



## **NZX Announcement 15 May 2015**

### **Trustpower results announcement for the financial year ended 31 March 2015**

Trustpower has made good progress on its growth agenda over the 2015 financial year. The 270MW Snowtown Stage 2 Wind Farm in South Australia was completed on time and under budget and has provided shareholders with significant value uplift following commissioning in October 2014. Trustpower has broadened its Australian renewable energy portfolio through the acquisition, at an attractive price, of 105 MW of hydro and wind assets owned by Green State Power from the New South Wales Government in July 2014. Trustpower has grown its New Zealand retail customer base, particularly in metro markets, as its multi product strategy gains momentum.

Trustpower's consolidated profit after tax was \$144.0 million for the year ended 31 March 2015, an increase of 25% compared with \$115.1 million for the same period last year. It includes a \$25.0 million gain representing the difference between purchase price and fair value of the Green State Power assets as determined by independent valuation following the acquisition.

Underlying earnings<sup>1</sup> were \$122.9 million compared with \$108.5 million in the previous year, an increase of 13%.

Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition (EBITDAF)<sup>2</sup> were \$330.7 million, compared with \$277.4 million achieved in the previous year representing an increase of 19%.

While earnings were well ahead of the 2014 financial year they were at the lower end of expectation due to a number of headwinds encountered during the period namely

- The impact of the strong NZD/AUD exchange rate on Australian earnings which now contribute a larger proportion of group earnings following completion of Snowtown Stage 2.
- Poor wind generation over the second half at the Snowtown and Tararua wind farms.
- Weak North Island hydro generation as the result of low inflows due to drought conditions experienced during the fourth quarter.

Total electricity volume sold by the Group in New Zealand through mass market retailing and time of use sales was 3,934GWh, compared with 3,512GWh in the prior year, an increase of 12%. Increased sales volume was achieved in both the mass market and commercial and industrial segments.

Total energy connections increased to 266,000 at 31 March 2015 (including 24,000 gas connections) from 238,000 as at 31 March 2014 (14,000 gas connections). While the retail market remained highly competitive throughout the year, Trustpower continued to experience lower levels of customer churn than the market overall.

Trustpower has continued to achieve strong growth in telecommunication connections with an increase to 38,000 connections from 31,000 connections in the prior year, an increase of 23%.

Trustpower was particularly active in North Island metro markets using a range of sales channels. Pleasingly, customers with two or more utility services increased by 37% from 38,000 to 52,000 demonstrating that Trustpower's multi product proposition is gaining strong support from existing and new customers. Trustpower is making good progress in consolidating its position as New Zealand's leading multi-utility retailer with a product suite that includes power, ultra-fast broadband and phone services, natural gas and bottled LPG.

Trustpower has invested heavily in its retail growth strategy and will continue to do so in the 2016 financial year. To provide some context to the level of investment made in the 2015 financial year, capital expenditure on retail IT systems was around \$7.5 million and foregone EBITDAF through higher customer acquisition costs was approximately \$8 million relative to a no growth strategy.

The Group's New Zealand generation production of 2,216GWh was slightly above the previous year but 8% below expected long term average. Trustpower actively used its South Island storage lakes to support lower hydro and wind production in the North Island over the fourth quarter. New Zealand wind production was 23GWh (3%) lower than the previous year and 5% below expected long term average.

The Australian wind farms produced 1,187GWh versus 536GWh in the prior year as the Snowtown Stage 2 wind turbines were progressively brought on line through the first half of the financial year. However, production was approximately 100 GWh (8%) below expectation due to weaker second half production caused by lower available wind resource.

Australian hydro generation assets performed well producing 278GWh in line with expectation for the period from acquisition in July 2014 through to 31 March 2015.

Group operating cash flow remained solid at \$269.8 million for the 2015 financial year versus \$256.8 million in the prior period.

Group generation assets were independently valued by Deloitte Corporate Finance as at 31 March 2015 as part of a three yearly cycle required under Trustpower's accounting policies.

As a result generation assets were revalued upwards by \$399 million, equity increased by \$289 million and deferred tax liability by \$111 million. The majority of the uplift reflected the revaluation of Snowtown Stage 2 following its commissioning which increased by AUD309 million above cost providing further validation of the quality of this significant investment.

New Zealand hydro generation assets were revalued upwards by \$95 million driven by a lower cost of capital used to discount future cash flows. New Zealand wind assets were revalued downwards by a net \$6 million.

Trustpower believes there is an opportunity to improve yields by up to 3% at its Snowtown Stage 1, Tararua and Mahinerangi wind farms through a range of power performance improvements. These include the installation of blade aerodynamic devices and technology as well as operational improvements to increase the power curve range. Some of these improvements have already been made, otherwise early stage trials are being undertaken with turbine manufacturers to confirm economic potential and technical feasibility.

Net debt (including subordinated bonds) to net debt plus equity decreased to 40% as at 31 March 2015 from 43% at prior year end. Trustpower continues to maintain conservative levels of

committed credit facilities. As at 31 March 2015 Group net debt was approximately \$1.2 billion. Trustpower has recently accepted offers to refinance AUD70 million and NZD100 million of bank facilities due to mature in July 2015. These facilities will be extended in two tranches to mature in July 2018 and July 2020 and will be increased by AUD30 million.

Following the completion of these financing activities the Group will have approximately NZD equivalent 1.5 billion of committed debt facilities and around NZD equivalent 235 million of undrawn debt facilities which provides the Group with good capacity to fund growth and meet ongoing operational liquidity requirements.

Tauranga Energy Consumer Trust (TECT) announced on 23 April 2015 that it had sold 20 million Trustpower shares in a placement to New Zealand institutions and retail investors. TECT remains a committed long term shareholder of Trustpower and it retains a 26.8% shareholding. As a result of the placement 10 new institutions and more than 1,000 new retail shareholders have joined Trustpower's register. We expect that this will assist in improving the market liquidity of Trustpower's shares.

Trustpower's key strategic priorities are currently to grow value in its retail business through the roll out of its multi product proposition to a wider customer base and to position itself in Australia to develop further wind generation projects once the longstanding review of the Renewable Energy Target (RET) is completed by the Australian Government.

Over the next 12 months Trustpower is targeting further customer growth as well as increased conversion of existing customers to multiple utility services.

In Australia, it is expected that the Renewable Energy Target for large scale generation will be reduced from 41,000GWh to a level closer to 33,000GWh. To put this in perspective, around 17,000GWh of large scale renewable generation has been built to date to meet the target so a near doubling of the existing build will be required to meet the expected lower RET. Trustpower currently has three wind projects in South Australia, Victoria and New South Wales at various stages of the development approval process. These projects represent around 890MW of potential development. The first of these approvals is expected at the end of 2015.

Trustpower continues to assess other renewable development opportunities in Australia with the view to increase the scale of its development pipeline where possible. This includes considering the potential of grid connected solar as both a competing and complimentary technology to wind generation.

Trustpower continues to work with Metrix (its outsourced metering service provider) to implement the necessary end to end systems and process changes required to prepare for advanced metering service delivery and the deployment of advanced meters to all Trustpower's residential customers throughout NZ. The build and testing of new computer systems at both Metrix and Trustpower is underway and a preliminary deployment pilot has been completed. It is intended that a further more substantial pilot will be undertaken later this year and full service commencement and scale deployment is now planned to commence early in 2016.

Pleasingly, structural risk for the energy industry in New Zealand appears to have stabilised following the 2014 general election.

The Directors are pleased to announce a final dividend of 21 cents per share, partially imputed to 14 cents per share, payable 12 June 2015 (record date of 29 May 2015). This together with an interim

dividend of 20 cents per share, provides a total pay-out of 41 cents per share for the 2015 financial year, a 2.5% increase over the prior year.

The outlook for Trustpower remains positive. The 2016 financial year will see the first full year of earnings contribution from Snowtown Stage 2. Trustpower expects to grow its retail customer base at a similar rate to the 2015 financial year and continue to increase the number of multi product customers improving retail profitability. The ongoing high level of NZD/AUD exchange rate is expected to continue to provide a partial negative offset to earnings in the coming year.



BJ Harker  
**CHAIRMAN**

#### Notes

1. 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 rates and or electricity futures 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.  
A full reconciliation between profit after tax attributable to the shareholders of the Company and underlying earnings after tax is provided in Note A2 to the financial statements.
2. 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 this measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.
3. Net debt is a measure of indebtedness to external funding provides net of funds held with those providers and is defined as bank loans plus subordinated bonds plus senior bonds less cash at bank.