Trustpower

INTERIM REPORT
SEPTEMBER 2013

Trustpower Limited Unaudited Financial Results

For the six months ended 30 September 2013

Trustpower's consolidated profit after tax was $77.2 million for the period, representing an increase of 11% compared with $69.8 million for the same period last year.

Good progress is being made in implementing the Group's growth agenda and construction of the 270MW Snowtown Stage 2 Wind Farm in South Australia is progressing ahead of plan.

Underlying earnings[1] after tax excluding fair value movements on financial instruments and one-off impairment charges were $69.9 million compared with $76.2 million in the prior period, a decrease of 8%. Fair value gains on financial instruments were $10.1 million for the period (prior period was a loss of $8.9 million) primarily due to increases in long term interest rates having a positive impact on the Group's portfolio of interest rate hedges.

Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments and asset impairments (EBITDAF)[2] were $153.2 million, compared with $166.1 million achieved in the prior period representing a decrease of 8%.

The Group operating performance was considered satisfactory given lower New Zealand generation production and a challenging retail environment, where pressure on margins and lower customer demand was experienced. During the period the Group committed to a number of growth initiatives including the purchase of several wind development options in Australia, refresh of its retail brand, and feasibility expenditure with respect to considering an opportunity to invest in the Ruataniwha Water Storage Scheme in the Hawkes Bay. Consequently the Group's other operating expenditure was higher than the prior period.

Total electricity volume sold by the Company in New Zealand through mass market retailing and time of use sales was 1,831GWh, compared with 1,986GWh in the prior period, a decrease of 8%.

Following the acquisition of Energy Direct New Zealand ("EDNZ") total energy accounts increased to an overall total of 228,000, including 10,000 gas accounts. While the retail energy market remained highly competitive throughout the year, Trustpower continued to experience lower levels of customer churn than the market overall. Trustpower is pleased with the EDNZ acquisition transition process

Telecommunications growth continued with internet and phone services reaching 48,000. The company is now positioned to provide ultrafast broadband services in a number of key regions.

The Group's New Zealand generation production of 1,218GWh was down 74GWh (6%) on the previous year and 8% below the expected long term average. North Island hydro production was significantly impacted by low inflows and was down 28% on prior period. This production shortfall was partially offset by a 14% increase in New Zealand wind production over prior period demonstrating the diversity of Trustpower's renewable generation portfolio.

The Snowtown Wind Farm in South Australia produced 193GWh during the period which was 7GWh (4%) higher than the prior period and slightly better than expected long term average.

Group operating cash flow was $118.9 million for the reporting period versus $102.6 million in the prior period.

Net debt[3] (including subordinated bonds) to Net debt plus equity increased to 40% from 35% at 31 March 2013, as a result of increased borrowing levels to finance the development of the Snowtown Stage 2 wind farm.

Trustpower continues to maintain conservative levels of committed credit facilities. As at 31 September 2013 Group net debt[3] was $1,053 million. The Group has close to NZD equivalent 1.5 billion of committed debt facilities of which approximately NZD equivalent 370 million remains undrawn.

Trustpower has established a position as NZ's leading multi-utility retailer, broadening its product suite to include power, ultrafast broadband and phone services, natural gas and bottled LPG. In support of Trustpower's multi-product market position, its brand strategy and look and feel have been re-designed, and the company's web presence has been fully revamped.

Construction of the 270MW Snowtown Stage 2 Wind Farm in South Australia is progressing well and is on budget and ahead of schedule. The transmission line and substations have been completed. Civil works are nearing completion, 23 of 90 3MW turbines have been erected and 14 turbines are now generating and connected to the transmission system.

Trustpower is actively progressing other wind development options in Australia with the aim of developing further wind projects to help meet the Australian Mandatory Large Renewable Energy Target over the course of the next five years. Development approval applications for close to 1,000MW for 3 wind projects in each of Victoria, New South Wales and South Australia are being progressed on the basis that the Australian regulatory environment will continue to support further renewable investment.

In New Zealand commissioning of the 3.8MW Esk Valley Hydro project in Hawkes Bay has recently been completed 4 months behind schedule at a cost of $13.5 million (excluding capitalised interest). Completion of this project was hampered by challenging weather conditions during the reporting period. Esk Valley Hydro is expected to add around 15GWh of hydro production to Trustpower's generation portfolio.

Trustpower has been selected along with Ngai Tahu Holdings Corporation Limited as preferred investors in the Ruataniwha Water Storage Scheme (RWSS) in the Hawkes Bay. The proposed RWSS will involve the construction of a storage dam and water distribution system capable of providing reliable irrigation for up to 30,000 hectares of land. The project has a targeted Financial Investment Decision date of 30 April 2014 and if Trustpower participates in the investment it is expected to invest $50-60 million out of a total capital cost of the project of $265 million.

Following the conclusion of long term water storage and release agreements with Barhill Chertsey Irrigation Limited and Central Plains Water Limited, Trustpower is working with a range of interested parties to develop an optimised long term irrigation infrastructure solution for mid Canterbury. While it is expected that the initial storage and release agreements should result in an additional irrigation supply area in mid Canterbury of around 40,000 hectares, there is potential to increase the supply area by up to a further 80,000 hectares via a well-designed distribution infrastructure from Lake Coleridge.

The Directors are pleased to announce an interim dividend of 20 cents per share, partially imputed to 16 cents per share, payable 13 December 2013 (record date of 29 November 2013). Despite the current challenging New Zealand electricity environment which includes intense retail competition, an oversupplied generation market and regulatory uncertainty, the Board is confident that Trustpower is well placed to regain earnings momentum once the Snowtown Stage 2 Wind Farm is completed and other quality renewable generation and irrigation development opportunities are able to be progressed.

B.J. Harker

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 3 to the Interim 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 providers net of funds held with those providers and is defined as bank loans + subordinated bonds + senior bonds – cash at bank.

Consolidated Income Statement

For the period ended 30 September 2013	Note	**Unaudited 6 Months September 2013 $000**	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Operating Revenue				
Electricity revenue		**392,040**	418,057	765,155
Gas revenue		**4,697**	-	-
Carbon revenue		**140**	1,974	1,692
Meter rental revenue		**4,094**	3,518	7,138
Other customer fees and charges		**1,364**	1,162	2,464
Telecommunications revenue		**13,685**	12,618	23,346
Other operating revenue		**2,649**	1,332	5,709
		418,669	438,661	805,504
Operating Expenses				
Energy costs		**64,451**	71,977	136,480
Generation production costs		**20,750**	20,421	41,531
Line costs		**120,389**	127,243	230,312
Gas cost of sales		**3,714**	-	-
Market fees and costs		**4,056**	5,349	10,458
Meter rental costs		**2,619**	2,322	4,650
Other customer connection costs		**970**	863	1,724
Net gain on sale of property, plant and equipment		**(72)**	(66)	(104)
Employee benefits		**19,901**	17,779	35,623
Telecommunications cost of sales		**10,940**	9,852	19,959
Other operating expenses		**17,731**	16,820	30,115
		265,449	272,560	510,748
Earnings Before Interest, Tax, Depreciation, Amortisation and Fair Value Movements of Financial Instruments (EBITDAF)		**153,220**	166,101	294,756
Fair value (gains)/losses on financial instruments		**(10,066)**	8,863	5,593
Amortisation of intangible assets		**5,011**	3,729	7,930
Depreciation		**29,018**	28,745	58,057
Operating Profit		**129,257**	124,764	223,176
Interest paid	5	**30,942**	32,490	64,219
Interest received	5	**(778)**	(455)	(1,472)
Net finance costs		**30,164**	32,035	62,747
Profit Before Income Tax		**99,093**	92,729	160,429
Income tax expense	6	**21,926**	22,890	37,078
Profit After Tax Attributable to the Shareholders of the Company		**77,167**	69,839	123,351
Earnings per share (cents per share)		**24.6**	22.2	39.2
Diluted earnings per share (cents per share)		**24.6**	22.2	39.2

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 6 November 2013.

The accompanying notes form part of these interim financial statements

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2013	Note	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Profit after tax attributable to the shareholders of the Company		**77,167**	69,839	123,351
Other Comprehensive Income				
Items that will not be reclassified to profit or loss:				
Currency translation differences on revaluation reserve	7	**(7,493)**	(1,074)	(1,405)
Other currency translation differences	9	**(4,339)**	(586)	(1,031)
Tax effect of the following:				
Disposal of revalued assets	7	**-**	-	18
Currency translation differences	9	**(5,009)**	(1,703)	(493)
Items that may be reclassified subsequently to profit or loss:				
Fair value (losses)/gains on cash flow hedges	8	**8,190**	(21,097)	(20,293)
Movements in employee share option reserve	9	**-**	-	(3)
Tax effect of the following:				
Fair value losses/(gains) on cash flow hedges	8	**(2,768)**	6,406	5,705
Total Other Comprehensive Income		**(11,419)**	(18,054)	(17,502)
Total Comprehensive Income		**65,748**	51,785	105,849

The accompanying notes form part of these interim financial statements

Consolidated Statement of Changes in Equity

For the period ended 30 September 2013	Note	Share capital $000	Revaluation reserve $000	Cash flow hedge reserve $000	Other reserves $000	Retained earnings $000	Total equity $000
Opening balance as at 1 April 2012		166,078	1,026,513	5,198	12,192	361,350	1,571,331
Total comprehensive income for the period		-	(1,074)	(14,691)	(2,289)	69,839	51,785
Disposal of revalued assets		-	-	-	-	-	-
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		146	-	-	-	-	146
Own shares repurchased	10	(260)	-	-	-	-	(260)
Dividends paid	11	-	-	-	-	(62,796)	(62,796)
Total transactions with owners recorded directly in equity		(114)	-	-	-	(62,796)	(62,910)
Unaudited closing balance as at 30 September 2012		165,964	1,025,439	(9,493)	9,903	368,393	1,560,206
Opening balance as at 1 October 2012		165,964	1,025,439	(9,493)	9,903	368,393	1,560,206
Total comprehensive income for the period		-	(313)	103	762	53,512	54,064
Disposal of revalued assets		-	(63)	-	-	63	-
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		144	-	-	-	-	144
Own shares repurchased	10	-	-	-	-	-	-
Dividends paid	11	-	-	-	-	(62,651)	(62,651)
Total transactions with owners recorded directly in equity		144	-	-	-	(62,651)	(62,507)
Audited closing balance as at 31 March 2013		166,108	1,025,063	(9,390)	10,665	359,317	1,551,763
Opening balance as at 1 April 2013		**166,108**	**1,025,063**	**(9,390)**	**10,665**	**359,317**	**1,551,763**
Total comprehensive income for the period		**-**	**(7,493)**	**5,422**	**(9,348)**	**77,167**	**65,748**
Disposal of revalued assets		**-**	**-**	**-**	**-**	**-**	**-**
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		**143**	**-**	**-**	**-**	**-**	**143**
Issue of treasury shares to management		**51**	**-**	**-**	**-**	**-**	**51**
Own shares repurchased	10	**(2,133)**	**-**	**-**	**-**	**-**	**(2,133)**
Dividends paid	11	**-**	**-**	**-**	**-**	**(62,800)**	**(62,800)**
Total transactions with owners recorded directly in equity		**(1,939)**	**-**	**-**	**-**	**(62,800)**	**(64,739)**
Unaudited closing balance as at 30 September 2013		**164,220**	**1,017,570**	**(3,968)**	**1,266**	**373,684**	**1,552,772**

The accompanying notes form part of these interim financial statements

Consolidated Statement of Financial Position

As at 30 September 2013	Note	Unaudited September 2013 $000	Unaudited September 2012 $000	Audited March 2013 $000
Equity				
Capital and reserves attributable to shareholders of the Company				
Share capital	10	**164,169**	165,964	166,108
Revaluation reserve	7	**1,017,570**	1,025,439	1,025,063
Retained earnings		**373,684**	368,393	359,317
Cash flow hedge reserve	8	**(3,968)**	(9,493)	(9,390)
Other reserves	9	**1,317**	9,903	10,665
Total Equity		**1,552,772**	1,560,206	1,551,763
Represented by:				
Current Assets				
Cash at bank		**79,405**	71,296	53,972
Bond deposits on trust		**800**	1,800	995
Electricity market security deposits		**954**	1,478	-
Accounts receivable and prepayments		**119,973**	116,757	136,414
Derivative financial instruments	12	**15,900**	7,979	4,230
Taxation receivable		**7,352**	4,980	6,362
		224,384	204,290	201,973
Non Current Assets				
Accounts receivable and prepayments		**3,051**	-	3,051
Property, plant and equipment		**2,816,525**	2,643,421	2,716,588
Derivative financial instruments	12	**4,369**	7,711	4,941
Other investments		**1,894**	2,424	2,420
Intangible assets		**64,277**	46,984	47,298
		2,890,116	2,700,540	2,774,298
Total Assets		**3,114,500**	2,904,830	2,976,271
Current Liabilities				
Accounts payable and accruals		**92,099**	77,128	120,463
Unsecured subordinated bonds		**54,713**	-	54,713
Unsecured bank loans	17	**148,961**	217,600	24,908
Derivative financial instruments	12	**796**	5,713	3,328
Taxation payable		**1,213**	5,126	2,726
		297,782	305,567	206,138
Non Current Liabilities				
Unsecured bank loans	17	**478,194**	195,590	435,284
Unsecured subordinated bonds		**237,940**	292,090	237,662
Accounts payable and accruals		**3,959**	4,169	4,064
Unsecured senior bonds		**213,168**	212,508	212,838
Derivative financial instruments	12	**32,524**	43,995	36,399
Deferred tax liability	13	**298,161**	290,705	292,123
		1,263,946	1,039,057	1,218,370
Total Liabilities		**1,561,728**	1,344,624	1,424,508
Net Assets		**1,552,772**	1,560,206	1,551,763
Net Tangible Assets Per Share		**$4.74**	$4.82	$4.79

The accompanying notes form part of these interim financial statements

Consolidated Cash Flow Statement

For the period ended 30 September 2013	**Unaudited 6 Months September 2013 $000**	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers	**443,903**	445,497	802,716
	443,903	445,497	802,716
Cash was appplied to:			
Payments to suppliers and employees	**301,204**	314,357	517,867
Taxation paid	**23,834**	28,570	43,741
	325,038	342,927	561,608
Net Cash Flow from Operating Activities	**118,865**	102,570	241,108
Cash Flows from Investing Activities			
Cash was provided from:			
Sale of property, plant & equipment	**169**	137	377
Return of bond deposits on trust	**200**	-	800
Return of electricity market security deposits	**2,750**	12,950	8,900
Interest received	**773**	990	1,497
Sale of other investments	**531**	-	-
	4,423	14,077	11,574
Cash was applied to:			
Capitalised interest in construction of property, plant and equipment	**7,169**	721	4,780
Lodgement of electricity market security deposits	**3,712**	14,437	8,905
Purchase of property, plant and equipment	**173,480**	93,374	198,603
Purchase of intangible assets	**20,640**	4,818	9,333
	205,001	113,350	221,621
Net Cash Flow from Investing Activities	**(200,578)**	(99,273)	(210,047)

The accompanying notes form part of these interim financial statements

Consolidated Cash Flow Statement (Continued)

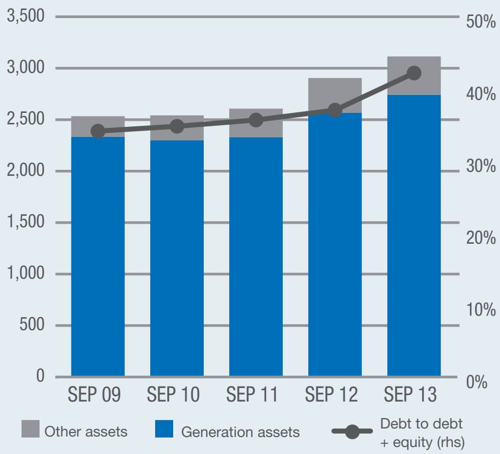
For the period ended 30 September 2013	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Cash Flows from Financing Activities			
Cash was provided from:			
Bank loan proceeds	**226,810**	184,270	242,358
Subordinated bond issue proceeds	**-**	74,925	74,925
Issue of shares	**143**	145	290
	226,953	259,340	317,573
Cash was applied to:			
Bond brokerage costs	**-**	1,842	1,907
Purchase of own shares	**2,133**	260	260
Repayment of bank loans	**20,000**	74,024	83,613
Repayment of subordinated bonds	**-**	43,517	43,517
Interest paid	**30,537**	31,138	61,404
Dividends paid	**62,800**	62,796	125,447
	115,470	213,577	316,148
Net Cash Flow from Financing Activities	**111,483**	45,763	1,425
Net (Decrease) / Increase in Cash, Cash Equivalents and Bank Overdrafts	**29,770**	49,060	32,486
Cash, cash equivalents and bank overdrafts at beginning of the period	**53,972**	23,142	23,142
Exchange gains/(losses) on cash	**(4,337)**	(906)	(1,656)
Cash, Cash Equivalents and Bank Overdrafts at End of the Period	**79,405**	71,296	53,972

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS

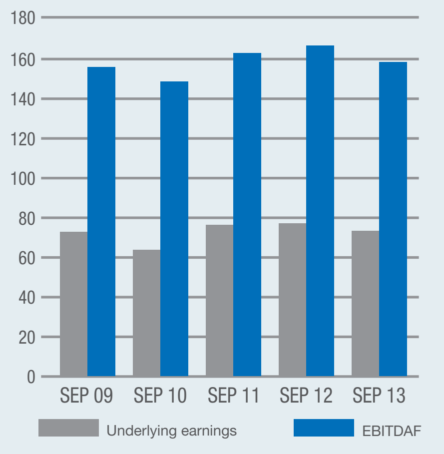
Profit after tax attributable to the shareholders of the Company	**77,167**	69,839	123,351
Interest paid	**30,537**	31,138	61,404
Interest received	**(773)**	(984)	(1,497)
Amortisation of debt issue costs	**903**	900	1,889
Non-cash transfer from cash flow hedge reserve to interest expense	**(138)**	(138)	(275)
Fixed, intangible and investment asset charges	**33,952**	32,408	65,896
Movements in financial instruments taken to the income statement	**(10,066)**	8,863	5,593
Share based staff remuneration	**51**	-	(3)
Increase/(decrease) in deferred tax liability excluding transfers to reserves	**1,270**	(5,206)	(2,375)
(Increase)/decrease in working capital	**(14,038)**	(34,250)	(12,875)
Net Cash Flow from Operating Activities	**118,865**	102,570	241,108

The accompanying notes form part of these interim financial statements

Gearing ($m)



Financial performance ($m)



	6 Months September 2013	6 Months September 2012	12 Months March 2013
Operating Statistics			
Electricity customer numbers (000's)	**218**	206	206
Telecommunication services provided (000's)	**48**	38	43
Gas customer numbers (000's)	**10**	-	-
Mass market sales (GWh)	**851**	910	1,613
Time of use sales (GWh)	**980**	1,076	2,070
Total customer sales (GWh)	**1,831**	1,986	3,683
Average spot price of electricity purchased ($/MWh)	**71**	96	86
Gas sales (TJ)	**241**	-	-
North Island hydro generation production (GWh)	**313**	435	725
South Island hydro generation production (GWh)	**562**	555	967
Total hydro generation production (GWh)	**875**	990	1,692
North Island wind generation production (GWh)	**290**	254	548
South Island wind generation production (GWh)	**53**	48	90
Total wind generation production (GWh)	**343**	302	638
Total New Zealand generation production (GWh)	**1,218**	1,292	2,330
Average spot price of electricity generated ($/MWh)	**68**	97	83
Australian wind generation production (GWh)	**193**	186	386
Resource consent non-compliance events	**1**	4	5
Staff numbers (full time equivalents)	**542**	457	481

Notes to the Interim Financial Statements

Note 1. General Information

Reporting Entity

The principal activities of Trustpower Limited (the Company or Parent) and its subsidiaries (together the Group) are the development, ownership and operation of electricity generation facilities from renewable energy sources and the retail sale of electricity to its customers. All significant operations take place within New Zealand and Australia.
The consolidated entity is designated as a profit-oriented entity for financial reporting purposes.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Truman Lane, Te Maunga, Mount Maunganui. The Company is listed on the New Zealand Stock Exchange. These interim financial statements relate to the six months ended 30 September 2013 and have been approved for issue by the Board of Directors on 6 November 2013.

Note 2. Accounting Policies

Trustpower Limited is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These unaudited interim financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* as well as International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the previous annual report. Except as described below, the accounting policies and methods of computation are consistent with those used in the most recent annual report which can be obtained from TrustPower's registered office or www.trustpower.co.nz.

The following new standards and amendments to standards were applied during the period:

NZ IAS 1 Amendments *Presentation of Items of Other Comprehensive Income*
The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

NZ IAS 27 *Separate Financial Statements*
NZ IAS 27 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group and Parent entity has not affected any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

NZ IFRS 10 *Consolidated Financial Statements*
NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements*, and NZ SIC 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The new standard has not had any impact on the composition of the Group.

NZ IFRS 12 *Disclosures of interests in other entities*
NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group has not affected any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

NZ IFRS 13 *Fair Value Measurement*
NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Adoption of NZ IFRS 13 has resulted in a change in the valuation methodology of the Group's financial instruments. This change has had an immaterial impact on the reported values.

The Group has adopted these new standards and amendments from 1 April 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Note 3. Underlying Earnings

Underlying earnings after tax is presented to allow stakeholders to make an assessment and comparison of underlying earnings after removing the non-cash fair value movements in financial instruments, impairment charges that management consider to be one-off and tax rate and rule changes.

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Profit After Tax Attributable to the Shareholders of the Company	**77,167**	69,839	123,351
Fair value losses/(gains) on financial instruments	**(10,066)**	8,863	5,593
	(10,066)	8,863	5,593
Change in income tax expense in relation to adjustments	**2,818**	(2,482)	(1,678)
Adjustments after income tax	**(7,248)**	6,381	3,915
Underlying Earnings After Tax	**69,919**	76,220	127,266
Underlying earnings per share (cents per share)	**22.3**	24.2	40.5
Diluted underlying earnings per share (cents per share)	**22.3**	24.2	40.5

Note 4. Segment Information

Primary Reporting Format - Business Segments

As at 30 September 2013, the Group is organised into two main business segments:

- development, ownership and operation of electricity generation facilities from renewable energy sources including the trading of energy with Retail and external parties ("Generation")
- purchase of energy from Generation and retail sale of electricity to customers ("Retail")

The remaining activities of the Group are included in Other. This primarily relates to property services and some unallocated head office functions.

The Board has further segregated generation into New Zealand and Australian operations. Generation New Zealand includes the metering business which does not meet the criteria to be disclosed as a separate operating segment. Retail operates only in New Zealand and includes telecommunications operations which do not meet the criteria to be disclosed as a separate operating segment.

Note 4. Segment Information (continued)

The unaudited segment results for the six months ended 30 September 2013 are as follows:

	Generation New Zealand $000	Generation Australia $000	Retail $000	Other $000	Total $000
Total segment revenue	**140,633**	**18,367**	**379,032**	**1,251**	**539,283**
Inter-segment revenue	**(119,646)**	**-**	**-**	**(968)**	**(120,614)**
Revenue from external customers	**20,987**	**18,367**	**379,032**	**283**	**418,669**
Adjusted EBITDAF	**125,465**	**10,426**	**18,610**	**(2,454)**	**152,047**
Amortisation of intangible assets	**-**	**-**	**1,842**	**3,169**	**5,011**
Depreciation	**20,735**	**7,077**	**-**	**1,206**	**29,018**
Capital expenditure	**6,422**	**149,759**	**-**	**7,862**	**164,043**
Asset impairment	**-**	**-**	**-**	**-**	**-**

The unaudited segment results for the six months ended 30 September 2012 are as follows:

	Generation New Zealand $000	Generation Australia $000	Retail $000	Other $000	Total $000
Total segment revenue	156,229	18,503	398,742	1,251	574,725
Inter-segment revenue	(135,109)	-	-	(955)	(136,064)
Revenue from external customers	21,120	18,503	398,742	296	438,661
Adjusted EBITDAF	148,276	8,577	8,910	(839)	164,924
Amortisation of intangible assets	-	-	1,904	1,825	3,729
Depreciation	20,199	7,569	-	977	28,745
Capital expenditure	11,321	77,372	-	10,122	98,815
Asset impairment	-	-	-	-	-

The audited segment results for the 12 months ended 31 March 2013 are as follows:

	Generation New Zealand $000	Generation Australia $000	Retail $000	Other $000	Total $000
Total segment revenue	252,382	37,817	722,845	2,772	1,015,816
Inter-segment revenue	(208,179)	-	-	(2,133)	(210,312)
Revenue from external customers	44,203	37,817	722,845	639	805,504
Adjusted EBITDAF	222,387	23,188	51,852	(3,927)	293,500
Amortisation of intangible assets	-	-	3,063	4,867	7,930
Depreciation	40,651	15,182	-	2,224	58,057
Capital expenditure	26,971	166,461	-	13,647	207,079
Asset impairment	-	-	-	-	-

Inter-segment transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. The Board does not distinguish between revenue from internal or external customers when measuring the performance of segments. All revenue is reported to the Board on a basis consistent with that used in the income statement.

The Board assesses the performance of segments based on a measure of adjusted EBITDAF. This measure excludes the effects of non operational expenditure or gains such as loss/gain on disposal or impairments of property, plant and equipment, fair value changes in foreign currency financial assets/liabilities and costs of major business acquisitions.

Interest income and expenditure and taxation costs are not allocated to segments as this type of activity is driven by the central treasury function which manages them at a Group level.

Note 4. Segment Information (continued)

The Board does not segregate assets and liabilities in assessing Group performance.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

A reconciliation of adjusted EBITDAF to profit before income tax is as follows:

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Adjusted EBITDAF	**152,047**	164,924	293,500
Depreciation	**(29,018)**	(28,745)	(58,057)
Amortisation	**(5,011)**	(3,729)	(7,930)
Fair value gains/(losses) on financial instruments	**10,066**	(8,863)	(5,593)
Foreign exchange gains/(losses)	**1,101**	1,111	1,152
Gain/(loss) on sale of property, plant and equipment	**72**	66	104
Interest received	**778**	455	1,472
Interest paid	**(30,942)**	(32,490)	(64,219)
Profit before income tax	**99,093**	92,729	160,429

Note 5. Finance Income and Costs

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Amortisation of debt issue costs	**903**	900	1,889
Interest paid on unsecured bank loans	**11,345**	7,653	16,429
Interest paid on unsecured subordinated bonds	**11,281**	11,565	22,709
Interest paid on unsecured senior bonds	**8,112**	8,112	16,225
Other interest costs and fees	**6,470**	4,981	11,747
Interest capitalised in construction of property, plant and equipment	**(7,169)**	(721)	(4,780)
Total Interest Paid	**30,942**	32,490	64,219
Interest received on cash at bank	**778**	455	1,472
Total Interest Received	**778**	455	1,472

Note 6. Income Tax Expense

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Profit before income tax	**99,093**	92,729	160,429
Tax on profit @ 28%	**27,746**	25,964	44,920
Foreign tax rate adjustment	**(60)**	(237)	(301)
Tax effect of permanent differences	**(5,760)**	(2,837)	(6,724)
Income tax (over)/under provided in prior period	**-**	-	(817)
	21,926	22,890	37,078
Represented by:			
Current tax	**20,680**	28,017	39,464
Deferred tax	**1,246**	(5,127)	(2,386)
	21,926	22,890	37,078

Note 7. Revaluation Reserve

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Balance at beginning of period	**1,025,063**	1,026,513	1,026,513
Transfer (to)/from deferred tax liability	**-**	-	18
Transfer (to)/from retained earnings	**-**	-	(63)
Foreign exchange movements	**(7,493)**	(1,074)	(1,405)
	1,017,570	1,025,439	1,025,063

Note 8. Cash Flow Hedge Reserve

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Balance at beginning of period	**(9,390)**	5,198	5,198
Fair value gains/(losses)	**(12,457)**	(22,784)	(27,162)
Transfers to energy cost expense	**4,627**	518	6,129
Transfers to property, plant and equipment	**14,653**	-	(1,635)
Transfers to carbon revenue	**1,322**	1,131	2,291
Transfers to interest paid	**45**	38	84
	8,190	(21,097)	(20,293)
Tax on fair value gains/(losses)	**3,307**	6,879	7,595
Tax on transfers to energy cost expense	**(1,296)**	(145)	(1,716)
Tax on transfers to property, plant and equipment	**(4,396)**	-	491
Tax on transfers to carbon revenue	**(370)**	(317)	(641)
Tax on transfers to interest paid	**(13)**	(11)	(24)
	(2,768)	6,406	5,705
	(3,968)	(9,493)	(9,390)

Note 9. Other Reserves

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Foreign Currency Translation Reserve			
Balance at beginning of period	**10,665**	12,189	12,189
Transfer to deferred tax	**(5,009)**	(1,703)	(493)
Currency translation differences	**(4,339)**	(586)	(1,031)
	1,317	9,900	10,665
Employee Share Option Reserve			
Balance at beginning of period	**-**	3	3
Fair value movements charged to the income statement	**-**	-	(3)
	-	3	-
Total Other Reserves	**1,317**	9,903	10,665

Note 10. Share Capital

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Authorised and issued ordinary share capital at beginning of the period	**166,108**	166,078	166,078
Own shares repurchased	**(2,133)**	(260)	(260)
Issue of shares to management	**51**	-	-
Purchase of treasury shares by Directors	**143**	146	290
	164,169	165,964	166,108

	000's of Shares	000's of Shares	000's of Shares
Authorised and issued ordinary shares at beginning of the period	**314,015**	314,016	314,016
Own shares repurchased	**(303)**	(37)	(37)
Issue of shares to management	**7**	-	-
Purchase of treasury shares by Directors	**19**	19	36
	313,738	313,998	314,015

Note 11. Dividends on Ordinary Shares

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Dividends (forfeited)/reinstated	**-**	-	(152)
Final dividend prior period	**62,800**	62,796	62,796
Interim dividend current period	**-**	-	62,803
Supplementary dividend paid	**156**	78	156
Foreign investor tax credit	**(156)**	(78)	(156)
	62,800	62,796	125,447
Fully imputed dividend declared subsequent to the end of the reporting period payable 13 December 2013 to all shareholders on the register at 29 November 2013.	**62,748**	62,800	62,803
Cents per share	**20**	20	20

Note 12. Derivative Financial Instruments

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Current			
Interest rate derivative assets	**1,029**	78	482
Electricity price derivative assets	**2,062**	2,881	1,451
Exchange rate derivative assets	**12,809**	5,020	2,297
	15,900	7,979	4,230
Interest rate derivative liabilities	**548**	-	788
Electricity price derivative liabilities	**248**	4,350	303
Exchange rate derivative liabilities	**-**	1,363	2,237
	796	5,713	3,328
Non-current			
Interest rate derivative assets	**4,240**	5,499	4,806
Electricity price derivative assets	**129**	264	37
Exchange rate derivative assets	**-**	1,948	98
	4,369	7,711	4,941
Interest rate derivative liabilities	**12,796**	28,710	21,840
Electricity price derivative liabilities	**19,728**	14,673	14,559
Exchange rate derivative liabilities	**-**	612	-
	32,524	43,995	36,399

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Note 13. Deferred Income Tax

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Balance at beginning of period	**292,123**	300,215	300,215
Current period changes in temporary differences affecting tax expense	**1,246**	(5,127)	(2,366)
Current period changes in temporary differences affecting reserves	**7,777**	(4,703)	(4,772)
Reclassification of prior year temporary differences	**-**	-	(468)
Exchange rate movements on foreign denominated deferred tax	**(2,985)**	320	(486)
	298,161	290,705	292,123
Deferred tax liabilities consist of temporary differences on:			
Revaluations	**223,289**	226,961	226,689
Other property, plant and equipment movements	**74,660**	71,001	74,790
Employee benefits	**(1,583)**	(1,414)	(1,656)
Provisions	**(745)**	(756)	(476)
Carbon revenue recognition	**257**	1,062	257
Customer base assets	**4,492**	5,351	4,921
Financial instruments	**(3,819)**	(9,546)	(9,003)
Unrealised losses on Australian dollar loan	**1,673**	(2,126)	(3,336)
Other	**(63)**	172	(63)
	298,161	290,705	292,123

Note 14. Property, Plant and Equipment

The Group has reviewed the key assumptions underlying the carrying value of generation assets within property plant and equipment which were last revalued as at March 2012. Most of the assumptions remain consistent with those disclosed in the 2013 annual report. However there has been a decline in the New Zealand forward electricity price path. The impact of this change in assumption has not resulted in a material change in the value of the Group's property, plant and equipment. A further review will be undertaken prior to 31 March 2014.

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Assets acquired at cost	**178,632**	98,378	197,746
Net book value of assets disposed	**127**	99	193
Gain/(loss) on disposal	**72**	66	104

Note 15. Commitments

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Capital Commitments	**174,689**	478,493	360,116

The capital commitments comprise the contracts for the construction of stage 2 of the Group's Snowtown Wind Farm.

Electricity Purchase Commitments

The Parent has a contract with Pioneer Generation Limited to purchase all of the output from its various generation sites. This commitment cannot be quantified.

The Parent has a contract with Mighty River Power Limited to purchase the output from the Rotokawa geothermal power station. This commitment cannot be quantified.

The Parent has a contract with Opuha Water Limited to purchase the output from its hydropower station. This commitment cannot be quantified.

The Parent has a contract with Amethyst Hydro Limited to purchase the output from its hydropower station. This commitment cannot be quantified.

Note 16. Seasonal Impact on Revenue

The retail sale of electricity is subject to seasonal fluctuations, with peak demand in the second quarter, and to a lesser extent the first quarter, of each financial year. This is due to higher demand for electricity in colder weather. For the six months ended 30 September 2012, the volume of customer sales was 17% higher than for the six months ended 31 March 2013.

Note 17. Unsecured Bank Loans

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
New Zealand dollar facilities			
Current portion	**-**	-	-
Non-current portion	**103,649**	114,302	108,983
	103,649	114,302	108,983
Australian dollar facilities			
Current portion	**148,961**	217,600	24,908
Non-current portion	**374,545**	81,288	326,301
	523,506	298,888	351,209
Total facilities			
Current portion	**148,961**	217,600	24,908
Non-current portion	**478,194**	195,590	435,284
	627,155	413,190	460,192

The Group has the following loan facilities with interest priced at between call and 180 day rates:

(i) $100,000,000 revolving loan expiring in one to two years
(ii) $75,000,000 revolving loan expiring in two to five years
(iii) $63,376,000 table loan maturing in over five years
(iv) $43,333,000 table loan maturing in over five years
(v) AUD 220,000,000 revolving loan expiring in under one year
(vi) AUD 75,000,000 revolving loan expiring in two to five years
(vii) AUD 125,000,000 revolving loan expiring in two to five years
(viii) AUD 171,900,000 table loan expiring in over five years

Note 18. Contingent Assets and Liabilities

Inland Revenue is currently disputing the tax treatment adopted by the Group in relation to feasibility expenditure in the 2006, 2007 and 2008 financial years. Inland Revenue has now issued assessments for the 2006, 2007 and 2008 financial years. These assessments are based on the adjudication report previously issued by Inland Revenue and now allow a deduction for certain categories of expenditure which were previously disputed by Inland Revenue but contend that the costs of obtaining resource consents should have been capitalised. The assessments are based on Inland Revenue's determination of what should be considered resource consent costs. The Group does not agree with the basis of the assessments. It continues to believe the tax treatment it has adopted is correct and continues to defend its position. The case was heard in the High Court in August 2013 but to date no judgement has been received.

Should Inland Revenue be completely successful in its claim for all three years, the resulting liability would give rise to an additional tax payment of $5,924,000 and interest expense of $2,879,000. Based on the principle of the assessments, the Group would need to revise its policy for capitalising the costs of resource consents for tax purposes in the 2009 and future years. This would give rise to a further estimated tax payment of $4,508,000 and interest expense of $1,277,000 in respect of the 2009 to 2014 years. This would primarily result in a balance sheet adjustment in the financial statements as most resource consents are depreciable intangible property. The impact of these adjustments on the tax expense in the income statement is difficult to estimate but is unlikely to exceed $2,500,000 for all years up to September 2013.

Note 19. Related Party Transactions

The Group is controlled by Infratil Limited (incorporated in New Zealand) which owns 50.7% of the Company's shares. The Tauranga Energy Consumer Trust owns 33.1% and the residual 16.2% are widely held.

A related entity of H.R.L. Morrison & Co Limited manages Infratil Limited and Mr M Bogoievski, a Director of Trustpower Limited, is the Chief Executive of H.R.L. Morrison & Co Limited. Infratil Limited is a significant shareholder in Trustpower Limited and nothing (30 September 2012: $8,000, 31 March 2013: $8,000) was paid to H.R.L. Morrison & Co Limited and related entities during the period for consultancy services. As at 30 September 2013 none of this amount was outstanding (30 September 2012: nil, 31 March 2013: nil).

For the year ended 31 March 2013 consultancy fees of $8,000 were paid to Lumo Energy Pty Ltd which is a subsidiary of the Group's ultimate parent. As at 31 March 2013 none of this amount was outstanding. No consultancy fees were paid in the six-month period ended 30 September 2013 (30 September 2012: nil).

Mr RH Aitken, a Director of Trustpower Limited, is the Executive Chairman of the engineering firm Beca. $99,000 was paid to Beca for engineering services in the six months to 30 September 2013 (30 September 2012: $136,000, 31 March 2013: $281,000). As at 30 September 2013 none of this amount was unpaid (30 September 2012: $12,000, 31 March 2013: $50,000).

Mr RWH Farron, Chief Financial Officer and Company Secretary of Trustpower Limited, is a director of the engineering supplies firm BGH Group Limited and its New Zealand based subsidiaries. $3,000 has been charged by subsidiaries, Bay Engineers Supplies Limited and Hose Supplies New Zealand Limited in the six months to 30 September 2013 (30 September 2012: $2,000, 31 March 2013: $5,000). As at 30 September 2013 none of this amount was unpaid (30 September 2012: $1,000, 31 March 2013: $1,000).

All Directors participate in a share purchase plan where the Directors' purchase shares in the Company to the value of half of their annual Directors' fees. During the six months to 30 September 2013 all Directors purchased their shares directly from the Company at the average market price for the preceding 20 business days from the treasury stock that the Company was holding. A total of 19,000 shares (30 September 2012: 19,000, 30 March 2013: 36,000) were purchased for $143,000 (30 September 2012: $146,000, 31 March 2013: $290,000).

During the six months to 30 September 2013 6,700 shares (30 September 2012: nil, 31 March 2013: nil) were issued to Mr VJ Hawksworth, Chief Executive of Trustpower Limited for $51,000 (30 September 2012: nil, 31 March 2013: nil). The shares were issued from the treasury stock that the Company was holding.

Trustpower Limited owns 20.0% of the ordinary shares of Rangitata Diversion Race Management Limited (RDR) which owns and operates an irrigation canal in Canterbury. RDR's operating and capital expenditure is funded by advances from its shareholders. During the six months to 30 September 2013 the Group advanced RDR nothing (30 September 2012: nil, 31 March 2013: nil) and the total balance of the advance at 30 September 2013 was $1,884,000 (30 September 2012: $1,884,000, 31 March 2013: $1,884,000). This balance is included in other investments in the statement of financial position.

Note 19. Related Party Transactions (continued)

Key management personnel compensation (including Directors' fees) is as follows:

	Unaudited 6 Months September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Salaries and other short-term employee benefits	2,945	2,548	4,523
Share based payments	51	-	63
	2,996	2,548	4,586

Except as noted above, no transactions, other than within the Group, took place with related parties during the period. All transactions with related parties take place on an arms length basis. No related party debts were forgiven or written off during the period. Except as noted above there are no amounts outstanding at 30 September 2013 (30 September 2012: nil, 31 March 2013: nil).

Note 20. Business Combinations

On 1 July 2013 the Group purchased the assets and liabilities of Energy Direct New Zealand Limited, an electricity and gas retailer, for a cash consideration of $17,101,000. As a result of this acquisition the Group has grown its customer base and is able to begin gas retailing. There were no material operating results for this acquisition affecting the income statements for this period. The assets and liabilities of the acquired business at the purchase date were as follows:

Assets and Liabilities Acquired:	$000
Cash at bank	63
Accounts receivable and prepayments	3,651
Property, plant and equipment	103
Intangible customer base asset	14,897
Accounts payable and accruals	(263)
Electricity price derivative	(1,350)
Net assets acquired	17,101

The fair value and the gross value of the accounts receivable and prepayments is as disclosed in the table above. This represents the best estimate of contractual cashflows expected to be collected. There was no goodwill arising as a result of this business combination.

Since the acquistion date, the revenue contributed by these assets has been $11,051,000. The profit before tax has been $287,000. If the acquistion had occurred at the beginning of the reporting period the revenue contribution would have been $20,659,000 and the profit before tax would have been $775,000.

Note 21. Financial Risk Management

Trustpower's activities expose it to a variety of financial risks: electricity price risk, interest rate risk, exchange rate risk, liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out under policies approved by the Board.

Electricity Price Risk

The Group is required to purchase a percentage of its electricity sold off the electricity spot market. This leaves the Group exposed to fluctuations in the spot price of electricity. The Group has entered into a number of electricity hedge contracts to reduce the risk from price fluctuations on the electricity spot market. These hedge contracts establish the price at which future specified quantities of electricity are purchased. Any resulting differential to be paid or received is recognised as a component of energy costs through the term of the contract. The Group has elected to apply cash flow hedge accounting to those instruments it deems material and which qualify as cash flow hedges while immaterial contracts will not be hedge accounted. This risk management strategy assumes that the electricity wholesale market that currently operates will continue to do so in the future. There is a possibility that future regulatory intervention may fundamentally alter the structure of the wholesale electricity market. The likelihood and potential impact of such a change is unquantifiable. However, such an occurrence would likely necessitate a change to the Group's electricity price risk management policies and require a review of assets and liabilities held at fair value where electricity price is a key assumption in their value.

Interest Rate Risk

The Group's bank borrowings are all on floating interest rates. The Group has various interest rate financial instruments to manage exposure to fluctuations in interest rates. Any resulting differential to be paid or received on the instruments is recognised as a component of interest paid. The Group has elected to hedge account for only a limited number of these instruments.

Exchange Rate Risk

The Group has from time to time entered into forward exchange contracts to reduce the risk from price fluctuations of foreign currency costs associated with the construction of generation assets. Any resulting differential to be paid or received is recognised as a component of the cost of the project. The Group has also entered into forward foreign exchange contracts to reduce the risk from price fluctuations of foreign exchange income associated with the sale of emission rights. The Group has elected to apply cash flow hedge accounting to these instruments.

Credit Risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Where a potential customer does not have a suitable credit history a bond is required before the customer is accepted. Derivative counterparties and cash transactions are limited to high credit quality financial institutions and other large electricity market participants. The Group has policies that limit the amount of credit exposure to any counterparty.

Liquidity Risk

The Group's ability to readily attract cost effective funding is largely driven by its credit standing.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through, and adequate amount of, committed credit facilities and the spreading of debt maturities.

Liquidity risk is monitored by continuously forecasting actual cash flows and matching the profiles of financial assets and liabilities.

Capital Risk Management Objectives

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Note 21. Financial Risk Management

Estimation of Fair Values

The fair values and net 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 market-quoted rates based on discounted cash flow analysis.
- 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 (for the relevant underlying interest rates, foreign exchange rates or commodity prices); and
- discount rates.

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.

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.

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 4.1% to 4.7%

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 earlier in this note for sensitivity analysis.

Note 21. Financial Risk Management (Continued)

NZ IFRS 7 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 the Group's financial assets and liabilities that are measured at fair value.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
30 September 2013				
Assets per the statement of financial position				
Interest rate derivative assets	**-**	**5,269**	**-**	**5,269**
Electricity price derivative assets	**-**	**-**	**2,191**	**2,191**
Exchange rate derivative assets	**-**	**12,809**	**-**	**12,809**
	-	**18,078**	**2,191**	**20,269**
Liabilities per the statement of financial position				
Interest rate derivative liabilities	**-**	**13,344**	**-**	**13,344**
Electricity price derivative liabilities	**-**	**-**	**19,976**	**19,976**
Exchange rate derivative liabilities	**-**	**-**	**-**	**-**
	-	**13,344**	**19,976**	**33,320**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
30 September 2012				
Assets per the statement of financial position				
Interest rate derivative assets	-	5,577	-	5,577
Electricity price derivative assets	-	-	3,145	3,145
Exchange rate derivative assets	-	6,968	-	6,968
	-	12,545	3,145	15,690
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	28,710	-	28,710
Electricity price derivative liabilities	-	-	19,023	19,023
Exchange rate derivative liabilities	-	1,975	-	1,975
	-	30,685	19,023	49,708

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2013				
Assets per the statement of financial position				
Interest rate derivative assets	-	5,288	-	5,288
Electricity price derivative assets	-	-	1,488	1,488
Exchange rate derivative assets	-	2,395	-	2,395
	-	7,683	1,488	9,171
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	22,628	-	22,628
Electricity price derivative liabilities	-	-	14,862	14,862
Exchange rate derivative liabilities	-	2,237	-	2,237
	-	24,865	14,862	39,727

Note 21. Financial Risk Management (Continued)

The following tables present the changes during the year of the level 3 instruments.

	Electricity price derivatives $000	Total $000
30 September 2013		
Assets per the statement of financial position		
Opening balance	1,488	1,488
Gains and (losses) recognised in profit or loss	703	703
Gains and (losses) recognised in other comprehensive income	-	-
Closing balance	2,191	2,191
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	1,447	1,447
Liabilities per the statement of financial position		
Opening balance	14,862	14,862
(Gains) and losses recognised in profit or loss	227	227
(Gains) and losses recognised in other comprehensive income	4,887	4,887
Closing balance	19,976	19,976
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	14,383	14,383
Settlements during the period	5,778	5,778

Note 21. Financial Risk Management (Continued)

	Electricity price derivatives $000	Total $000
30 September 2012		
Assets per the statement of financial position		
Opening balance	8,357	8,357
Gains and (losses) recognised in profit or loss	(5,212)	(5,212)
Gains and (losses) recognised in other comprehensive income	-	-
Closing balance	3,145	3,145
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	1,447	1,447
Liabilities per the statement of financial position		
Opening balance	4,207	4,207
(Gains) and losses recognised in profit or loss	(7,022)	(7,022)
(Gains) and losses recognised in other comprehensive income	21,838	21,838
Closing balance	19,023	19,023
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	14,383	14,383
Settlements during the period	(3,494)	(3,494)

	Electricity price derivatives $000	Total $000
31 March 2013		
Assets per the statement of financial position		
Opening balance	8,357	8,357
Gains and (losses) recognised in profit or loss	(6,869)	(6,869)
Gains and (losses) recognised in other comprehensive income	-	-
Closing balance	1,488	1,488
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	1,447	1,447
Liabilities per the statement of financial position		
Opening balance	4,207	4,207
(Gains) and losses recognised in profit or loss	(6,395)	(6,395)
(Gains) and losses recognised in other comprehensive income	17,050	17,050
Closing balance	14,862	14,862
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	14,383	14,383
Settlements during the period	(794)	(794)

Note 21. Financial Risk Management (Continued)

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 September 2013 $000	Unaudited 6 Months September 2012 $000	Audited 12 Months March 2013 $000
Increase/(decrease) to profit of a 10% increase in electricity forward price	559	(703)	447
Increase/(decrease) to profit of a 10% decrease in electricity forward price	(559)	703	(447)
Increase/(decrease) to equity of a 10% increase in electricity forward price	7,913	12,746	9,011
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(7,913)	(12,746)	(9,011)

Note 22. Subsequent Events

Except as noted there have been no material events subsequent to 30 September 2013.