,128	1,461	245,321
EBITDAF (excluding discontinued operations)*	836	91,927	(700)	92,063
Amortisation of intangible assets	–	–	1,870	1,870
Depreciation	–	8,120	701	8,821
Capital expenditure	–	11,417	8,506	19,923

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.

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

Retail

Trustpower is a multiproduct utility retailer. Trustpower supplies homes and businesses in New Zealand with electricity, gas, broadband and telephone services. Trustpower provides electricity to 264,000 homes and businesses (September 2020: 263,000, March 2021: 265,000), supplies 45,000 customers with gas (September 2020: 42,000, March 2021: 44,000) and connects 114,000 (September 2020: 106,000, March 2021: 112,000) customers with telephone and broadband services. The mass market portion of this segment is a discontinued operation (see note 2 for details).

Note 4: Retail Segment Profitability Analysis

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Operating Revenue		
Electricity revenue		
Commercial & industrial – fixed price	33,166	38,772
Commercial & industrial – spot price	116,367	79,960
	149,533	118,732
Operating Expenses		
Electricity costs	113,481	82,026
Line costs	29,965	32,295
Employee benefits	878	760
Meter rental costs	1,316	1,341
Market fees and costs	1,219	1,101
Other operating expenses*	486	373
	147,345	117,896
EBITDAF (excluding discontinued operations)**	2,188	836

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

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

Note 5: Capitalised Customer Acquisition Costs

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000	Audited March 2021 \$000
Opening balance	48,455	55,398	55,398
Additions	23,772	17,462	39,283
Amortisation to electricity revenue	(12,793)	(13,281)	(26,098)
Amortisation to telecommunications revenue	(6,784)	(6,479)	(12,679)
Amortisation to marketing and acquisition costs	(3,218)	(3,746)	(7,449)
Transferred to held for sale asset	(49,432)	–	–
Closing balance	–	49,354	48,455

Note: these assets are considered held for sale. See note 2 for more details.

Generation

Trustpower owns 433MW of mainly hydro generation assets throughout New Zealand. The Generation segment also includes 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 6: Generation Segment Profitability Analysis

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Operating Revenue		
Electricity revenue	140,172	117,807
Net other operating revenue	10,818	4,396
	150,990	122,203
Operating Expenses		
Generation asset maintenance costs	11,527	10,617
Electricity hedge settlements	8,058	(4,223)
Employee benefits	8,787	8,893
Generation development expenditure	216	804
Other operating expenses	16,497	14,185
	45,085	30,276
EBITDAF*	105,905	91,927

The analysis above includes the following transactions with the Retail segment:

Electricity revenue	113,943	92,724
Other operating revenue	1,298	1,298
Total inter-segment revenue	115,241	94,022
Electricity hedge settlements	(7,025)	4,487
Total inter-segment transactions	108,216	98,509

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

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 2021	
	Unsecured bank loans \$000	Senior Bonds \$000
<i>Repayment terms:</i>		
Less than one year	138,161	83,046
One to two years	97,000	127,734
Two to five years	10,000	125,000
Over five years	–	100,000
Bond issue costs	–	(2,486)
	245,161	433,294
Current portion	90,161	83,046
Non-current portion	155,000	350,248
	245,161	433,294
	Audited 31 March 2021	
	Unsecured bank loans \$000	Senior Bonds \$000
<i>Repayment terms:</i>		
Less than one year	75,126	83,046
One to two years	102,000	127,734
Two to five years	126,168	–
Over five years	–	225,000
Bond issue costs		(2,731)
	303,294	433,049
Current portion	30,126	83,046
Non-current portion	273,168	350,003
	303,294	433,049

Senior bonds rank equally with bank loans.

The fair value of Trustpower's bank loans are not materially different to the carrying values above. At 30 September 2021 the senior bonds had a fair value of \$412,356,000 (31 March 2021: \$455,850,000)

During the six months to 30 September 2021 Trustpower replaced \$80,000,000 (2020: \$80,000,000) of bank debt facilities with \$80,000,000 (2020: \$110,000,000) of new facilities maturing in less than one year. A \$50,000,000 bridging facility has been entered into subsequent to balance date to allow the repayment of the senior bond maturing in less than one year. This facility must be repaid upon receipt of the mass market retail business sales proceeds.

Equity

Note 8: Dividends

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Final dividend prior year	53,205	48,645
Special dividend current year	4,695	–
Total dividend	57,900	48,645

A fully imputed interim dividend of 17 cents per share has been declared and is payable on 3 December 2021 to all shareholders on the register at 26 November 2021.

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 Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Profit after tax	115,121	33,611
Fair value (gains)/losses on financial instruments	(78,467)	26,484
Adjustments before income tax	(78,467)	26,484
Change in income tax expense in relation to adjustments	21,971	(7,416)
<i>Adjustments after income tax</i>	(56,496)	19,068
Underlying Earnings After Tax	58,625	52,679

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.

	Note	Unaudited 6 months Sept 2021	Unaudited 6 months Sept 2020
Profit after tax from continuing operations attributable to the shareholders of the Company (\$000)		108,775	28,526
Weighted average number of ordinary shares in issue (thousands)		312,973	312,973
Basic and diluted earnings per share from continuing operations (cents per share)		34.8	9.1
Profit after tax from discontinued operations attributable to the shareholders of the Company (\$000)		1,835	4,654
Weighted average number of ordinary shares in issue (thousands)		312,973	312,973
Basic and diluted earnings per share from discontinued operations (cents per share)		0.6	1.5
Underlying Earnings After Tax (\$000)	9	58,625	52,679
Weighted average number of ordinary shares in issue (thousands)		312,973	312,973
Underlying earnings per share (cents per share)		18.7	16.8

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

	Unaudited 6 months Sept 2021 \$000	Unaudited 6 months Sept 2020 \$000
Profit after tax	115,121	33,611
Interest paid	14,948	15,126
Interest received	(314)	(277)
Amortisation of debt issue costs	244	244
Fixed, intangible and investment asset charges	24,899	21,810
Movements in financial instruments taken to the income statement	(78,467)	26,484
Decrease in deferred tax liability excluding transfers to reserves	5,300	(3,637)
(Increase)/decrease in working capital	11,840	(22,313)
Net Cash Flow from Operating Activities	93,571	71,048

Note 12: Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 30 September 2021 (31 March 2021: nil).

Note 13: Subsequent Events

Other than those disclosed elsewhere in these financial statements there have been no material events subsequent to 30 September 2021 (30 September 2020: none, 31 March 2021: none).

Note 14: Electricity Market Security Deposits

Trustpower is required to provide cash deposits as prudential security in order to trade in the wholesale electricity futures market. The required level of deposits depends on the amount of outstanding contracts Trustpower is a party to and the fair value of these contracts.

Note 15: Leases

During the six months ended 30 September 2021, Trustpower had lease additions and modifications of \$3,367,000 (September 2020: \$5,502,000). There have been no disposals or reductions to the right of use assets (September 2020: nil). All additions and modifications relate to discontinued operations (see note 2 for further details).

Note 16: 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 later in this note for sensitivity analysis.

Note 16: Financial Risk Management continued

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 2021				
Assets per the statement of financial position				
Interest rate derivative assets	–	1,252	–	1,252
Electricity price derivative assets	–	–	40,976	40,976
	–	1,252	40,976	42,228

Liabilities per the statement of financial position

Interest rate derivative liabilities	–	13,759	–	13,759
Electricity price derivative liabilities	–	–	9,581	9,581
	–	13,759	9,581	23,340

31 March 2021

Assets per the statement of financial position

Interest rate derivative assets	–	4,216	–	4,216
Electricity price derivative assets	–	–	145,608	145,608
	–	4,216	145,608	149,824

Liabilities per the statement of financial position

Interest rate derivative liabilities	–	19,540	–	19,540
Electricity price derivative liabilities	–	–	121,734	121,734
	–	19,540	121,734	141,274

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

	Unaudited 6 months Sept 2021 \$000	Audited 12 Months March 2021 \$000
Assets per the statement of financial position		
Opening balance	145,608	28,173
Gains or (losses) recognised in profit or loss	9,174	17,434
Gains or (losses) recognised in other comprehensive income	(113,806)	100,001
Closing balance	40,976	145,608
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	(58,366)	131,482

Note 16: Financial Risk Management continued

Liabilities per the statement of financial position

Opening balance	121,734	2,754
(Gains) or losses recognised in profit or loss	(111,943)	94,140
(Gains) or losses recognised in other comprehensive income	(210)	24,840
Closing balance	9,581	121,734
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	(13,498)	92,199
Settlements during the period	(17,604)	(18,769)

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 Sept 2021 \$000	Audited 12 Months March 2021 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(609)	(7,348)
Increase/(decrease) to profit of a 10% decrease in electricity forward price	609	7,469
Increase/(decrease) to equity of a 10% increase in electricity forward price	9,711	14,210
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(9,711)	(12,318)

Note 17: Net Fair Value (Gains)/Losses on Financial Instruments

Trustpower manages its electricity price risk by entering various hedge agreements. The fair value movements of some of these arrangements are recognised in the income statement. The market price for electricity futures has fallen materially since March 2021 resulting in the large fair value gain in this period.



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