Trustpower market update

Mass Market Retail Sale

Trustpower (TPW) announced on 4 April that all the substantial conditions of the sale of its retail business to Mercury NZ Limited (MCY) for $441 million had been met, with completion of the transaction expected to take place on 1 May 2022. All operational separation activities have either been completed or are scheduled to be completed by this date.

Upon successful completion of the sale, Trustpower Limited, comprising the generation and commercial & industrial retail (C&I) business will be renamed Manawa Energy Limited (MNW).

The new 10-year CFD contract between Manawa Energy and Mercury will begin from the date of sale completion, comprising ~2,000 GWh per annum until September 2024, and then reducing over the remaining term.

Completion of the sale will allow us to focus on delivery of our new strategy and is a great outcome for our people, our shareholders, and our customers.

Now that the completion date is imminent, we are providing further information on the Manawa Energy strategy, financial outlook, capital structure, and providing FY-23 guidance.

Strategy Update

As Manawa Energy, we will be New Zealand's largest independent electricity generator and renewables developer, representing about 5% of New Zealand's existing generation capacity.

With the New Zealand economy expected to continue de-carbonising, demand for electricity is expected to grow by 50% over the next 20 years[1]. This growth in demand, primarily through electrification of transport and industry, provides an opportunity for us to leverage our capability and experience - and underpins our strategy of investing in the development and delivery of new renewable generation capacity.

As a substantial independent renewable generator/developer, we are uniquely positioned with a diverse portfolio of existing renewable generation assets and development capability, which will allow us to deliver firmed renewable generation solutions to major industrial energy users in New Zealand.

Our strategy is focussed on two key pillars:

> **Growth**
> As an organisation, we pioneered wind development in New Zealand and Australia, including the Tararua and Mahinerangi projects in New Zealand (197MW capacity) and Snowtown 1 & 2 in Australia (370MW capacity). Our current growth focus is on a range of solar and wind projects in both the North and South Islands, with a number of opportunities at various stages in the development pipeline.
>
> We are also working closely with customers as we look to grow and develop our C&I relationships and explore new innovative solutions and channels to market to deliver low-carbon energy.

---

[1] Transpower's Whakamana i te Mauri Hiko, published in March 2020

We will be flexible in our approach to funding and developing new generation projects. We will develop some projects ourselves and we will look for commercially attractive partnership opportunities that can provide faster development timelines and risk sharing for other projects. Our recent partnership announcement with Hawke's Bay Airport is an example of our flexible approach.

We are currently assessing more than 30 projects at varying levels of scale and maturity, including three projects at the feasibility and resource consenting stage.

Operational Excellence
We will continue to deliver operational excellence in respect of our existing hydro fleet, including undertaking value-adding enhancements to our existing schemes, looking for opportunities to optimise our portfolio, and driving efficiency and improvement in operations across the business.

We remain on track to deliver more than our original goal of 67 GWh/pa of enhancement uplifts from our existing assets, with 55 GWh/pa worth of enhancements either completed or due to be completed by the end of FY-25. There is an additional 54 GWh/pa of enhancements currently being scoped, which if undertaken will be completed by the end of FY-27.

Some of the enhancements are completed alongside lifecycle maintenance projects and some are completed as stand-alone enhancements. While these enhancements increase capital expenditure requirements over the short to medium term, they all provide a strong return on investment with returns on stand-alone enhancements generally in excess of 10%.

More fulsome details around our strategy, capability, and targets will be provided alongside our FY-22 full-year results.

Financial Outlook

Growth through the development of new generation and enhancement of our existing schemes is expected to provide incremental earnings growth over the medium term. In the near term however, we expect some pressure on cash flow due to:

- Accelerated spend on developing a pipeline of potential new generation projects
- The risk to Avoided Cost of Transmission (ACoT) revenues from FY-24 onwards based on the Electricity Authority's proposed changes to the Transmission Pricing Methodology
- Increased short-term capital expenditure due to our hydro enhancement programme, timing of asset lifecycle maintenance, and a renewed focus on preventative works to increase reliability

Capital Structure

Manawa Energy's capital structure will balance the need for sufficient capital retention and flexibility to execute opportunities at pace, with the desire to maintain regular dividend distributions to shareholders.

The majority of our generation development projects are still at an early (pre-feasibility) stage and the exact timing and quantum of capital investment is uncertain. However, to deliver on Manawa Energy's growth strategy it is expected that gearing levels will increase from FY-24. Based on current assumptions, our capital structure targets a leverage ratio (Net Debt to EBITDAF) of 3.0 to 3.5 times, with flexibility to extend to 4.0 times to fund growth.

The Board has determined that, subject to completion of the sale of the retail business to Mercury, it intends to declare a one-off, unimputed, special dividend of 35 cps. Once details have been finalised, such as the record date and payment date, a further announcement will be made to the market.

Post completion of the transaction and payment of the proposed special dividend (but before payment of any FY-22 final dividend), Manawa Energy's net debt position would be ~$400m.

Manawa Energy's dividend policy will not change from the existing Trustpower policy (refer https://www.trustpower.co.nz/investor-centre/ dividends). In summary, it is expected that Manawa Energy will target a pay-out ratio of between 70% and 90% of free cash flow[2] on average over time.

FY-23 Outlook

The company expects FY-23 EBITDAF to be in the range of $140m - $160m. This is underpinned by the following assumptions:

- Mass Market Retail business sale is completed on 1 May 2022
- Generation volumes of ~1,915 GWh
- Wholesale prices in line with current forward pricing
- C&I retail volumes of ~1,300 GWh
- Average hydrological conditions
- No material adverse events
- ACoT contribution of ~$17.1m

We expect CAPEX in the range of $45m - $55m. This is comprised of the following expenditure**:**

- $15m - $19m of Generation asset maintenance and lifecycle, including King Country Energy assets
- $22m - $26m for Generation asset enhancements and growth[3]
- $8m - $10m for technology, regulatory, environmental, and other capital expenditure

Investor enquiries:

Phil Wiltshire
GM Corporate Services
phil.wiltshire@trustpower.co.nz

Media enquiries:

Abbie Siely
Communications and Media Manager
abbie.siely@trustpower.co.nz

Disclosure

[2] Free Cash Flow means EBITDAF less interest, tax, and maintenance capex, plus adjustments for non 100% owned entities.

[3] Enhancement capex includes stand-alone enhancement projects as well as life cycle projects that include an enhancement of output alongside the replacement and life extension of the existing asset

EBITDAF (Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition adjustments) is a non-GAAP financial measure commonly used within the electricity industry as a measure of performance as it shows the level of earnings before the impact of gearing and non-cash charges such as depreciation and amortisation.