



**Trustpower AGM  
9 September 2016**

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CHAIRMAN'S UPDATE

# Key Strategic Issues

- Energy sector regulations
  - Electricity Authority consultation on transmission pricing and distributed generation pricing principles
- Multi-product strategy
- Role of renewable energy in New Zealand
- Water



# Electricity Authority Consultation on Transmission Pricing and Distributed Generation Pricing Principles

- Electricity Authority released draft proposals in May 2016
- If adopted as is, these proposals will reduce incentives on owners of distributed generation to respond to peak demand
- As drafted, these proposals will have a significant adverse financial impact for Trustpower, regional economies (especially Northland) and some major users (e.g. NZ Steel and Norske Skog)
- Equally it will create windfall gains for others (e.g. Meridian and NZAS - who run Tiwai Point aluminum smelter)



# Trustpower's Position:

- The consultation process proposed by the Electricity Authority is flawed:
  - Insufficient time
  - Insufficient process
- Trustpower has initiated court proceedings to challenge the process. This will be heard on 14 September
- Proposals of this magnitude demand robust and fulsome consultation processes to ensure all relevant evidence is considered and debated
- There are simpler changes that would better address the issues concerning the Electricity Authority without such adverse impacts
- Radical changes with such material economic effects, should only be implemented if there are compelling reasons, and with sufficient transition times
- When regulations materially change the expected returns from investments, investors reduce their investments and increase their cost of capital



# Role of Renewable Energy

- Post demerger, Trustpower is 100% hydroelectric powered
- Hydroelectric provides:
  - 55% of national installed capacity (by MW)
  - 57% of average national electricity output (by GWh)
  - 72% of average national renewable electricity output (by GWh)
- Trustpower's stations are small to medium ranging from 0.5MW (Duffers, West Coast) to 80MW (Matahina, Bay of Plenty), while Manapouri is 730MW and Clyde is 432MW
- If New Zealand is to achieve a 90% plus renewable energy target then hydroelectric is a crucial component. We're currently at about 80%



# Implications for Water

This highlights the water issues:

- Quality
- Allocation
- Flexibility
- Pricing/Resource rentals

Trustpower's use is 'non-consumptive' (i.e. it can be used for agriculture and recreation after use by us)

Trustpower can, and does, work co-operatively with consumptive users (mostly irrigation)

Pricing is one means to promote more efficient water allocation but it may:

- Reduce overall hydroelectric energy generation
- Raise electricity prices to consumers







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# Highlights 2016 financial year

25,000

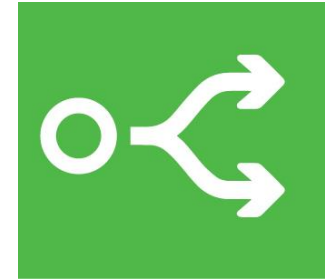
more customers  
with two or  
more services



Acquisition of **65%** of King Country Energy,  
with 17,000 customers and 5 hydro generation  
schemes, for **\$78 million**



Successful implementation of  
activity based working at our  
new Tauranga head office

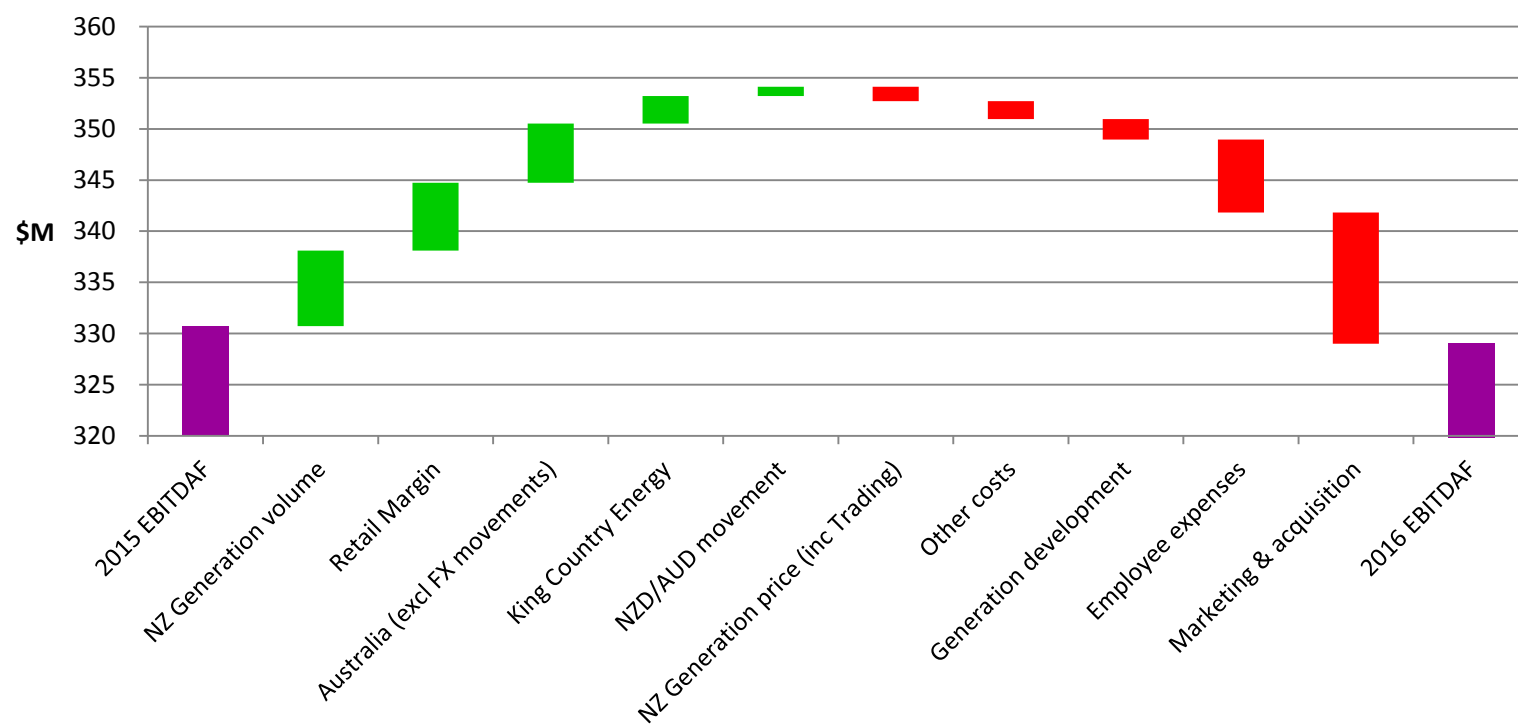


# FY16 Financial Highlights

	March 2016	March 2015
EBITDAF (\$m)	329	331
Underlying Earnings after tax (\$m)	101	123
Dividends paid (cents per share)	42	40
Gearing Ratio	41%	40%
Net Tangible assets (\$ per share)	5.69	5.55
Total connections (000's)	370	304
Total generation (GWh)	3,763	3,681



# EBITDAF bridge full year 2015 - 2016





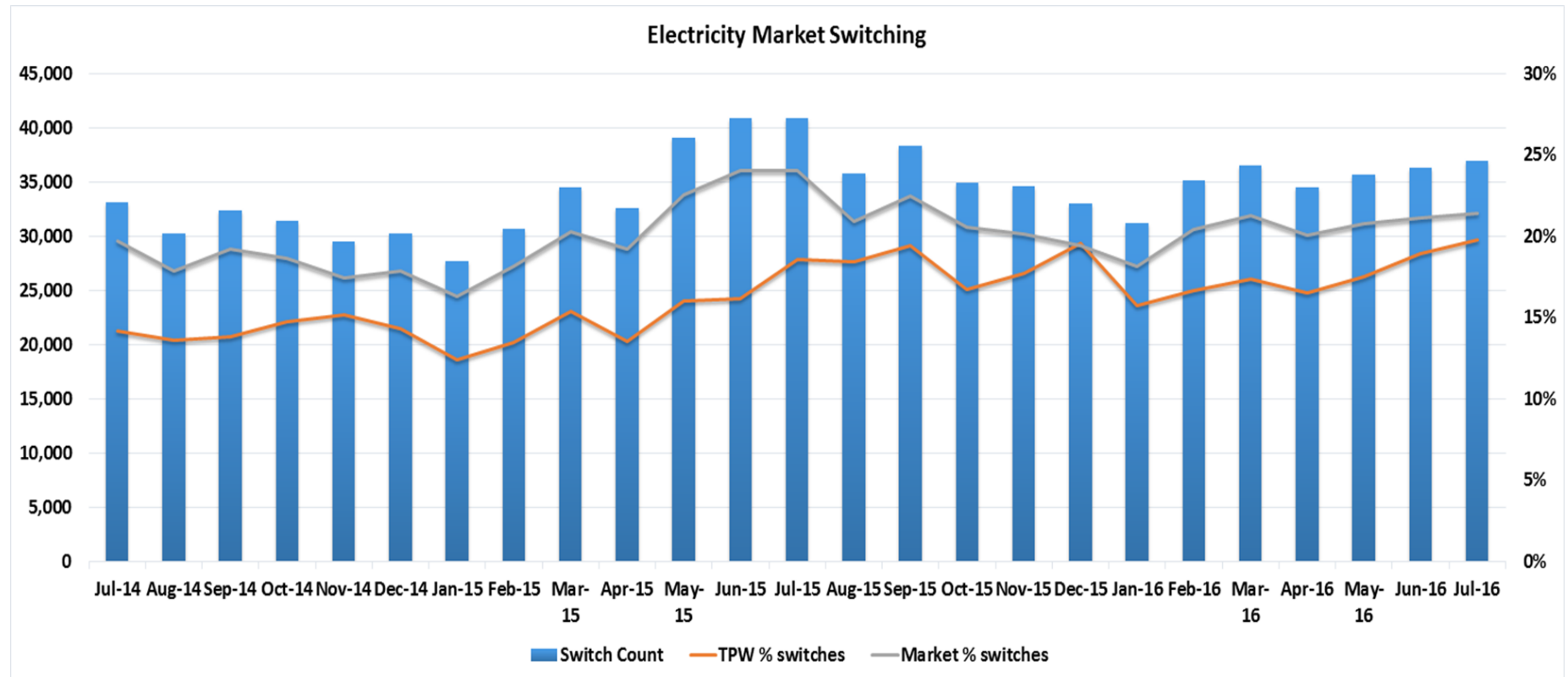
# Trustpower retail – customer growth FY 2016



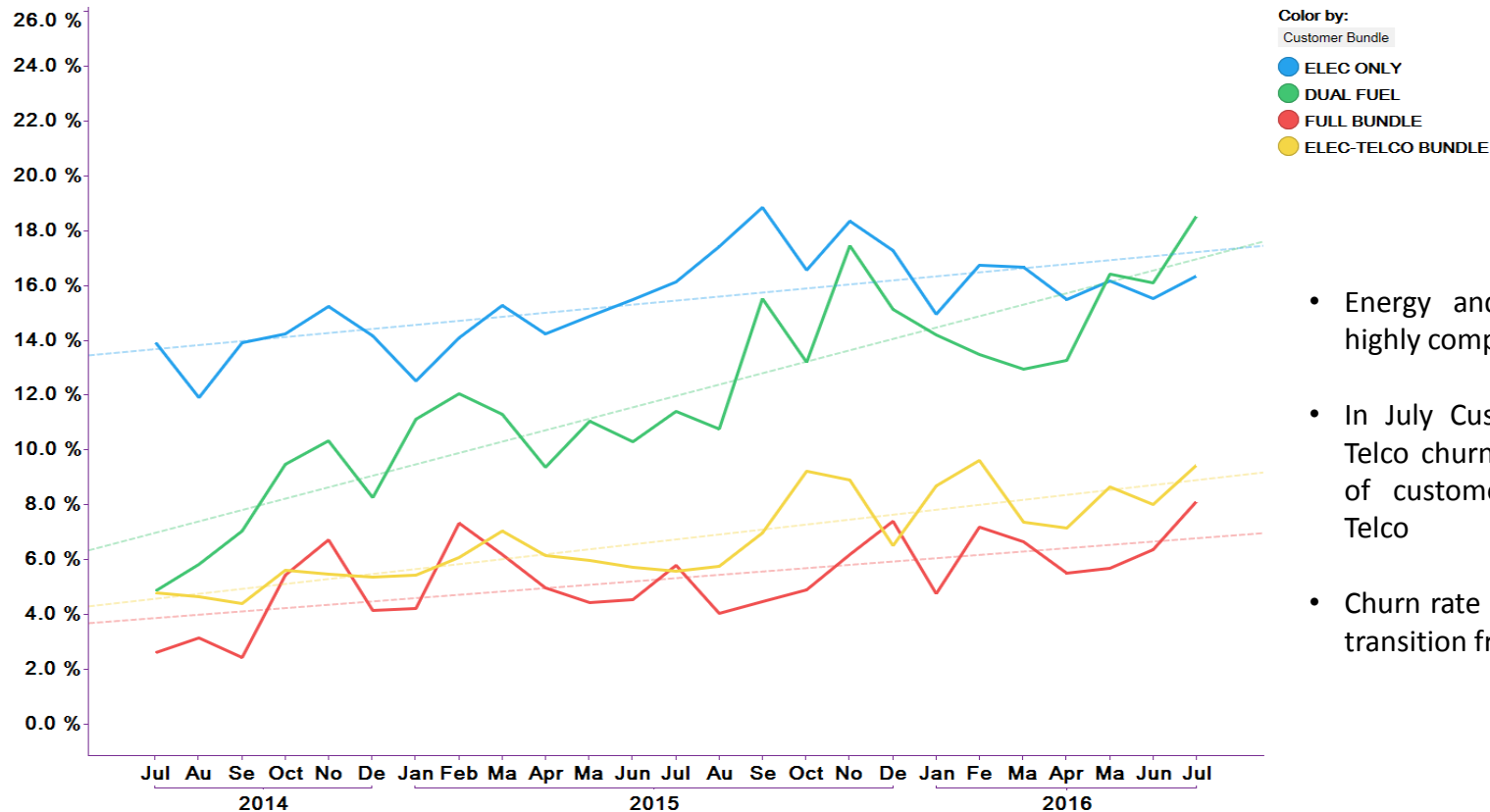
- Customer numbers up 14.5%
- Successful brand and entry strategy in urban markets



# Customer retention is critical – Trustpower outperforms



# Multi product strategy delivers customer loyalty



- Energy and Telco Markets remain highly competitive
- In July Customers on bundles with Telco churned at about half the rate of customers on bundles without Telco
- Churn rate of about 2% as customers transition from the \$49 price to \$79

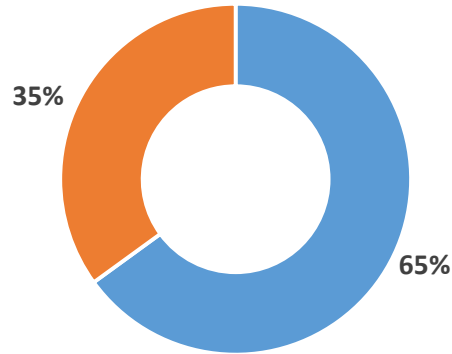
Source : Trustpower Internal Data



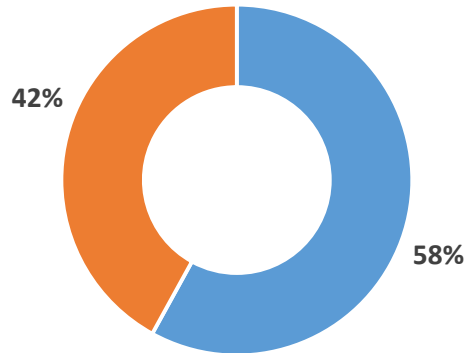


# Multi product – targets being met

March 2016



March 2017 (Target)



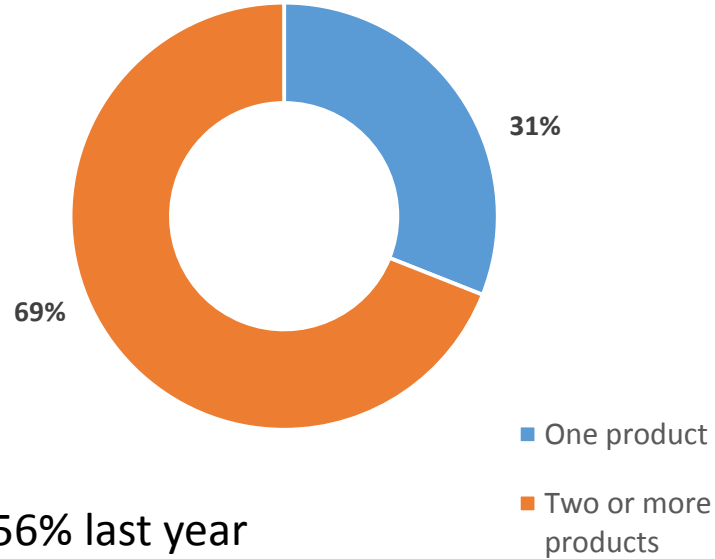
■ One product  
■ Two or more products



# New metro-markets – bundle take exceeds expectations

## Overall Campaign Conversion

1 April 2016 – 31 July 2016



Up from 56% last year



# Generation highlights

- In 2016 projects that have enhanced generation value by \$7.5m have been completed with a further \$8.3m of value creation in progress from a potential pipeline of \$35m identified.
- In-sourcing of previously contracted services in Marlborough, Central Otago, and through KCE integration.
- New approach to 10 year Asset Management Planning gives focus to strategic value and optimising risk management across the portfolio.





# King Country Energy acquisition a positive addition

- Trustpower holds 64.5% of KCE acquired at an offer price of \$4.78 per share.
- KCE owns and operates 5 hydro stations with a combined installed capacity of 54MW and generates around 190GWh/pa.
  - The Mangahao power scheme located near Palmerston North is the most significant generation asset with an installed capacity of 39.8MW.
- KCE's retail business serves approximately 17,500 largely provincial customers.
  - KCE's churn rate is about half market average.
- King Country Energy Power Trust partnership is positive.



# Health and Safety

## Health and Safety at Work Act (HSWA) 2015

An audit of our Safety Management Systems has been undertaken and confirmed both our compliance with requirements and a focus for resources.

## The Statistics – (Aug. 2015- Aug. 2016)

Total Recordable Injury Frequency Rate is 1.8

(TRIFR = no. of recordable injuries / hours worked x 200,000<sup>1</sup>)

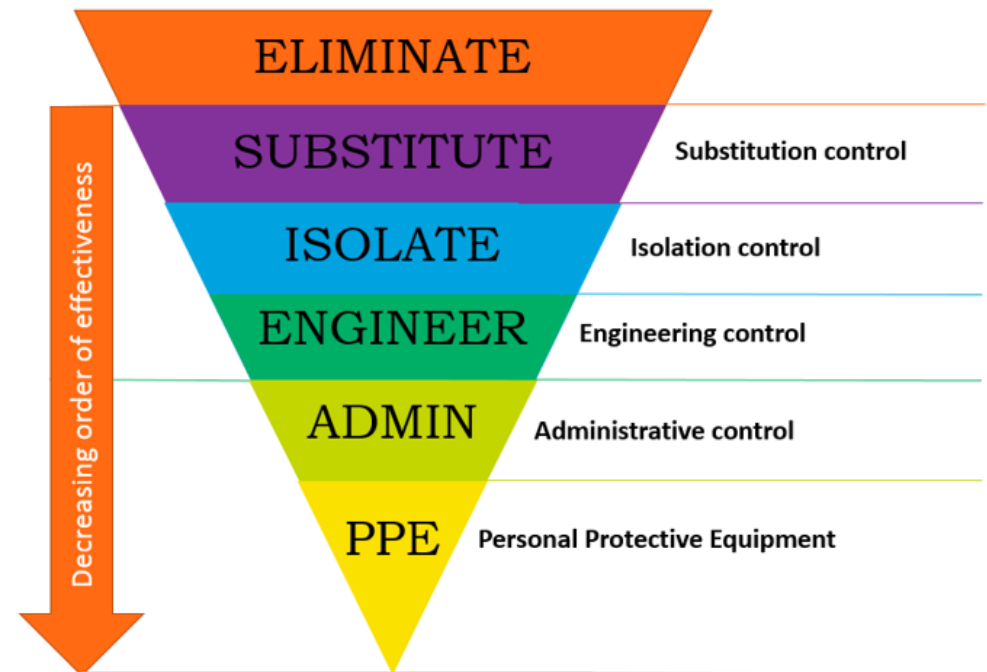
1. Normalising factor – approximates to number of incidents per 100 workers.

Number of Lost Time Injuries is 3

(Oct 2015, Nov 2015, August 2016) – slip, trip and fall incidents

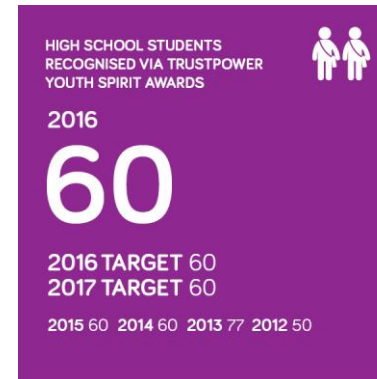
## Our Direction

Risk based effort (don't sweat the small stuff) with structured focus on effective controls



# Community Focus

Supporting community volunteer groups who create better communities





# Tilt Renewables transition

New Trustpower is expected to:

- Support the creation of Tilt Renewables
- Provide Services through the Transition Services Agreement
- Recognise that the success of Tilt Renewables is validation of the Trustpower Strategy



# First quarter FY 2016

	June 2016	June 2015
Electricity Connections	279,000	248,000
Gas Connections	32,000	26,000
Telco Connections	66,000	44,000
Total Sales	1,014GWh	1,029GWh
Total NZ Generation	609GWh	599GWh
Australian Generation	371GWh	295GWh



# Strategic focus FY 2017 (New Trustpower)

- Maintaining momentum for the Trustpower Brand in Energy and Telco Markets
- Integrating EDNZ into the Trustpower business
- Maximising value from our existing generation asset base
- Successful transition of Tilt Renewables to a stand alone business
- Ensuring our people are safe and we are responsible guardians of the environment



# 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 impairment of generation assets.
- EBITDAF is a non GAAP financial measure but is commonly used within the electricity industry as a measure of performance as it shows the level of earnings before 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.
- Reconciliation between statutory measure of profit and the two measures above are given below:

	2012	2013	2014	2015	2016
<b>Profit After Tax Attributable to Shareholders of the Company</b>	<b>131,652</b>	<b>123,351</b>	<b>115,121</b>	<b>144,014</b>	<b>88,105</b>
Fair value losses / (gains) on financial instruments	7,544	5,593	(9,448)	14,219	6,327
Discount on acquisition				(24,986)	(2,114)
Impairment of assets	428	-	226	141	1,247
Changes in income tax expense in relation to adjustments	(2,271)	(1,678)	2,582	(4,021)	(2,121)
Change in corporate tax rules	(2,031)	-	-	(6,471)	-
Impact of Inland Revenue court case on interest expense	-	-	-	-	6,213
<b>Underlying Earnings After Tax</b>	<b>135,322</b>	<b>127,266</b>	<b>108,481</b>	<b>122,896</b>	<b>97,657</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Operating Profit</b>	<b>233,928</b>	<b>223,176</b>	<b>214,615</b>	<b>243,232</b>	<b>243,232</b>
Fair value losses / (gains) on financial instruments	7,544	5,593	(9,448)	14,219	6,327
Impairment of assets	428	-	226	141	1,247
Depreciation and amortisation	58,237	65,987	72,013	98,125	98,125
Discount on acquisition				(24,986)	(2,114)
<b>EBITDAF</b>	<b>300,137</b>	<b>294,756</b>	<b>277,406</b>	<b>330,731</b>	<b>346,817</b>







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