

**TRUSTED**  
FOR MORE  
THAN JUST  
**POWER**

Investor Day | 6 April 2017



# Welcome and agenda for the day

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Building  
tour

11<sub>am</sub>



Light  
lunch

12<sub>pm</sub>



Welcome and  
strategic  
overview

12.30<sub>pm</sub>



Presentations  
by senior  
managers

1.00<sub>pm</sub>



Finish

5<sub>pm</sub>

# Today's objectives

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## To provide a deeper understanding around our strategy and capability

- Diverse and adaptable asset base
- Insight driven retail strategy that positions us for an evolving market
- Customer led focus on technology and service performance
- Fit for purpose technology platform
- Pragmatic but comprehensive risk management
- Strong focus on profitability

## Introduce our senior leadership team

# Positive record of identifying and executing strategic opportunities

## From 1994 - 2013



- Listed in 1994 serving 40,000 customers
- High growth through acquisition, regulation, new generation builds
- Australian renewables
- First forays into telco through Kinect
- Significant growth in shareholder value

## 2013 to today



- Rebrand
- Focused growth in telco including UFB
- Created platform for Tilt demerger
- Created additional shareholder value through bolt on acquisitions

## Looking to the future

- 4th largest in energy and growing multi product
- Strong position in telco
- Creates a platform for optimisation, convergence and growth
- Well positioned to create new shareholder value



## Our world view

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- Global trend towards industry convergence is increasing
- Single industry players face high competition from both within and outside the sector
- Consolidation – is occurring within industry segments to achieve scale, and across industries to provide customer solutions

## Trustpower is well positioned to capitalise on emerging market opportunities

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- Easily restructured portfolio of generation assets
- Ability to grow in electricity, telco and adjacent markets
- Can seek convergence and growth through acquisition (King Country Energy)
- New customer facing technology fits well at the junction of energy and telecommunications business

“Trustpower’s core strategic approach is to create executable options in this world of uncertainty”

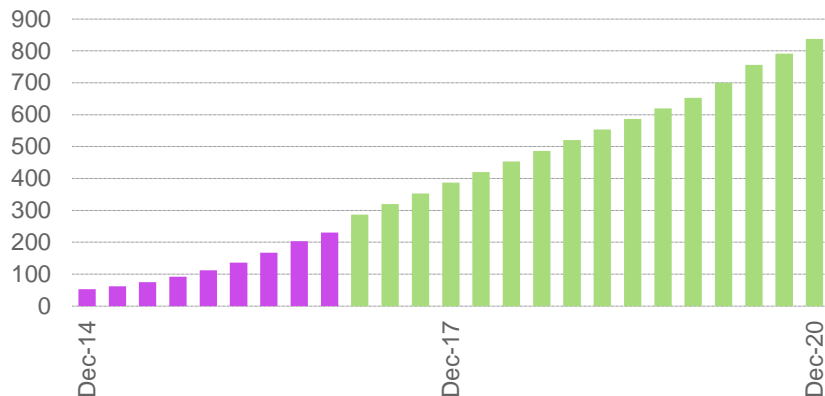
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# The dynamics and potential of our markets

## Actual and forecast fibre connections (000's)

Fibre opportunity growing fast

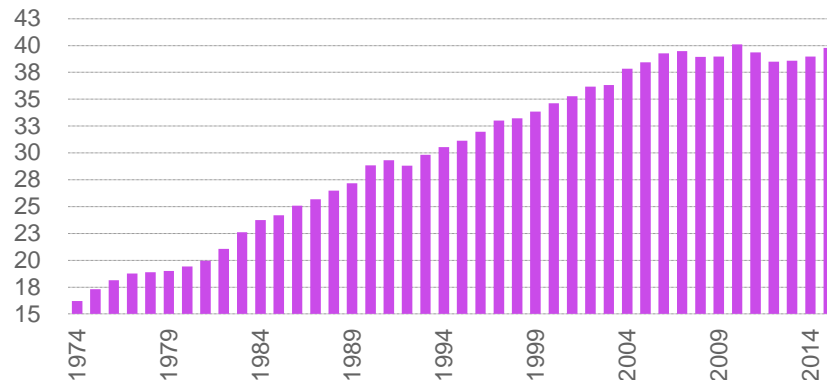
- Driven by data hungry customers
- Creates new opportunity for customer engagement



## NZ annual electricity consumption (TWh)\*

Electricity demand largely flat

- Driven by beyond the grid efficiency and generation
- Thermal plant retirement will tighten supply, moving price towards LPMC



\* Data from MBIE

# Key performance areas

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A clear focus for ensuring a more valuable business in the future

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## Key focus areas

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### Optimising performance of the generation portfolio

- Asset management that is value driven
- Operating cost flexible to market conditions
- ACOT and TPM - continue to work for sustainable solution
- Maximise value within overall trading portfolio through flexible contracting

### Enhancing the multi-service offer and customer experience

- Continue to lead the change to value enhancing multi-service offers
- Improve customer experience in provisioning and customer service
- Demonstrate efficiency from scale and digital investment
- Align acquisition costs with the lifetime value of a multi-service customer

### Improving long-term industry structure

- Manage relative position given inevitable changes in future business models
- Execute accretive inorganic growth options when available
- Major shareholder that supports Trustpower to be part of future industry consolidation

# Trustpower is well positioned in a world that is decentralising and converging at the customer premise

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## A proven ability to execute in our target markets

- We are not relying on our strong relative position in the traditional electricity industry to build our future business
- Trustpower has made a series of investments in the last few years to pre-position for the inevitable changes in the industry:
  - diversified generation fleet, multi-service offer, flexible enterprise systems, online capability, improved work environment, and extending the Trustpower brand
- The most obvious strategic shift has been towards multi-service retail – this is a high conviction and important strategy but only part of the overall plan for preparing the business for major changes
- 2017/18 Proof points:
  - Customer retention post acquisition term
  - Continued ability to execute targeted campaigns in high value segments
  - Increased returns through cost optimisation and scale

**Will create opportunities for growth in energy and other utility services, and a path to value through customer insight, portfolio management, cost efficiency and targeted investment**

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# Trustpower senior leadership team – refreshed and focused



Vince  
Hawsworth



Kevin  
Palmer



Peter  
Calderwood



Stephen  
Fraser



Melanie  
Dyer



Simon  
Clarke



Fiona  
Smith



Craig  
Neustroski

# Markets

Craig Neustroski  
GM Markets



# Customer and product mix is changing. We are having different conversations with customers. Our focus is on customer lifetime value

## Key focus areas

### Understanding our customer

- Understanding customer attitudes, interests and opinions
- Understanding their needs and wants
- Understanding how to reach the customer

### Understanding our markets

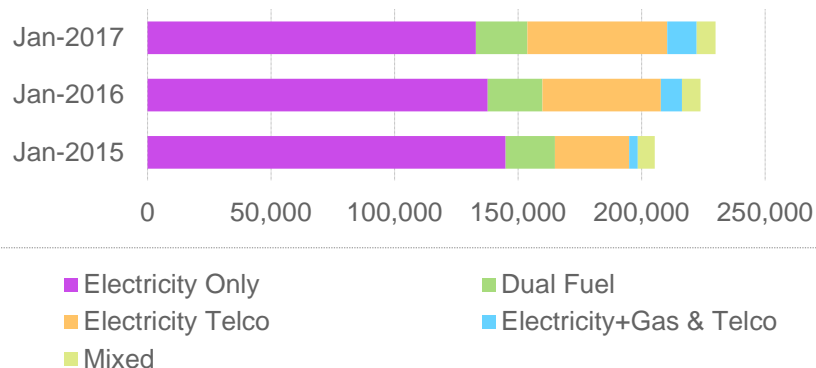
- Deep understanding of changing markets
- Understand where opportunities exist
- Understand costs and customer value

### Creating value for both the customer and Trustpower

- We want to create great value bundles for our customers that are also profitable to Trustpower
- Focus is on improving customer life time value via targeted growth and retention

# Customer growth is targeted at higher value bundled customers

## Customer number growth



## Targeted growth

- Focus is on optimising customer lifetime value
- Driving sustainable growth in the higher value segments
- Insight driven proposition development

## Current connections



275,000 electricity



32,000 gas



76,000 telco

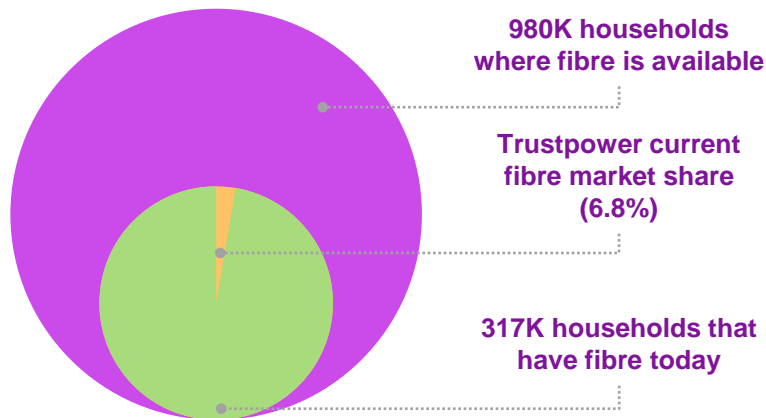


90,000 customers have more than one product

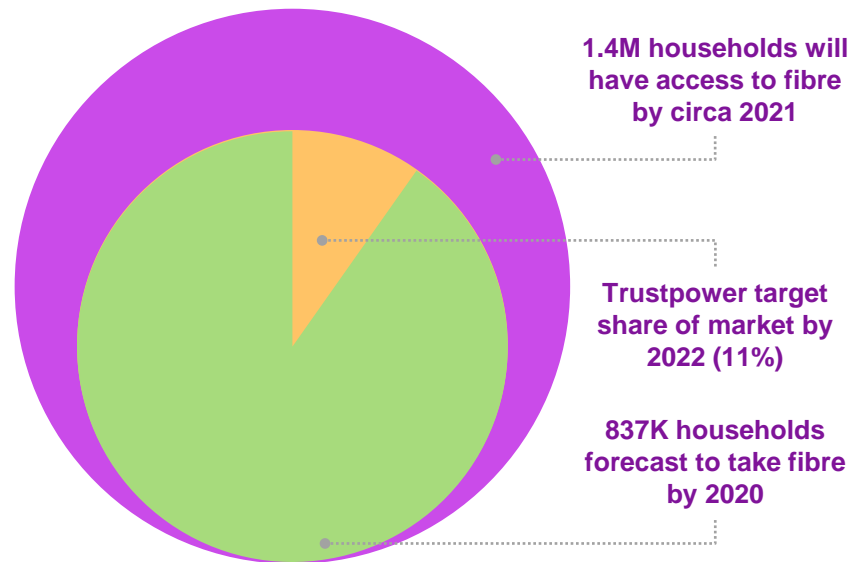
# We are focusing on growing our share of the higher-value fibre market

2017

Trustpower is taking a growing share of a growing market as customers of legacy copper services with incumbent providers accelerate their migration to higher value, higher margin fibre products

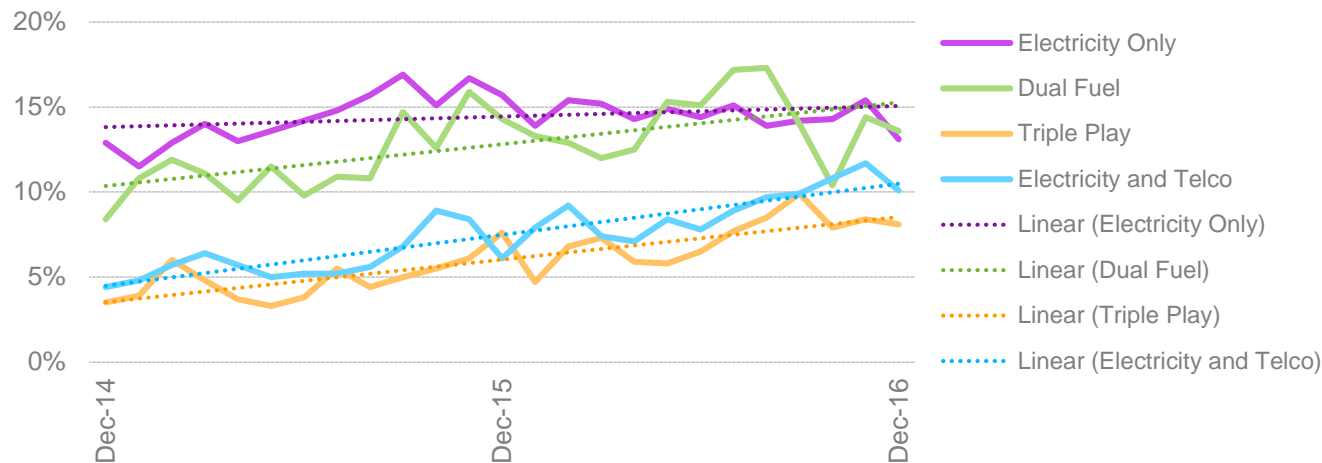


2020



# Multi-product loyalty benefits are real

## Electricity only vs multi-product customer churn

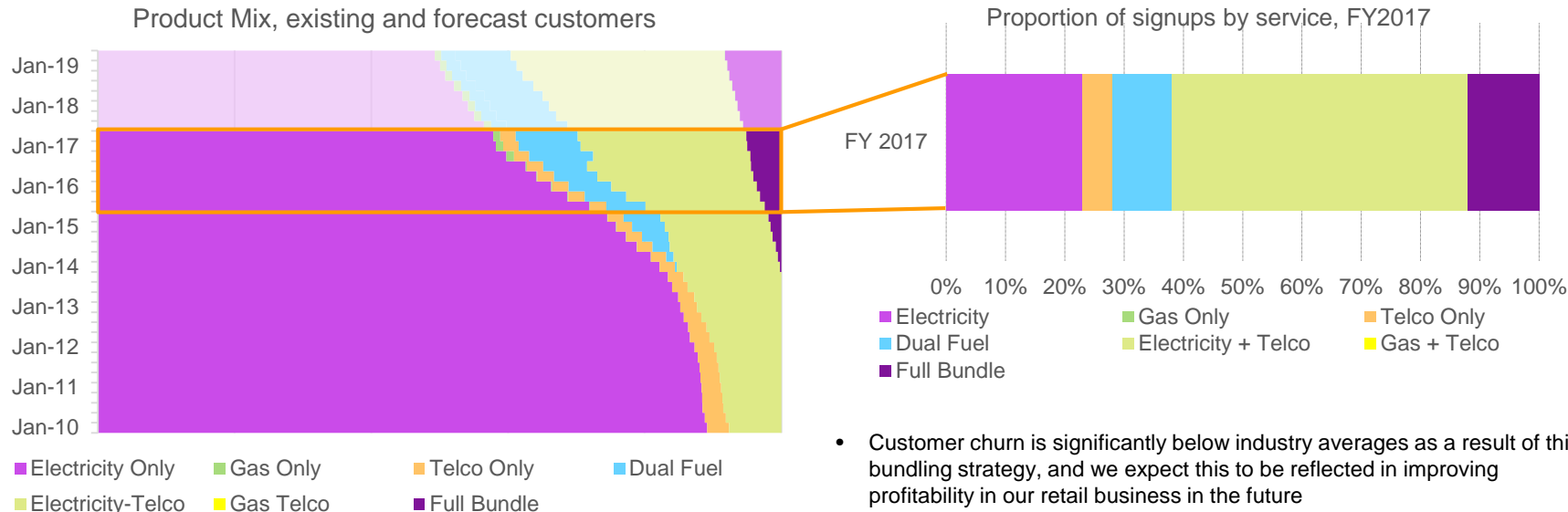


For example in Auckland the NPV of a bundled acquisition campaign with a median customer tenure of 4.7 years is more than 5 times that of an electricity only campaign

“Intense competition continues, however bundling has maintained position in the face of heavy price discounting of electricity that is not sustainable in the medium term”



# Product mix has changed significantly as a result of our focus on a bundling strategy, at the same time as we've delivered significant growth in total customer services



Electricity-only services are challenging due to high churn and margin decline, hence our continued focus to improve our product mix

- Customer churn is significantly below industry averages as a result of this bundling strategy, and we expect this to be reflected in improving profitability in our retail business in the future
- We have seen successful results of our focus in increasing the number of services per customer, with nearly 40% of customers now taking more than one service

## Segmentation

- Identify & group customers
- Common language and framework – analytics, marketing, sales



## Personas

- Brings to life: key characteristics, needs, behaviours, goals, values
- Provides clear design target & a common understanding



## Segmentation + Personas

Comprehensive picture :

- Who to market to,
- How to target,
- With what





# What we have learnt

- There is a correlation between segment and lifetime value, based on:
  - Energy consumption
  - Telco bundling
  - Tenure
- Target segments float to the top, BUT there are profitable customers in most segments
- Energy only offers with cash incentives and no contracts attract low value, high churn customers



# Trustpower makes it easy to get unlimited access to the content you want when you want it... through a telco-led entertainment bundle

40" Samsung Smart TV



free with  
**100/20** Fibre  
for \$99/month

50" Samsung Smart TV



free with  
**200/20** Fibre  
for \$119/month

55" Samsung Smart TV

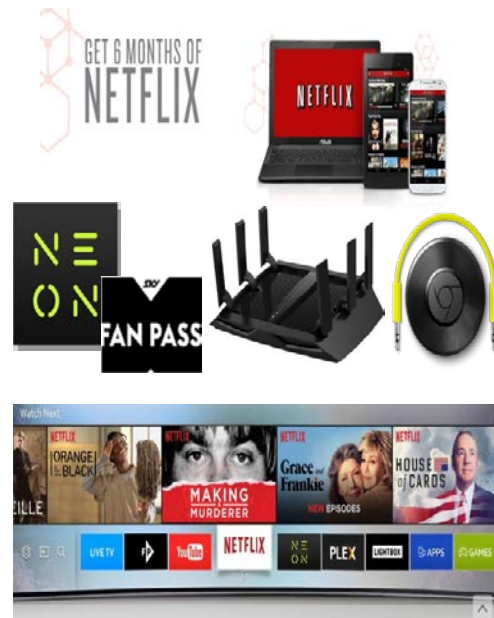


free with  
**200/200** Fibre  
for \$139/month

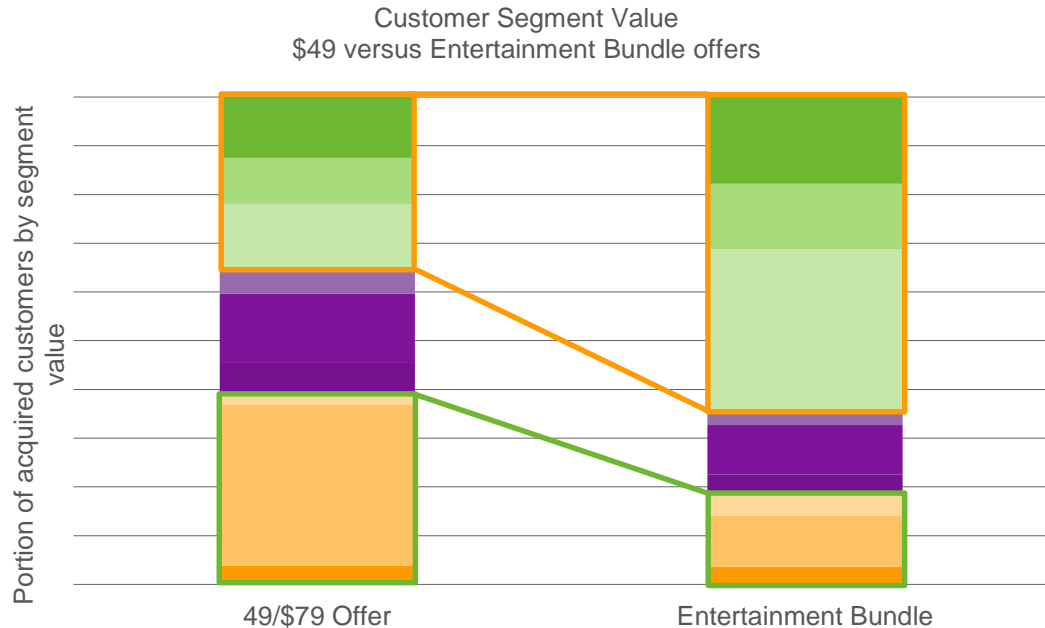
## Key terms and conditions

- 2 year contract (price cap for energy and telco in ACQ markets)
- \$700, \$1100, \$1300 exit fee, plus \$59/mth for each month remaining on term
- Samsung responsible for warranty, returns and support

The Samsung Smart Hub offers New Zealand's most extensive collection of video entertainment apps and services. You can enjoy exclusive apps such as FAN PASS (Sky Sport channels 1-4) as well as all the other services you would expect such as Lightbox, NEON, Netflix, YouTube and Freeview Plus



# Early days – the entertainment bundle is delivering



- NPV per customer 6-7 times electricity only
- Leakage below 10%

# Customer Operations

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**Fiona Smith**  
GM Customer Operations



# Customer and product mix have both changed significantly, causing an increase in support complexity. Our key focus areas drive greater value through improved customer experiences and improved cost to serve

## Key focus areas

### Reshaping the customer experience

- How do we keep pace with changing customer expectations & create long-term, mutual customer value?

### Changing nature of our workforce

- How do we support our people to be more effective, resilient and fulfilled as we change as an organization?

### Changing nature of our customer base

- How do we reduce connection complexity to increase uptake & decrease effort ?
  - Who's looking after Grandpa ?
- How do we provide a retro cost effective service that values the need for human interaction.

### Leveraging digital to improve efficiency

- How are we using digital technology to improve the experience and our units efficiency?

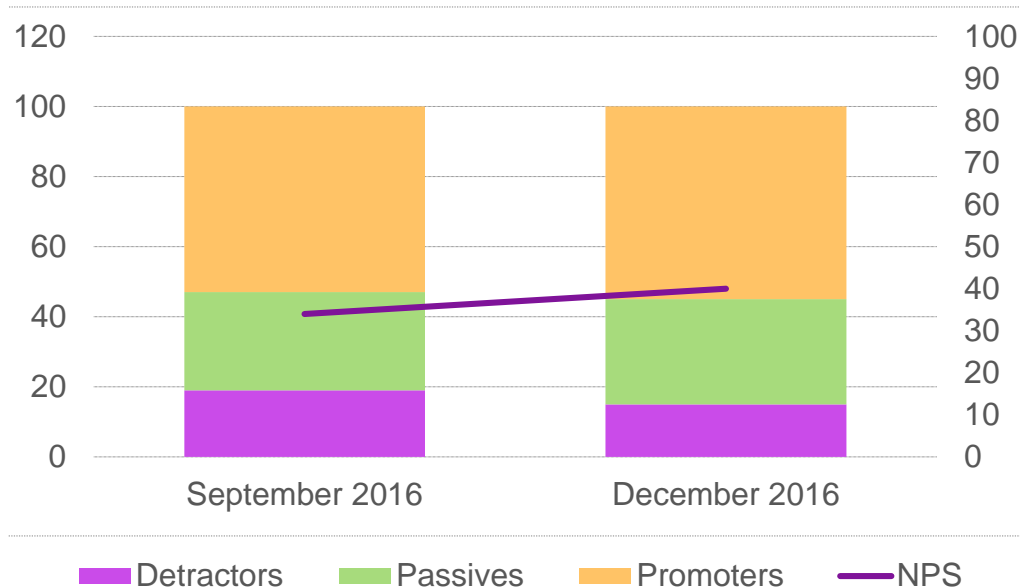
# Reshaping the customer experience

## Keeping pace with changing customer expectations and creating long-term, mutual customer value

Net promoter score increases due to:

- Propensity models and proactive intervention
- Platform stability
- Process redesign
- Reduced customer effort

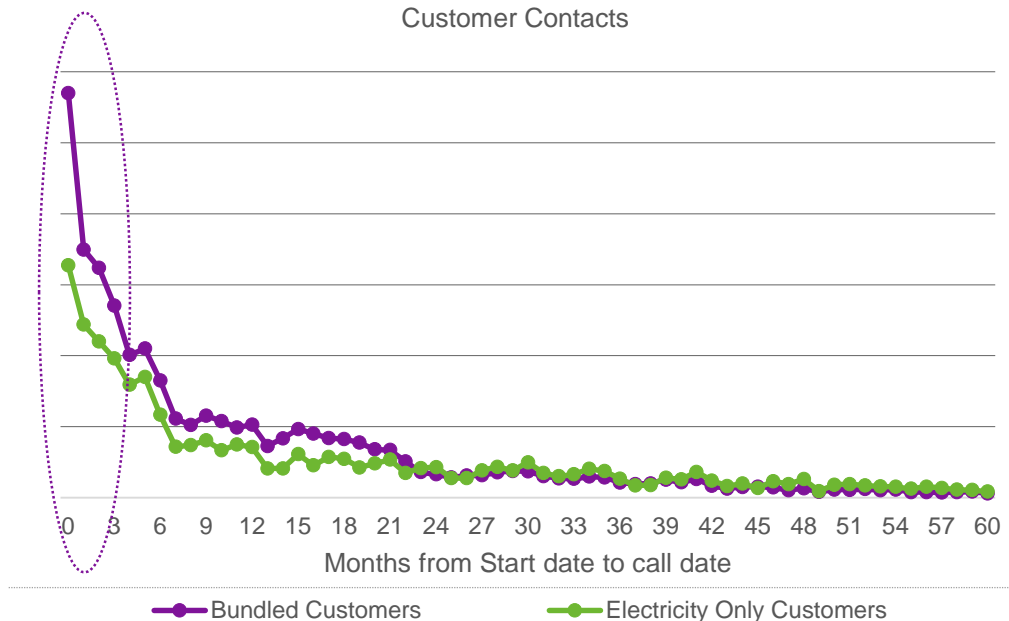
### Net promoter score



# We understand where effort and costs are driven and have plans in place to improve

## Changing nature of our customer base

- Customer effort is disproportionally driven by acquisition: increased use of technology & third party improvements drive out effort
- Longer tenure presents a significant opportunity to lower lifetime cost to serve: Supported by decreasing customer effort
- Providing effective channels of choice: without getting in the way of customer need

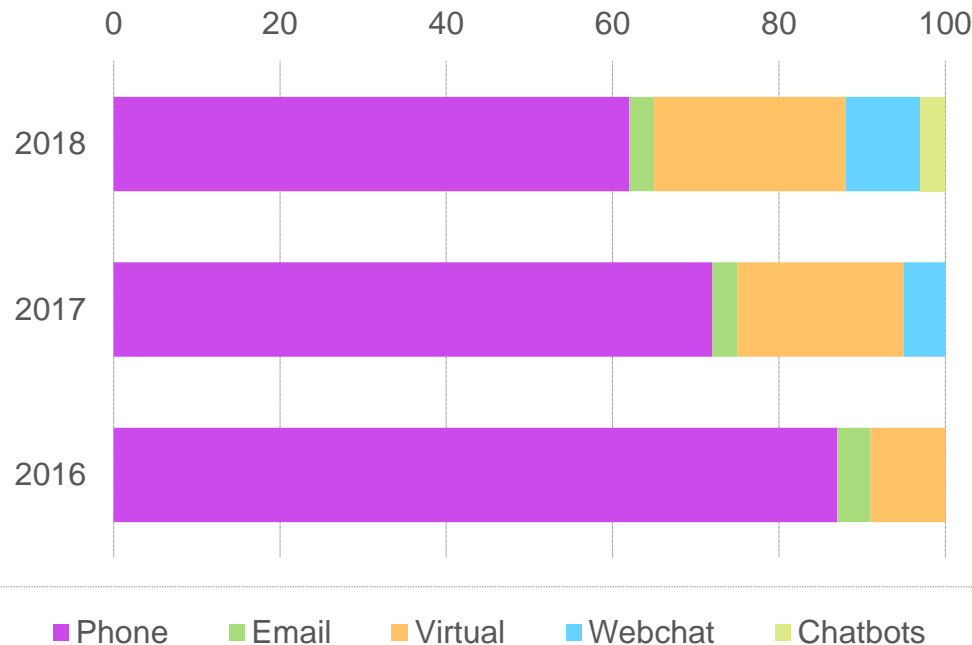




# Improving cost efficiency without compromising quality of service through the leverage of digital and emerging technology

## Interactions by channel

- We have focused on driving interactions to lower cost channels where customer preference allows us to do so
- Increased focus on digital channels has led to a reduction in recruitment of 16 staff
- Future investment; apps, push notifications, machine learning & greater use of robotics and chatbots will see continued improvements





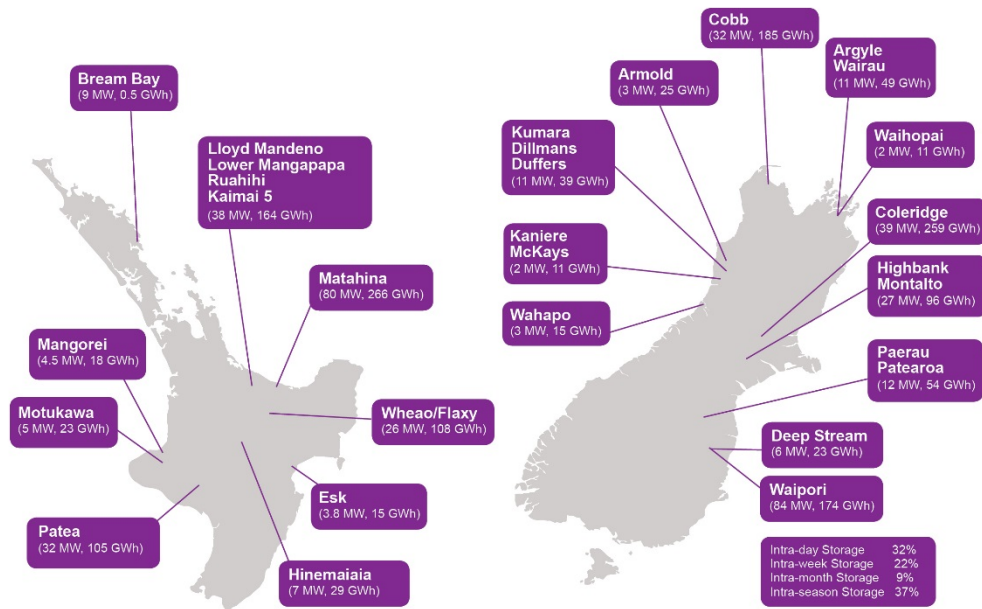
# Generation

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**Stephen Fraser**  
GM Generation



# Generation portfolio – provides efficient, flexible risk management



**38**

38 hydro power stations across

**21**

schemes

**65%**

shareholding in King Country Energy

**436MW**

total NZ installed generation capacity

**20%**

shareholding in Rangitata Diversion Race Management Limited (New Zealand's largest irrigation scheme)

**75% - 80%**

of Trustpower's EBITDAF is provided by the NZ generation business

**Flexible and low marginal cost**

portfolio benefits from market firming and able to optimise growth, hold or divest

# Generation portfolio – provides efficient, flexible risk management



**3**

Australian  
schemes

**6**

generating  
units

**96MW**

of AU generating  
capacity

**244GWh**

typical annual production –  
approximately 13% of TWP total

# We will continue to drive portfolio profitability and manage risk in the near term through a number of different focus areas

## Key focus areas

### Maximizing portfolio profitability

- Improve the profitability of the current portfolio utilising a range of value improvement initiatives

### Risk-based asset management

- Risk-based/value targeted asset management to offset the affect of increasing compliance cost

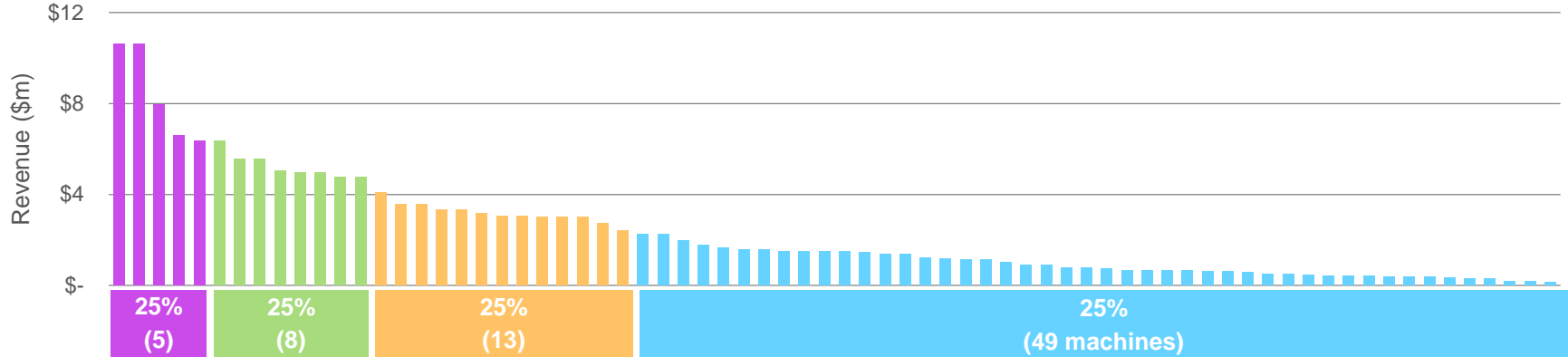
### Asset efficiency

- Targeted asset management practices that focus on the efficiency, reliability and availability of our highest value assets

### Identifying new generation opportunities

- Generation growth agenda medium term: keeping an eye out for the right opportunities however focus will remain on 'profitability' improvements for the existing portfolio

# Trustpower hydro schemes vary significantly both technically and in terms of their contribution to profit



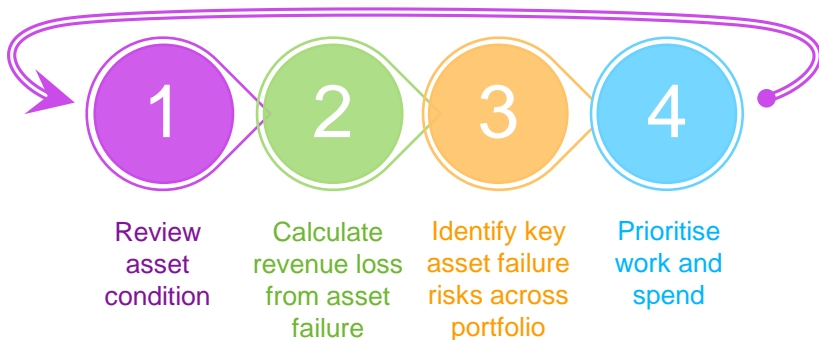
Note: Each bar is one machine, and each colour represents 25% of Generation's annual revenue.

- Assets within schemes are mapped against their contribution to revenue
- Risk based decisions, higher value assets will attract a greater proportion of budget to tackle business continuity risks
- Generation is diversified over a number of machines and locations, reducing failure and weather risk
- Risk based approach appropriate
- Five units produce 25% of revenue



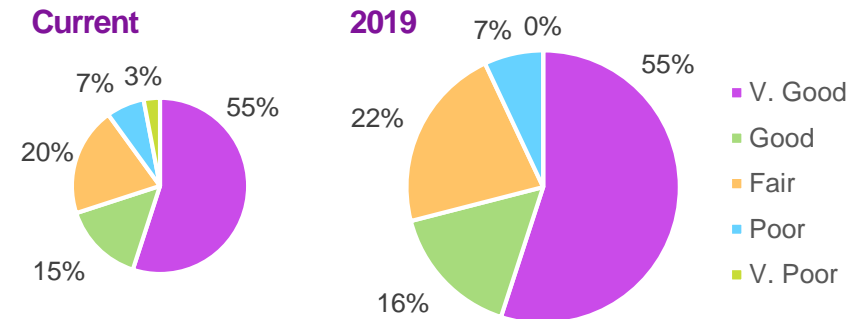
# Asset management systems have been deployed and conditions assessment data centralized to improve analysis and preventive maintenance

## Asset evaluation



- All high-risk scope relating to personnel and/or public safety compliance will always take precedence
- Cost of compliance – programme to ensure that the portfolio is at a tolerable risk profile with increasing compliance requirements

## Forecast portfolio condition:



Note: Condition of all penstocks, generators, turbines and transformers weighted against potential lost revenue

- Hydro assets generally in good condition and will reduce risks in the coming years
- Combination of profitability focused asset spend and centralised asset management will improve Generation earnings

# Asset efficiency focus – continued emphasis on improving profitability

Adopting a continuous improvement philosophy – emphasis to engender value identification to improve reliability and quality of Trustpower's asset base including value creation initiatives

- \$50M NPV of growth opportunities identified and in the various stages of planning and execution
- Currently Trustpower has realized circa \$15M NPV through the completion of 17 initiatives over the last two years

## \$1M NPV

### Flaxy Station (Wheao Scheme)



- Storage used for peak pricing events
- Increased capacity by extending canal joining two storage areas

## \$4M NPV

### Hume Power Station



- Trustpower's largest Australian power station at 58MW
- Ability to direct power to either NSW or VIC
- Team discovered opportunity to improve revenue by taking export direction decisions
- Internal market tool changes and physical changes required to realise circa \$4M NPV

# Regulatory Change, Trading and Growth

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**Peter Calderwood**  
GM Strategy and Growth





# Portfolio strategy

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## Key focus areas

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### Regulatory strategy

- Trustpower brings a different perspective, as an established participant in multiple competitive markets
- Clear focus on how we can do the best for the customer as part of the bundled strategy

### Risk management

- Making sure our risk management is fit for purpose
- Using appropriate tools to manage our risk position particularly in the electricity market

### New opportunities

- Potential M&A Opportunities
- Divestment where other owners are better fit

# Key opportunities and challenges in regulatory/policy change

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## Telecommunications Act review

- The review provides the opportunity to refresh industry self-governance and introduce pro-consumer, pro-competitive measures
- Key priorities for us are ensuring open access to networks, reducing barriers to switching and improving operational efficiency
- There is a risk that the sole outcome of the review is a new pricing model for fixed line services

## Electricity distribution pricing reform – shift to cost-reflective pricing

- Consumers, through the competitive market, will ultimately decide what pricing structures they choose to face
- There is a clear need for careful management of transitions and communication

## Regulatory framework for emerging energy technology

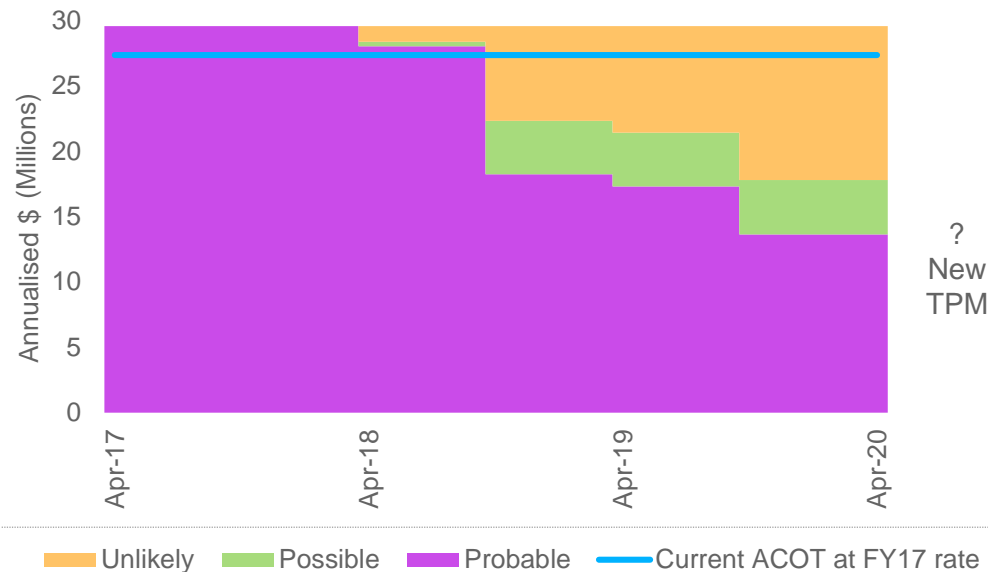
- The regulatory framework needs to evolve to ensure competition is able to flourish in the provision of non-network services (e.g. batteries)
- There is a chance to leverage learnings from Australia, e.g. the RIT-D requirements

# Review of DGPPs (ACOT payments)

## Assessment of ongoing ACOT (Avoided Cost of Transmission) payments

- EA's final decision announced 6 December 2016
- Final decision included new Code amendments
- Transpower currently reviewing which DG should continue to receive ACOT payments; their list to be reviewed and approved by the EA
- We have made our own assessment based on Transpower's publicly-available security assessments
- We forecast a reduction in ACOT payments from April 2018

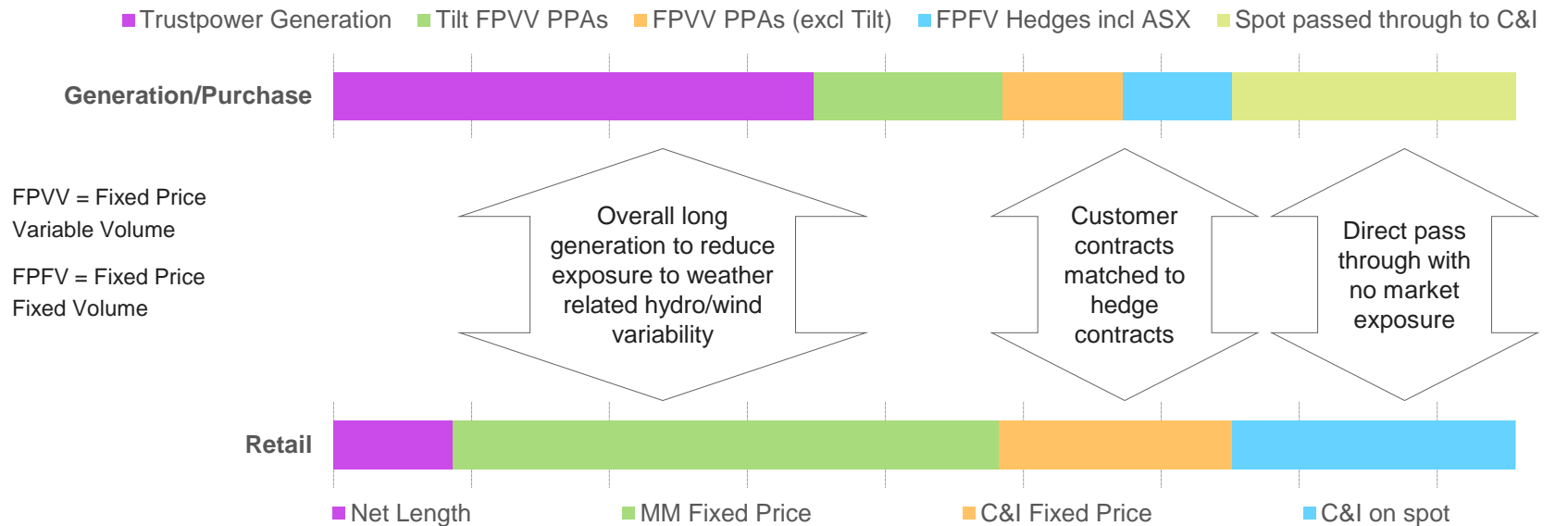
## Current Trustpower estimate of future ACOT revenue





# Balanced exposure to wholesale risk

## Overview of a typical year



# Potential M&A activity

## Successful history of acquisition and integration:

- Retail customer bases and power stations throughout New Zealand during the late 1990's / early 2000's – much of that IP is still within the business
- More recently EDNZ (2013), GSP (2014) and KCE (TBC)
- Options for consolidation exist within electricity, telco and related industries



# Technology Platforms

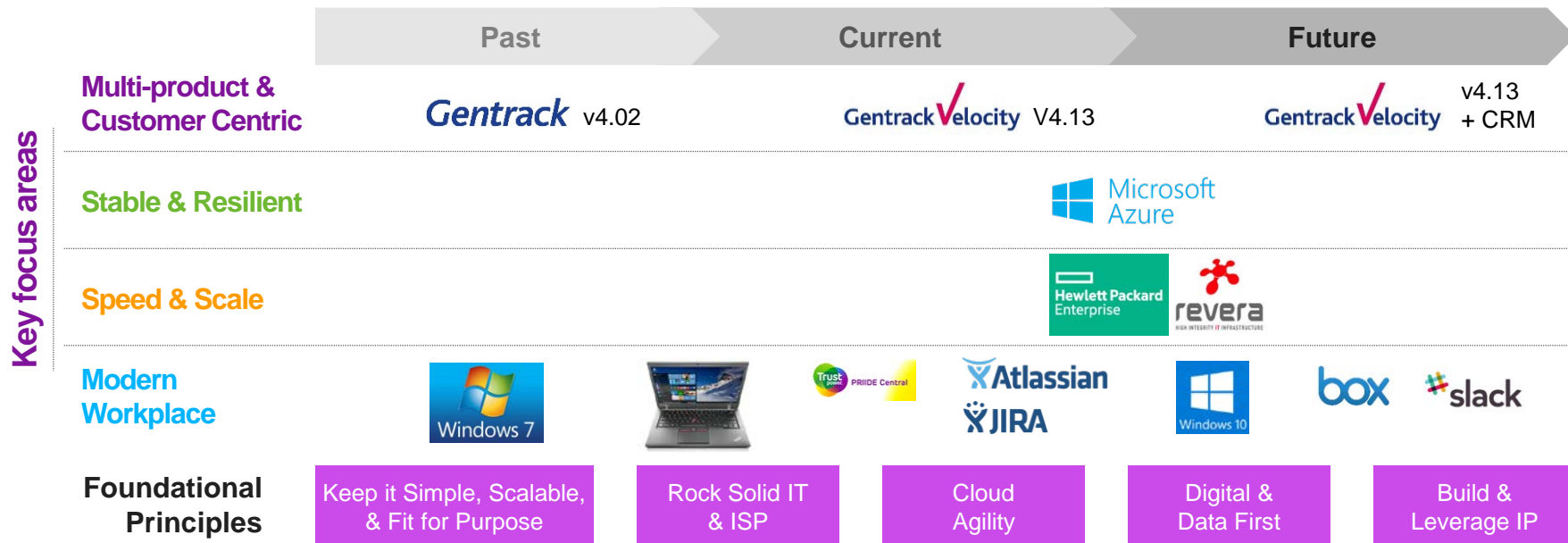
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**Simon Clarke**

GM Business Solutions  
& Technology

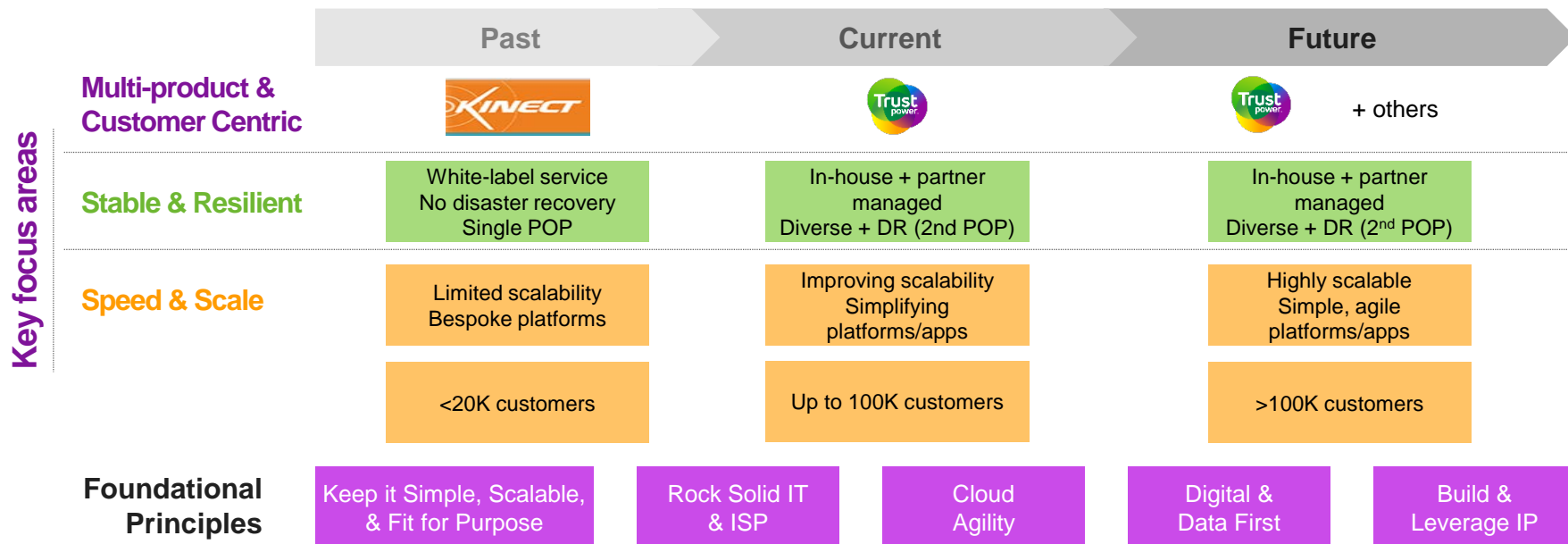


# Investing in technology platforms that are fit for purpose, secure, modern and customer centered



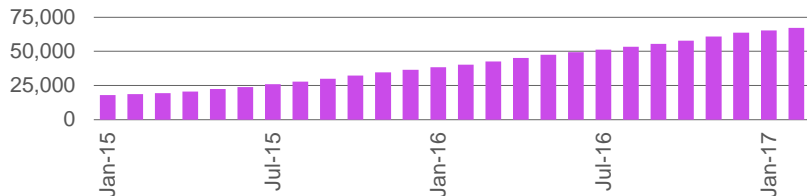


# Results of our investments in stable & scalable platforms & capability are demonstrated in our ISP platform which has grown significantly & continues to scale



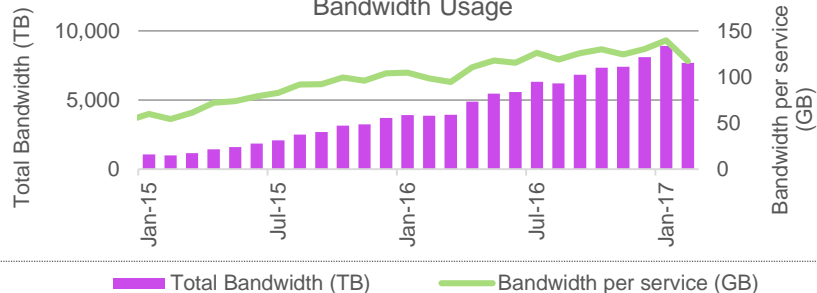
# Our approach has supported significant growth in ISP

Total Services



Total Services

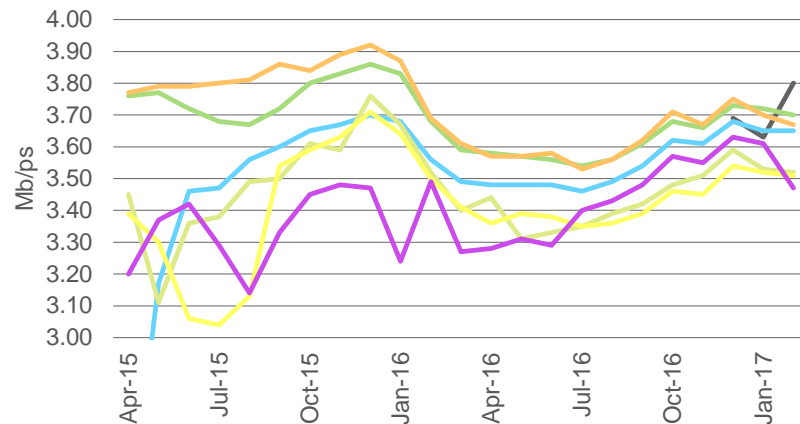
Bandwidth Usage



Total Bandwidth (TB)

Bandwidth per service (GB)

Netflix Performance ISP Data



MyRepublic

Spark

Trustpower

Vodafone NZ

Bigpipe

2degrees

CallPlus

# People, Culture, and Corporate Responsibility

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**Melanie Dyer**  
GM People & Culture



# People capability to execute on future opportunities

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## Key focus areas

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**Future  
organisational  
capability**

**Adaptability  
and  
flexibility**

**Changing  
nature of the  
workforce**

**Keeping our  
workforce safe  
and secure**

# People capability to execute on future opportunities

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## Key focus areas

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### Future organisational capability

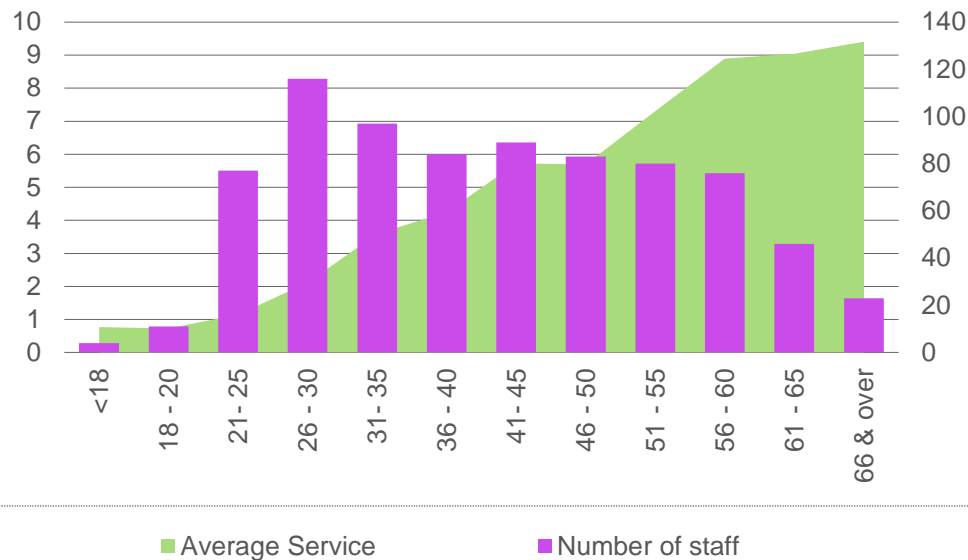
- Targeted development to strengthen resiliency, leadership, and collaboration for better business outcomes
  - Over 50% of Leadership program spots taken by women in the last 3 years
- Focus on cross functional teams to match our customers experience and deal with increasing complexity
  - 70% of senior staff have now graduated from leadership program
- Fast business improvement skills development
  - Focusing on driving efficiency and a better outcome for our customers
- Attracting and retaining new talent at all levels
  - New exec team appointed, 75% of appointments made internally

# People capability to execute on future opportunities

## Key focus areas

### Adaptability and flexibility

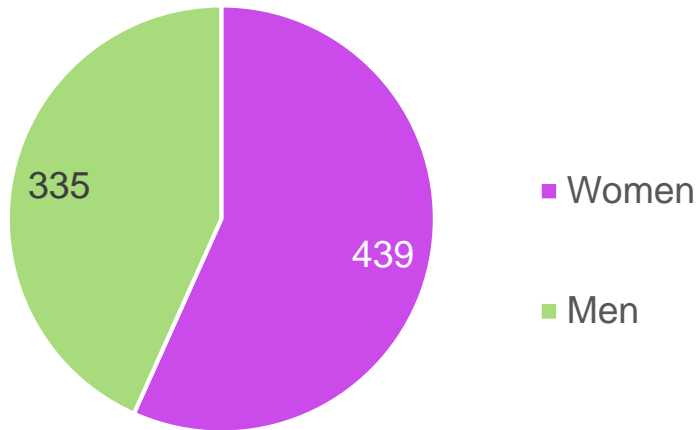
- Move to activity based working office environment
  - Successful migration to new office environment, leading to greater engagement and collaboration
- Measuring external responsiveness to customers and markets as well as individual and team measures
  - Changing our survey to provide information on how we respond internally keeps us relevant in our markets



# This focus has led to great outcomes for our people which is creating a platform for future performance

## Key focus areas

### Changing nature of the workforce

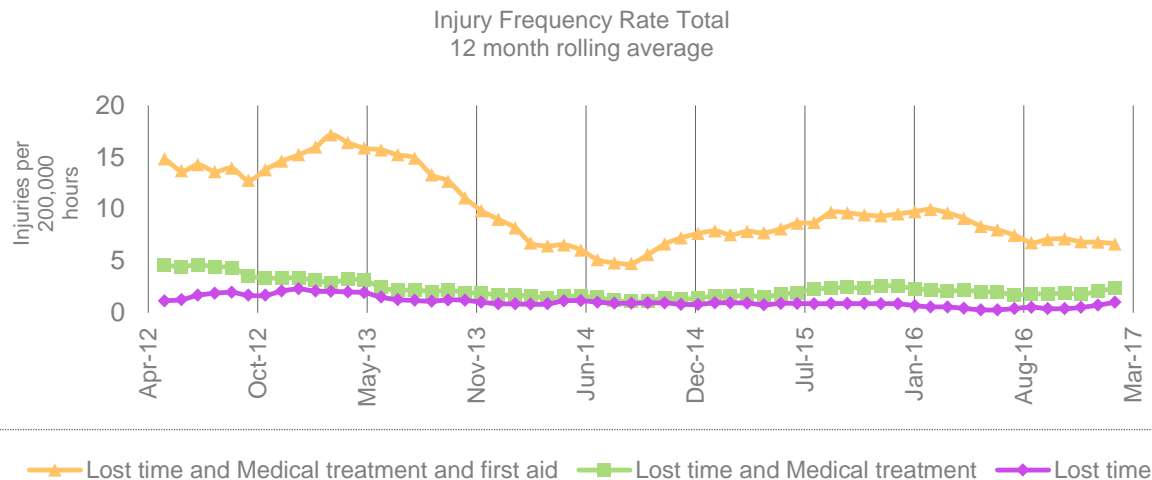


- Changes in staff demographics represent fresh ideas and thinking
- Recruiting people to match the changing demographic of our customers
- Investing in innovation to create new customer experiences



# Health and Safety

## Keeping our workforce safe and secure



### Key focus areas

- Focus on safety culture to control risk
- Reducing absenteeism
- Sustained fall in LTI and near-miss over past 4 years

# Maintaining a strong community presence which recognises the value of being a good corporate citizen

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## Community Awards

24 National Community Awards held annually to celebrate the work of volunteers and community groups



Sponsorship of the  
TECT Rescue Helicopter



Lend a Hand and Anti Bullying  
in schools magic show

# A range of efforts are helping build and maintain positive relationships with our key stakeholder groups



Enhancement funds that provide for local environmental, cultural and community projects in the catchments Trustpower operates



Fisheries management – including eel management programmes, trout release in some catchments, and ongoing fish passage investigations and initiatives



This year Trustpower received an environmental management accreditation from BRAID in recognition of the work undertake on the Rakaia to restore braided river bird habitat

# Community awards video

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Click below



# Finance

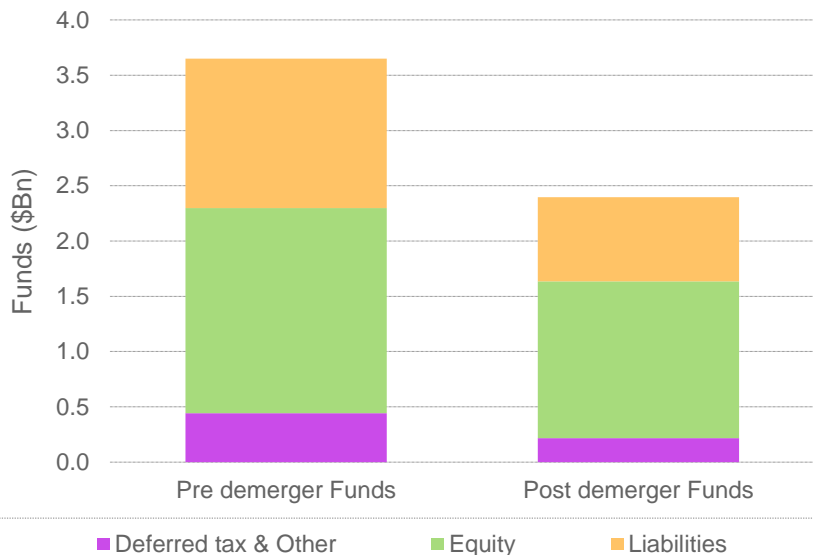
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**Kevin Palmer**  
CFO



# Key financial performance areas

## Restructured balance sheet post-demerger



A clear focus on ensuring a strong financial position in the future

### Key focus areas

#### Comparison to expectations

Digging into the results to decouple regulatory and environmental impacts from underlying performance

#### Ensuring cost efficiencies are maintained

Monitoring trends in costs and the underlying issues behind them in order to make rapid and well-informed decisions

#### Ensuring the capital structure is appropriate

Managing financing cost and risk and ensuring the Company is positioned for growth

# The key is to focus on what we can control – and acknowledge some are beyond our control

## Comparison to expectations

Digging into the results to decouple regulatory and environmental impacts from underlying performance

		Metric	Measure	Impact
Key focus areas	Largely driven by weather and beyond our control	Generation volume	100 GWh	\$6m to \$8m
		Wholesale price	\$10 / MWh	\$5m to \$6m
		Electricity volume per customer	5% change	\$4m to \$5m
	Controllable but influenced by market competition	Number of bundled customers acquired	1,000 customers	Ongoing \$0.5m to \$0.7m CTA \$0.8m to \$1.0m
		Churn electricity only	1,000 customers	\$0.3m to \$0.5m
		Churn bundled	1,000 customers	\$0.5m to \$0.7m
	Within our control	Cost to Serve (CTS)	5% change	\$2m to \$2.5m
		Generation O&M	5% change	\$1.5 to \$2m



# We are getting more efficient but still have plenty of opportunities to improve

## Ensuring cost efficiencies are maintained

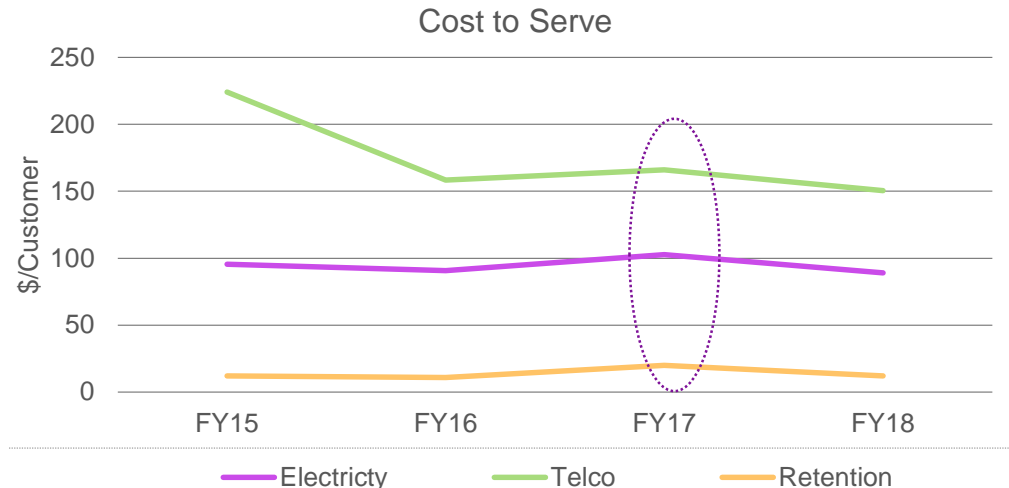
Monitoring trends in costs and the underlying issues behind them in order to make rapid and well-informed decisions.

Our cost to acquire a bundled fibre customer is currently

**15** months gross margin

We are aiming to reduce that by **10%**

...over the next 12 months



Slight increase due to new building and cloud computing. Forecast to decline in FY18.

Refer appendices for a detailed definition of cost to serve and cost to acquire

# Positioning for growth with good control over risk

## Ensuring the capital structure is appropriate

Managing financing cost and risk and ensuring the Company is positioned for growth



A good spread of maturity that is in line with peers and has headroom to grow

Debt to EBITDAF ratio  
currently just over

**3.0**

We are targeting

**below 3.0**

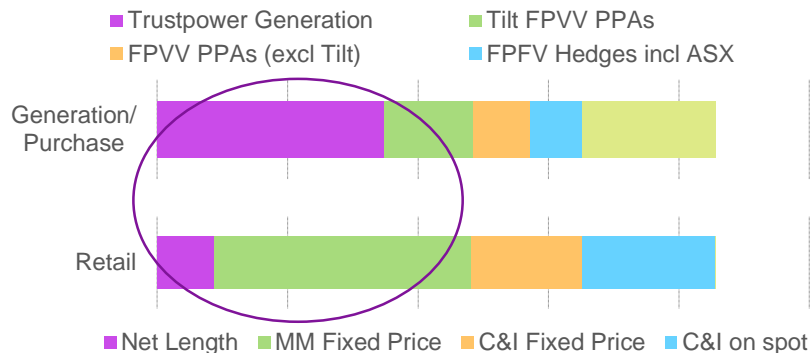
...within 24 months

# Netback is a very blunt tool

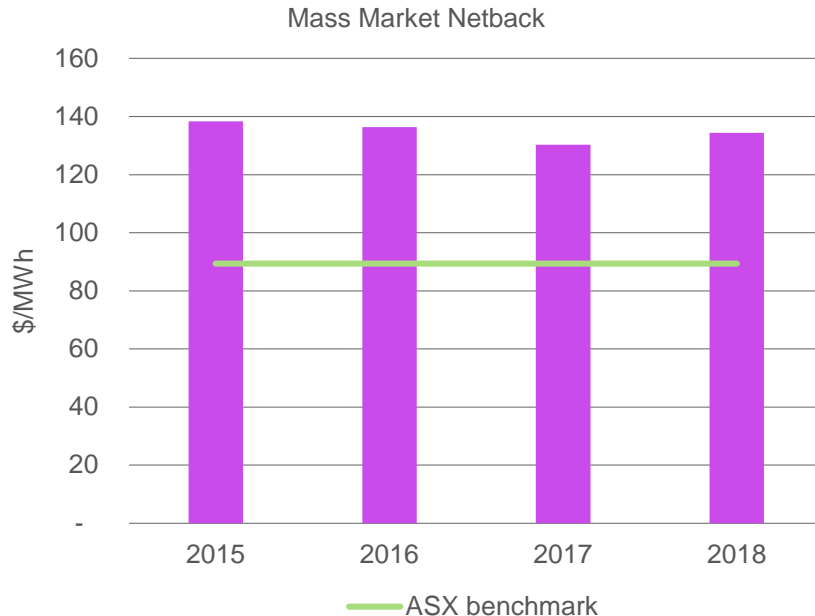
Netback is difficult to apply to Trustpower due to:

- Bundled telco offering
- ~25% of volume sold on spot as a pass through
- ~25% sold to C&I market backed off with hedges to third party generators

It does have some application to the mass market position



FPV = Fixed Price Variable Volume, FPFV = Fixed Price Fixed Volume



# Reporting timetable

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## Operating Statistics

Will be issued on the 15th day following the end of each quarter

## Annual Result

Early 15 May 2017 followed by a conference call at 11.00 AM. We will give guidance around the FY18 expected results in this release

## Investor Roadshow

16 May 2017

## Annual Report

Late June 2017

## AGM

24<sup>th</sup> July 2017

# Today's objectives

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## To provide a deeper understanding around our strategy and capability

- Diverse and adaptable asset base
- Insight driven retail strategy that positions us for an evolving market
- Customer led focus on technology and service performance
- Fit for purpose technology platform
- Pragmatic but comprehensive risk management
- Strong focus on profitability

## Introduce our senior leadership team

# Key performance areas

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A clear focus for ensuring a more valuable business in the future

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## Key focus areas

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### Optimising performance of the generation portfolio

- Asset management that is value driven
- Operating cost flexible to market conditions
- ACOT and TPM - continue to work for sustainable solution
- Maximise value within overall trading portfolio through flexible contracting

### Enhancing the multi-service offer and customer experience

- Continue to lead the change to value enhancing multi-service offers
- Improve customer experience in provisioning and customer service
- Demonstrate efficiency from scale and digital investment
- Align acquisition costs with the lifetime value of a multi-service customer

### Improving long-term industry structure

- Manage relative position given inevitable changes in future business models
- Execute accretive inorganic growth options when available
- Major shareholder that supports Trustpower to be part of future industry consolidation

# Trustpower is well positioned in a world that is decentralising and converging at the customer premise

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## A proven ability to execute in our target markets

- We are not relying on our strong relative position in the traditional electricity industry to build our future business
- Trustpower has made a series of investments in the last few years to pre-position for the inevitable changes in the industry:
  - Diversified generation fleet, multi-service offer, flexible enterprise systems, online capability, improved work environment, and extending the Trustpower brand
- The most obvious strategic shift has been towards multi-service retail – this is a high conviction and important strategy but only part of the overall plan for preparing the business for major changes
- 2017/18 proof points:
  - Customer retention post acquisition term
  - Continued ability to execute targeted campaigns in high value segments
  - Increased returns through cost optimisation and scale

**Will create opportunities for growth in energy and other utility services, and a path to value through customer insight, portfolio management, cost efficiency and targeted investment**

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# Appendices

# Finance definitions

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## Cost to acquire

Includes all costs until the customer is fully on-boarded including:

- Marketing (including brand advertising with no specific call to action)
- Base salaries and commission of sales staff + all costs of external sales agents
- All discounts or inducements given directly to customers
- Costs of switching and provisioning the new customer
- All calls and contact within the first 90 days post switching

## Cost to serve

Includes all costs after the customer is fully on-boarded including:

- Switching, moves new connections
- Billing
- Customer contact
- Bad debts
- Pricing

Excludes:

- Costs to acquire
- Energy and line costs
- Meter rental and reading
- Market levies and fees

## Mass market netback

Calculated as retail sales revenue (after prompt payment discounts) less all costs except energy. Costs include:

- Line fees
- Cost to serve
- Cost to acquire
- Meter rental and reading
- Market levies and fees

Netback is normally expressed as \$/MWh. The MWh are those sold at the customer premise to generate the retail revenue. This number is not directly comparable to the \$/MWh quoted on the ASX. The ASX prices are base load hedges at either Otahuhu or Benmore. To be compared they need to be adjusted for; transmission losses, distribution losses and the shape of the retail load. In Trustpower's experience \$12-\$15/MWh needs to be added to the ASX price to obtain a comparable benchmark.