

Different...



Trustpower Limited Unaudited Financial Results

for the Six Months Ended 30 September 2015

Trustpower's consolidated profit after tax was \$59.7 million for the period, representing a decrease of 33% compared with \$89.8 million for the same period last year. Last year a one-off gain of \$25 million was included in profit relating to the acquisition of the Green State Power hydro and wind assets in New South Wales.

Underlying earnings¹ after tax excluding fair value movements on financial instruments, the impact of the Inland Revenue court case and one-off gains and impairment charges were \$68.3 million compared with \$67.4 million in the prior period, an increase of 1%. Fair value losses on financial instruments were \$3.0 million for the period (prior period was a loss of \$4.4 million) primarily due to decreases in long term interest rates continuing to have a negative 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 \$184.2 million, compared with \$173.3 million achieved in the prior period representing an increase of 6%.

Total electricity volume sold by the Company in New Zealand through mass market retailing and time of use sales was 2,147 GWh, compared with 2,051 GWh in the prior period, an increase of 5%.

Total energy accounts increased to 280,000 including 28,000 gas accounts. Good progress was made in acquiring new customers in North Island metro markets and Trustpower's multiproduct retail strategy continues to achieve good momentum. Trustpower now has 66,000 customers with two or more services, up 20,000 (43%) over prior period. Telecommunications growth continued to be strong with connections increasing by 16,000 (46%) to 51,000 compared with prior period. While the retail energy market remained highly competitive throughout the period, Trustpower continued to experience lower levels of customer churn than the market overall. Over the last three half year periods Trustpower has maintained its rate of growth in electricity and gas connections while telecommunication connection growth has accelerated as broadband take up increases. This confirms that Trustpower's bundled service offering is being well received by customers and is delivering the benefits expected.

The Group's New Zealand generation production of 1,307 GWh was 7% higher than the prior period and in line with the expected long term average. The increase over prior period was driven primarily by increased North Island Hydro (up 25%) and North Island Wind (up 8%).

The Snowtown Wind Farm in South Australia produced 596 GWh during the period, 2 percent higher than the 584 GWh produced in the prior period. Stage 2 of the wind farm was not fully commissioned in the prior period. This result was however below long term expectation.

Trustpower is in an ongoing dispute with the Inland Revenue about the deductibility of feasibility expenditure. The Court of Appeal recently overturned the High Court decision which was in Trustpower's favour. Trustpower maintains its position is correct and will appeal this decision in the Supreme Court in March 2016. As a result Trustpower has provided for the full costs of losing this appeal in the financial statements. This has resulted in a reduction in net surplus after tax of \$6.1 million. This reduction has been excluded from the calculation of underlying earnings noted above.

Group operating cash flow was \$126.3 million for the reporting period versus \$126.9 million in the prior period.

Net debt (including subordinated bonds) to Net debt plus equity remains at 40% the same as at 31 March 2015.

Trustpower continues to maintain conservative levels of committed credit facilities. As at 30 September 2015 Group net debt was \$1,184 million. The Group has close to NZD equivalent 1.5 billion of committed debt facilities.

Trustpower has \$100 million of subordinated bonds maturing in December 2015. Trustpower is currently reviewing its portfolio of funding in relation to its existing operations and future options and has decided at this stage to retain flexibility and repay these bonds using existing undrawn bank facilities.

Trustpower is actively progressing 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.

Trustpower is actively pursuing development approval applications for close to 900 MW for 3 wind projects located in Victoria, New South Wales and South Australia.

The hearing for the development approval of the up to 330 MW Dundonnell project in Victoria has been completed. A non-appealable decision is expected to be given by the end of 2015. Trustpower has also recently secured a wind farm site in Western Australia which has been granted development approval for up to 105 MW. This site may have potential for a 20 MW grid connected solar project subject to obtaining further development approval. Trustpower continues to pursue development options. Trustpower believes that, following the confirmation of the revised Renewable Energy Target by the Australian Government, there is now a more stable policy environment for renewable energy investment in Australia.

The Directors are pleased to announce an interim dividend of 21 cents per share, partially imputed to 16 cents per share, payable 11 December 2015 (record date of 27 November 2015).



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.

Key Metrics

For the six months ended 30 September 2015	2015	2014	2013	2012	2011
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF) (\$M)	184	173	153	166	162
Profit After Tax Attributable to the Shareholders of the Company (\$M)	60	89	77	70	69
Underlying earnings after tax (\$M)	68	67	70	76	76
Basic earnings per share (cents per share)	19	29	25	22	22
Underlying earnings per share (cents per share)	22	22	22	24	24
Dividends paid during the period (cents per share)	21	20	20	20	20
Gearing ratio	40%	45%	40%	35%	35%
Net tangible assets per share (dollars per share)	5.66	4.70	4.74	4.82	4.40
Customers, Sales and Service					
Electricity connections (000s)	252	234	218	206	218
Telecommunication customers (000s)	51	35	29	26	24
Gas connections (000s)	28	21	10	-	-
Total utility accounts	331	290	257	232	242
Customers with two or more utilities (000s)	66	46	31	16	10
Mass market sales – fixed price (GWh)	981	893	851	910	984
Time of use sales – fixed price (GWh)	414	410	312	375	402
Time of use sales – spot price (GWh)	752	748	668	701	751
Total customer sales (GWh)	2,147	2,051	1,831	1,986	2,137
Average spot price of electricity purchased (\$/MWh)	60	69	71	96	66
Gas Sales (TJ)	744	542	241	-	-
Annualised customer churn rate	16%	14%	14%	13%	16%
Annualised customer churn rate – total market	22%	19%	21%	19%	23%

Key Metrics (Continued)

For the six months ended 30 September 2015	2015	2014	2013	2012	2011
Generation Production and Procurement					
North Island hydro generation production (GWh)	381	304	313	435	508
South Island hydro generation production (GWh)	574	606	562	555	570
Total hydro generation production (GWh)	955	910	875	990	1,078
North Island wind generation production (GWh)	285	263	290	254	280
South Island wind generation production (GWh)	67	52	53	48	56
Total wind generation production (GWh)	352	315	343	302	336
Total New Zealand generation production (GWh)	1,307	1,225	1,218	1,292	1,414
Average spot price of electricity generated (\$/MWh)	54	63	68	97	61
Net third party fixed price volume purchased (GWh)	453	342	274	299	608
Australian wind generation production (GWh)	596	584	193	186	177
Australian hydro generation production (GWh)	68	35	-	-	-
Total Australian generation production (GWh)	664	536	386	376	386
Other Information					
Resource consent non-compliance events	4	2	1	4	5
Staff numbers (full time equivalents)	675	611	542	457	456

Consolidated Income Statement

For the six months ended 30 September 2015	Note	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Operating Revenue				
Electricity revenue		492,262	468,022	915,362
Telecommunications revenue		22,306	16,267	34,544
Gas revenue		17,777	12,235	22,150
Other operating revenue		8,270	8,336	21,411
		540,615	504,860	993,467
Operating Expenses				
Line costs		153,573	144,853	279,210
Electricity costs		72,469	76,437	160,782
Generation production costs		35,082	31,767	66,725
Employee benefits		27,124	23,377	49,049
Telecommunications cost of sales		16,573	13,023	26,942
Gas cost of sales		11,244	9,067	16,625
Other operating expenses		40,371	32,990	63,403
		356,436	331,514	662,736
Earnings Before Interest, Tax, Depreciation, Amortisation, Fair Value Movements of Financial Instruments, Asset Impairments and Discount on Acquisition (EBITDAF)				
		184,179	173,346	330,731
Impairment of assets		-	-	141
Discount on acquisition		-	(24,986)	(24,986)
Net fair value (gains)/losses on financial instruments		3,019	4,395	14,219
Amortisation of intangible assets		7,105	5,952	12,958
Depreciation		50,141	40,189	85,167
Operating Profit		123,914	147,796	243,232
Interest paid		44,015	38,244	79,628
Interest received		(27)	(459)	(1,065)
Net finance costs		43,988	37,785	78,563
Profit Before Income Tax		79,926	110,011	164,669
Income tax expense	8	20,180	20,776	20,655
Profit After Tax Attributable to the Shareholders of the Company		59,746	89,235	144,014
Basic and diluted earnings per share (cents per share)		19.1	28.5	46.0

The Board of Trustpower Limited authorised these Interim Financial Statements for issue on 30 October 2015.

The accompanying notes form part of these interim financial statements

Consolidated Statement of Comprehensive Income

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
For the six months ended 30 September 2015			
Profit after tax attributable to the shareholders of the Company	59,746	89,235	144,014
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss:			
Revaluation gains on generation assets	-	-	398,789
Currency translation differences on revaluation reserve	22,395	3,335	(3,034)
Other currency translation differences	6,490	2,746	(4,931)
Fair value (losses)/gains on cash flow hedges	(9,108)	(10,642)	5,735
Tax effect of the following:			
Revaluation gains on generation assets	-	-	(106,473)
Currency translation differences	13,989	4,581	(11,250)
Fair value losses/(gains) on cash flow hedges	2,550	3,052	(1,543)
Total Other Comprehensive Income	36,316	3,072	277,293
Total Comprehensive Income	96,062	92,307	421,307

Consolidated Statement of Changes in Equity

	Note	Share capital \$000	Revaluation reserve \$000	Cash flow hedge reserve \$000	Foreign Currency Translation Reserve \$000	Retained earnings \$000	Total equity \$000
Opening balance as at 1 April 2014		159,034	1,009,212	614	(3,756)	349,428	1,514,532
Total comprehensive income for the period		-	3,335	(7,590)	7,327	89,235	92,307
Disposal of revalued assets		-	-	-	-	-	-
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		155	-	-	-	-	155
Own shares repurchased	7	(741)	-	-	-	-	(741)
Issue of treasury shares to management		-	-	-	-	-	-
Dividends paid	6	-	-	-	-	(62,576)	(62,576)
Total transactions with owners recorded directly in equity		(586)	-	-	-	(62,576)	(63,162)
Unaudited closing balance as at 30 September 2014		158,448	1,012,547	(6,976)	3,571	376,087	1,543,677
Opening balance as at 1 October 2014		158,448	1,012,547	(6,976)	3,571	376,087	1,543,677
Total comprehensive income for the period		-	285,947	11,782	(23,508)	54,779	329,000
Disposal of revalued assets		-	-	-	-	-	-
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		138	-	-	-	-	138
Own shares repurchased	7	-	-	-	-	-	-
Dividends paid	6	-	-	-	-	(62,579)	(62,579)
Total transactions with owners recorded directly in equity		138	-	-	-	(62,579)	(62,441)
Audited closing balance as at 31 March 2015		158,586	1,298,494	4,806	(19,937)	368,287	1,810,236
Opening balance as at 1 April 2015		158,586	1,298,494	4,806	(19,937)	368,287	1,810,236
Total comprehensive income for the period		-	22,395	(6,558)	20,479	59,746	96,062
Disposal of revalued assets		-	(85)	-	-	85	-
Transactions with owners recorded directly in equity							
Purchase of treasury shares by Directors		155	-	-	-	-	155
Issue of treasury shares to management		-	-	-	-	-	-
Own shares repurchased	7	-	-	-	-	-	-
Dividends paid	6	-	-	-	-	(65,712)	(65,712)
Total transactions with owners recorded directly in equity		155	-	-	-	(65,712)	(65,557)
Unaudited closing balance as at 30 September 2015		158,741	1,320,804	(1,752)	542	362,406	1,840,741

The accompanying notes form part of these interim financial statements

Consolidated Statement of Financial Position

As at 30 September 2015	Note	Unaudited September 2015 \$000	Unaudited September 2014 \$000	Audited March 2015 \$000
Equity				
<i>Capital and reserves attributable to shareholders of the Company</i>				
Share capital	7	158,741	158,448	158,586
Revaluation reserve		1,320,804	1,012,547	1,298,494
Retained earnings		362,406	376,087	368,287
Cash flow hedge reserve		(1,752)	(6,976)	4,806
Foreign currency translation reserve		542	3,571	(19,937)
Total Equity		1,840,741	1,543,677	1,810,236
<i>Represented by:</i>				
Current Assets				
Cash at bank		8,573	53,822	14,057
Other deposits		-	2,455	2,740
Accounts receivable and prepayments		151,634	148,689	123,003
Derivative financial instruments		2,362	2,051	3,525
Land and buildings held for sale		7,189	-	-
Taxation receivable		166	11,561	5,145
		169,924	218,578	148,470
Non Current Assets				
Property, plant and equipment		3,387,543	3,040,956	3,348,382
Derivative financial instruments		5,618	2,539	10,648
Other investments		1,892	1,892	1,892
Intangible assets		68,491	74,054	72,207
		3,463,544	3,119,441	3,433,129
Total Assets		3,633,468	3,338,019	3,581,599
Current Liabilities				
Accounts payable and accruals		96,245	114,163	96,271
Unsecured subordinated bonds	5	100,000	-	100,000
Unsecured senior bonds	5	-	75,000	-
Unsecured bank loans	5	28,649	69,694	31,675
Derivative financial instruments		2,976	5,515	2,963
Taxation payable		6,944	254	4,821
		234,814	264,626	235,730
Non Current Liabilities				
Unsecured bank loans	5	736,591	806,287	703,128
Unsecured subordinated bonds	5	138,902	238,441	138,671
Unsecured senior bonds	5	243,422	138,828	243,140
Derivative financial instruments		32,938	21,440	25,962
Accounts payable and accruals		3,440	3,752	3,648
Deferred tax liability	9	402,620	320,968	421,084
		1,557,913	1,529,716	1,535,633
Total Liabilities		1,792,727	1,794,342	1,771,363
Net Assets		1,840,741	1,543,677	1,810,236
Net Tangible Assets Per Share		\$5.66	\$4.70	\$5.55

The accompanying notes form part of these interim financial statements

Consolidated Cash Flow Statement

		Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
For the six months ended 30 September 2015				
		Note		
Cash Flows from Operating Activities				
<i>Cash was provided from:</i>				
Receipts from customers		516,874	495,172	998,971
		516,874	495,172	998,971
<i>Cash was applied to:</i>				
Payments to suppliers and employees		365,744	339,701	688,938
Taxation paid		24,832	28,581	40,229
		390,576	368,282	729,167
Net Cash Flow from Operating Activities	12	126,298	126,890	269,804
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Sale of property, plant & equipment		22	-	251
Return of bond deposits on trust		800	-	-
Return of electricity market security deposits		4,250	143	7,595
Interest received		27	459	1,068
		5,099	602	8,914
<i>Cash was applied to:</i>				
Interest capitalised in construction of property, plant and equipment		-	2,410	2,087
Lodgement of electricity market security deposits		1,887	-	7,737
Purchase of property, plant and equipment		11,152	37,696	63,202
Purchase of other investments		-	3	3
Purchase of business		-	81,318	81,318
Purchase of intangible assets		3,390	7,767	12,926
		16,429	129,194	167,273
Net Cash Flow used in Investing Activities		(11,330)	(128,592)	(158,359)

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 September 2015	Note	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Bank loan proceeds		100,900	230,744	209,835
Subordinated bond issue proceeds		-	(3)	77,982
Issue of shares		155	155	293
		101,055	230,896	288,110
<i>Cash was applied to:</i>				
Bond brokerage costs		-	-	1,136
Purchase of own shares		-	741	741
Repayment of bank loans		117,741	107,533	164,752
Repayment of senior bonds		-	-	47,982
Interest paid		38,268	37,176	74,906
Dividends paid		65,712	62,577	125,155
		221,721	208,027	414,672
Net Cash Flow (used in)/from Financing Activities		(120,666)	22,869	(126,562)
Net (Decrease) / Increase in Cash, Cash Equivalents and Bank Overdrafts		(5,698)	21,167	(15,117)
Cash, cash equivalents and bank overdrafts at beginning of the period		14,057	31,723	31,723
Exchange gains/(losses) on cash		214	932	(2,549)
Cash, Cash Equivalents and Bank Overdrafts at End of the Period		8,573	53,822	14,057

Notes to the Interim Financial Statements

Note 1: Basis of Preparation

Reporting Entity

The reporting entity is the consolidated group comprising Trustpower Limited and its New Zealand and Australian subsidiaries together referred to as Trustpower. The principal activities of Trustpower are the development, ownership and operation of electricity generation facilities from renewable energy sources and the retail sale of energy and telecommunications services to its customers.

Trustpower Limited is registered under the Companies Act 1993, is listed on the New Zealand Stock Exchange (NZX) and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

Basis of preparation

These unaudited condensed interim financial statements have been prepared for the six months ended 30 September 2015. These financial statements provide an update on the interim performance of Trustpower, and should be read in conjunction with the full year financial statements presented for the year ended 31 March 2015 from which the same accounting policies and methods of computation have been followed.

The interim financial statements are prepared in accordance with:

- NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.
- New Zealand Generally Accepted Accounting Practice (NZGAAP).
- the accounting policies and methods of computation in the most recent annual financial statements.
- the Financial Markets Conduct Act 2013, and NZX equity listing rules.
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit oriented entities.

In preparing the financial statements we have:

- Recorded all transactions at the actual amount incurred (historical cost convention), except for generation assets and derivatives which are recorded at fair value.
- Reported in 'New Zealand Dollars' (NZD) rounded to the nearest thousand.

Seasonality

The individual segments of Retail and NZ Generation are subject to seasonality due to seasonal differences in the demand for electricity and in the wholesale electricity price. However as a group these differences partially offset each other.

Note 2: Segment Information

For internal reporting purposes, Trustpower is organised into three segments. The main activities of each segment are:

Retail	The retail sale of electricity, gas and telecommunication services to customers in New Zealand.
New Zealand Generation	The generation of renewable electricity by wind and hydro power schemes across New Zealand.
Australian Generation	The generation of renewable electricity in Australia by the Snowtown Wind Farm and the Green State Power hydro and wind schemes.

The New Zealand Generation segment also includes the lease of legacy meters to the Retail segment and to other retailers, and the supply of water to Canterbury irrigators. There is also an Other segment that exists to include any unallocated revenues and expenses. This relates mostly to unallocated corporate functions.

The unaudited segment results for the six months ended 30 September 2015 are as follows:

	Retail \$000	Generation New Zealand \$000	Generation Australia \$000	Other \$000	Total \$000
Total segment revenue	452,897	138,984	64,843	1,385	658,109
Inter-segment revenue	-	(116,415)	-	(1,079)	(117,494)
Revenue from external customers	452,897	22,569	64,843	306	540,615
EBITDAF	21,365	119,950	47,238	(4,374)	184,179
Amortisation of intangible assets	2,152	-	-	4,953	7,105
Depreciation	-	20,687	27,957	1,497	50,141
Capital expenditure including business acquisitions	-	3,289	948	11,133	15,370

Note 2: Segment Information (Continued)

The unaudited segment results for the six months ended 30 September 2014 are as follows:

	Retail \$000	Generation New Zealand \$000	Generation Australia \$000	Other \$000	Total \$000
Total segment revenue	425,431	137,799	57,267	1,203	621,700
Inter-segment revenue	-	(115,765)	-	(1,075)	(116,840)
Revenue from external customers	425,431	22,034	57,267	128	504,860
EBITDAF	13,027	119,239	42,557	(1,477)	173,346
Amortisation of intangible assets	2,152	-	-	3,800	5,952
Depreciation	-	22,745	15,830	1,614	40,189
Capital expenditure including business acquisitions	-	2,993	51,034	8,503	62,530

Note 2: Segment Information (Continued)

The audited segment results for the year ended 31 March 2015 are as follows:

	Retail \$000	Generation New Zealand \$000	Generation Australia \$000	Other \$000	Total \$000
Total segment revenue	815,143	232,498	129,434	2,409	1,179,484
Inter-segment revenue	-	(184,644)	-	(1,373)	(186,017)
Revenue from external customers	815,143	47,854	129,434	1,036	993,467
EBITDAF	54,535	182,559	97,603	(3,966)	330,731
Amortisation of intangible assets	4,305	-	-	8,653	12,958
Depreciation	-	45,610	36,150	3,407	85,167
Capital expenditure including business acquisitions	-	11,216	172,685	15,512	199,413
Asset impairment	-	141	-	-	141

Transactions between segments (Inter-segment) are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. The most significant inter-segment transaction is the sale of electricity hedges by New Zealand Generation to New Zealand Retail. See the retail note 3 for more information.

Retail

Trustpower is a multiproduct utility retailer. Trustpower supplies homes and businesses around the country with electricity, gas, broadband and telephone services. Trustpower provides electricity to 252,000 homes and businesses (2014: 234,000), supplies 28,000 customers with gas (2014: 21,000) and connects 51,000 (2014: 35,000) customers with telephone and broadband services.

Note 3. Retail Profitability Analysis

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Operating Revenue			
Electricity revenue			
Mass market – fixed price	264,305	242,159	452,923
Commercial & industrial – fixed price	68,233	68,243	125,160
Commercial & industrial – spot price	77,940	84,700	177,089
Total electricity revenue	410,478	395,102	755,172
Gas	17,777	12,235	22,150
Telco	22,306	16,267	34,544
Other operating revenue	2,336	1,827	3,277
	452,897	425,431	815,143
Operating Expenses			
Energy costs	193,767	195,636	341,250
Line costs	153,573	144,853	279,210
Telecommunications cost of sales	16,573	13,023	26,942
Employee benefits	14,531	12,468	25,868
Meter rental costs	10,120	8,964	18,579
Gas cost of sales	11,244	9,067	16,625
Market fees and costs	3,365	4,827	8,267
Marketing costs	12,044	8,610	15,750
Other customer connection costs	1,394	1,214	2,370
Bad debts	877	847	1,158
Other operating expenses*	14,044	12,895	24,589
	431,532	412,404	760,608
EBITDAF	21,365	13,027	54,535
The analysis above includes the following internal charges:			
Energy costs	121,298	119,225	180,468
Meter rental costs	5,414	5,488	10,876
Other operating expenses	1,285	1,285	2,520
	127,997	125,998	193,864

* Other operating expenses includes an allocation of computing and corporate costs.

Generation

Trustpower owns 634MW of hydro and wind generation assets throughout New Zealand as well as 477MW of hydro and wind generation in South Australia and New South Wales. The Generation segment also includes metering and irrigation assets as well as Trustpower's energy trading function.

Note 4: Generation Profitability Analysis

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
New Zealand			
Operating Revenue			
Electricity revenue	126,657	124,828	202,004
Meter rental revenue	9,351	9,795	19,299
Net other operating revenue	2,976	3,176	11,195
	138,984	137,799	232,498
Operating Expenses			
Generation production costs	22,125	20,882	43,192
Employee benefits	6,112	5,292	10,609
Generation development expenditure	485	662	1,477
Other operating expenses including electricity hedge settlements	(9,688)	(8,276)	(5,339)
	19,034	18,560	49,939
EBITDAF	119,950	119,239	182,559
The analysis above includes the following internal charges:			
Electricity revenue	109,716	109,044	171,248
Electricity hedge settlements	11,582	10,181	9,220
Meter rental revenue	5,414	5,488	10,876
Other operating revenue	1,285	1,285	2,520
	127,997	125,998	193,864

Note 4: Generation Profitability Analysis (Continued)

Australia	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Operating Revenue			
Electricity revenue	64,843	57,267	129,434
Operating Expenses			
Generation production costs	12,957	10,885	23,533
Employee benefits	1,078	675	1,862
Generation development expenditure	2,528	2,528	3,492
Other operating expenses	1,042	622	2,944
	17,605	14,710	31,831
EBITDAF	47,238	42,557	97,603

There are no internal transactions in the Australian Generation business.

Debt

Trustpower borrows under a negative pledge arrangement, which with limited exceptions does not permit Trustpower to grant any security interest over its assets. The negative pledge deed requires Trustpower to maintain certain levels of shareholders' funds and operate within defined performance and debt gearing ratios. The banking arrangements may also create restrictions over the sale or disposal of certain assets unless the bank loans are repaid or renegotiated. Throughout the period Trustpower has complied with all debt covenant requirements in these agreements.

Note 5: Borrowings

Unsecured bank loans

Unaudited 30 September 2015	New Zealand dollar facilities \$000	Australian dollar facilities \$000	Total bank facilities \$000	Senior Bonds \$000	Subordinated Bonds \$000
Repayment terms:					
Less than one year	-	82,641	82,641	-	100,000
One to two years	-	137,735	137,735	65,000	-
Two to five years	49,200	228,640	277,840	75,000	140,000
Over five years	84,199	184,840	269,039	105,000	-
Facility establishment costs / bond issue costs	(2,015)	-	(2,015)	(1,578)	(1,098)
	<u>131,384</u>	<u>633,856</u>	<u>765,240</u>	<u>243,422</u>	<u>238,902</u>
Current portion	-	28,649	28,649	-	100,000
Non-current portion	131,384	605,207	736,591	243,422	138,902
	<u>131,384</u>	<u>633,856</u>	<u>765,240</u>	<u>243,422</u>	<u>238,902</u>

Note 5: Borrowings (Continued)

Unaudited 30 September 2014	Unsecured bank loans		Total bank facilities \$000	Senior Bonds \$000	Subordinated Bonds \$000
	New Zealand dollar facilities \$000	Australian dollar facilities \$000			
<i>Repayment terms:</i>					
Less than one year	70,100	72,875	142,975	75,000	-
One to two years	-	84,086	84,086	-	100,000
Two to five years	-	374,465	374,465	140,000	140,000
Over five years	95,454	181,514	276,968	-	-
Facility establishment costs / Bond issue costs	(2,513)	-	(2,513)	(1,172)	(1,559)
	163,041	712,940	875,981	213,828	238,441
Current portion	17,000	52,694	69,694	75,000	-
Non-current portion	146,041	660,246	806,287	138,828	238,441
	163,041	712,940	875,981	213,828	238,441

Note 5: Borrowings (Continued)

Audited 31 March 2015	Unsecured bank loans		Total bank facilities \$000	Senior Bonds \$000	Subordinated Bonds \$000
	New Zealand dollar facilities \$000	Australian dollar facilities \$000			
Repayment terms:					
Less than one year	44,500	66,415	110,915	-	100,000
One to two years	-	76,632	76,632	65,000	-
Two to five years	-	284,050	284,050	75,000	140,000
Over five years	89,827	175,641	265,468	105,000	-
Facility establishment costs / Bond issue costs	(2,262)	-	(2,262)	(1,860)	(1,329)
	132,065	602,738	734,803	243,140	238,671
Current portion	-	31,675	31,675	-	100,000
Non-current portion	132,065	571,063	703,128	243,140	138,671
	132,065	602,738	734,803	243,140	238,671

Senior bonds rank equally with bank loans, while subordinated bonds are fully subordinated behind all other creditors.

When Trustpower's subordinated bonds have reached maturity in December 2015, they can be converted to ordinary shares, at Trustpower's option, based on the market price at the time.

Equity

Note 6. Dividends

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Final dividend prior year	65,712	62,576	62,576
Interim dividend current year	-	-	62,579
Total dividend	65,712	62,576	125,155
	Cents per share	Cents per share	Cents per share
Final dividend prior year	21.0	20.0	20.0
Interim dividend current year	-	-	20.0
Total dividend	21.0	20.0	40.0

A partially imputed interim dividend of 21 cents per share has been declared and is payable on 11 December 2015 to all shareholders on the register at 27 November 2015.

Note 7. Share Capital

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Authorised and issued ordinary share capital at beginning of the period	158,586	159,034	159,034
Own shares repurchased	-	(741)	(741)
Purchase of treasury shares by Directors	155	155	293
	158,741	158,448	158,586
	000's of Shares	000's of Shares	000's of Shares
Authorised and issued ordinary shares at beginning of the period	312,913	312,987	312,987
Own shares repurchased	-	(114)	(114)
Purchase of treasury shares by Directors	20	22	40
	312,933	312,895	312,913

Additional Notes

Note 8. Income Tax Expense

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Profit before income tax	79,926	110,011	164,669
Tax on profit @ 28%	22,379	30,803	46,107
Foreign tax rate adjustment	8	621	565
Tax effect of permanent differences	(5,182)	(10,648)	(21,089)
Income tax (over)/under provided in prior period	252	-	1,543
Change in treatment of depreciation of powerhouses	-	-	(6,471)
Inland Revenue dispute tax expense adjustment*	2,723	-	-
	20,180	20,776	20,655
Represented by:			
Current tax	25,754	22,405	44,081
Deferred tax	(5,574)	(1,629)	(23,426)
	20,180	20,776	20,655

*Trustpower was successful in its High Court case against Inland Revenue. The Court ruled that Trustpower's existing tax treatment of feasibility expenditure incurred in the 2006 to 2008 financial years was appropriate and disagreed with Inland Revenue's view that the resource consents acquired were capital assets. However this decision was overturned by the Court of Appeal. Trustpower has been given leave to appeal this decision in the Supreme Court and a hearing has been scheduled for early March 2016.

Note 8. Income Tax Expense (Continued)

Inland Revenue has reassessed the 2009 and 2010 years and has made further claims. Trustpower has disputed this assessment. This dispute has been lodged with the High Court but is on hold pending an outcome in the initial 2006 to 2008 dispute. It is likely Inland Revenue will take the same approach in assessing the 2011 and future tax years.

Should Inland Revenue be completely successful in its claim it would give rise to the following outcomes:

	2006 to 2008	2009 to 2010	2011 to September 2015	Total
	\$000	\$000	\$000	\$000
Tax payable	5,866	2,632	2,091	10,589
Interest expense	3,028	1,420	571	5,019

Given the uncertainty created by the Court of Appeal decision Trustpower has decided to fully provide for these claims (including the effect on the 2011 and future years) in these financial statements. This has resulted in the following adjustment:

	\$000
Increase in interest expense	(5,019)
Tax effect of increased interest expense	1,405
Other increase in tax expense	(2,723)
Total decrease to net profit after tax	<u>(6,337)</u>
Adjustments to income tax payable	
Previously expensed costs now capitalised for tax purposes	10,589
Increased tax depreciation	(1,702)
Increased interest expense	(1,405)
Total adjustments to income tax payable	<u>7,482</u>
Increase in interest payable (included as part of accounts payable and accruals)	5,019
Decrease in deferred tax liability	(6,164)
Net increase in liabilities	<u>6,337</u>

These amounts are Trustpower's best estimate of the impact of the Court of Appeal ruling. Further discussion between Trustpower and Inland Revenue is required following the conclusion of all legal proceedings to finalise these amounts.

Trustpower was awarded \$1,177,000 of costs in relation to the High Court case. These costs were paid by Inland Revenue in the prior period. They have been refunded by Trustpower in this period following the Court of Appeal decision. The Court of Appeal also awarded Inland Revenue costs for the High Court and Court of Appeal. As Inland Revenue has yet to claim these costs they are very difficult to quantify, Trustpower has made a provision of \$500,000 as its best estimate of the amount payable. These costs are also subject to appeal at the Supreme Court.

Note 9. Deferred Income Tax

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Balance at beginning of period	421,084	309,762	309,762
Current period changes in temporary differences affecting tax expense	(5,540)	(1,629)	(7,437)
Current period changes in temporary differences affecting reserves	(16,556)	(7,633)	119,265
Reclassification of prior year temporary differences	(34)	-	(9,518)
Acquired as part of business combination	-	18,705	18,704
Exchange rate movements on foreign denominated deferred tax	9,830	1,763	(3,221)
Change in treatment of depreciation of powerhouses	-	-	(6,471)
Inland Revenue dispute deferred tax adjustment	8 (6,164)	-	-
	402,620	320,968	421,084
<i>Deferred tax liabilities consist of temporary differences on:</i>			
Revaluations	336,015	223,092	332,330
Other property, plant and equipment movements	68,997	98,964	73,373
Employee benefits	(2,087)	(1,759)	(2,178)
Provisions	(707)	(685)	(462)
Customer base assets	6,166	7,371	6,769
Financial instruments	(7,772)	(5,919)	(4,745)
Unrealised losses on Australian dollar loan	1,550	(292)	15,539
Other	458	196	458
	402,620	320,968	421,084

Note 10. Underlying Earnings

Underlying Earnings is a non GAAP (Generally Accepted Accounting Principles) financial measure. Trustpower believes that this measure is an important additional financial measure to disclose as it excludes movements in the fair value of financial instruments which can be volatile year to year depending on movement in long term interest rate and/or electricity future prices. Also excluded in this measure are items considered to be one off and not related to core business such as changes to the company tax rate or gain/impairment of generation assets.

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Profit After Tax Attributable to the Shareholders of the Company	59,746	89,235	144,014
Fair value losses / (gains) on financial instruments	3,019	4,395	14,219
Asset impairments	-	-	141
Discount on acquisition	-	(24,986)	(24,986)
Impact of Inland Revenue court case on interest expense	5,019		
Adjustments before income tax	8,038	(20,591)	(10,626)
Change in income tax expense in relation to adjustments	(845)	(1,231)	(4,021)
Change in treatment of depreciation on powerhouses	-	-	(6,471)
Impact of Inland Revenue court case on income tax expense	1,318	-	-
Adjustments after income tax	8,511	(21,822)	(21,118)
Underlying Earnings After Tax	68,257	67,413	122,896

Note 11. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of Trustpower Limited by the weighted average number of ordinary shares on issue during the year.

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Profit after tax attributable to the shareholders of the Company (\$000)	59,746	89,235	144,014
Weighted average number of ordinary shares in issue (thousands)	312,959	312,941	312,949
Basic and diluted earnings per share (cents per share)	19.1	28.5	46.0
Underlying earnings after tax (\$000)	68,257	67,413	122,896
Weighted average number of ordinary shares in issue (thousands)	312,959	312,941	312,949
Underlying earnings per share (cents per share)	21.8	21.5	39.3

Note 12. 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	59,746	89,235	144,014
Interest paid	38,268	37,176	74,906
Interest received	(27)	(459)	(1,068)
Amortisation of debt issue costs	759	827	1,757
Non-cash transfer from cash flow hedge reserve to interest expense	(138)	(138)	(275)
Fair value increase of GSP generation assets	-	(43,690)	(43,690)
Fixed, intangible and investment asset charges	57,637	52,499	98,537
Movements in financial instruments taken to the income statement	3,019	4,395	14,219
Share based staff remuneration	-	-	-
Increase/(decrease) in deferred tax liability excluding transfers to reserves	(11,645)	17,426	(5,029)
(Increase)/decrease in working capital	(21,321)	(30,381)	(13,567)
Net Cash Flow from Operating Activities	126,298	126,890	269,804

Note 13. Contingent Assets and Liabilities

An update of the original dispute between Trustpower and the Inland Revenue is provided in note 8. The tests used to determine whether feasibility expenditure is deductible have not been in dispute between Trustpower and Inland Revenue; the dispute to date has been on how the tests are to be applied to the facts.

The Court of Appeal however developed an approach which departs from the previously accepted practice as set out in the Commissioner's Interpretation Statement and disallowed the expenditure on the basis of this new approach. Trustpower has been given leave to appeal this decision in the Supreme Court and a hearing has been scheduled for early March 2016.

The decision by the Court of Appeal to develop a new approach for determining the deductibility of feasibility expenditure may well increase the liability for tax payable. However as there is limited guidance on how to apply this new approach Trustpower has been unable to quantify the impact of this change. The impact may well be zero if the Inland Revenue decides not to apply the new approach retrospectively but is considered unlikely to exceed \$4 million even if a retrospective test is applied.

Note 14. Subsequent Events

Subsequent to balance date Trustpower has entered an unconditional agreement to sell the land and buildings at its Te Maunga head office site effective 30 June 2016. Other than as disclosed in these financial statements there have been no other material events subsequent to 30 September 2015.

Note 15. Financial Risk Management

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.

Estimation of Fair Values

The 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 discounted cash flow analysis based on market-quoted rates.
- 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 (as described below); and
- discount rates.

Valuation Input

Interest rate forward price curve

Foreign exchange forward prices

Electricity forward price curve

Discount rate for valuing interest rate derivatives

Discount rate for valuing forward foreign exchange contracts

Discount rate for valuing electricity price derivatives

Source

Published market swap rates

Published spot foreign exchange rates and interest rate differentials

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.

Published market interest rates as applicable to the remaining life of the instrument.

Published market interest rates as applicable to the remaining life of the instrument.

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.

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.

Note 15. Financial Risk Management (Continued)

	Level 1	Level 2	Level 3	Total
30 September 2015	\$000	\$000	\$000	\$000
Assets per the statement of financial position				
Interest rate derivative assets	-	2,194	-	2,194
Electricity price derivative assets	-	-	5,786	5,786
	-	2,194	5,786	7,980
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	26,027	-	26,027
Electricity price derivative liabilities	-	-	9,887	9,887
	-	26,027	9,887	35,914
30 September 2014	\$000	\$000	\$000	\$000
Assets per the statement of financial position				
Interest rate derivative assets	-	2,693	-	2,693
Electricity price derivative assets	-	-	1,897	1,897
	-	2,693	1,897	4,590
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	13,005	-	13,005
Electricity price derivative liabilities	-	-	13,950	13,950
	-	13,005	13,950	26,955
31 March 2015	\$000	\$000	\$000	\$000
Assets per the statement of financial position				
Interest rate derivative assets	-	2,659	-	2,659
Electricity price derivative assets	-	-	11,514	11,514
	-	2,659	11,514	14,173
Liabilities per the statement of financial position				
Interest rate derivative liabilities	-	24,586	-	24,586
Electricity price derivative liabilities	-	-	4,339	4,339
	-	24,586	4,339	28,925

Note 15. Financial Risk Management (Continued)

The following tables present the changes during the year of the level 3 instruments being electricity price derivatives.

	Unaudited 6 Months September 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
30 September 2015			
Assets per the statement of financial position			
Opening balance	11,514	2,587	2,587
Gains and (losses) recognised in profit or loss	1,381	(690)	1,804
Gains and (losses) recognised in other comprehensive income	(7,109)	-	7,123
Closing balance	5,786	1,897	11,514
Total gains or (losses) for the period included in profit or loss for assets held at the end of the reporting period	(1,023)	483	4,391
Liabilities per the statement of financial position			
Opening balance	4,339	7,558	7,558
(Gains) and losses recognised in profit or loss	3,686	(1,401)	(1,711)
(Gains) and losses recognised in other comprehensive income	1,862	7,793	(1,508)
Closing balance	9,887	13,950	4,339
Total (gains) or losses for the period included in profit or loss for liabilities held at the end of the reporting period	9,903	287	3,364
Settlements during the period	(6,911)	(6,504)	(14,940)

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 2015 \$000	Unaudited 6 Months September 2014 \$000	Audited 12 Months March 2015 \$000
Increase/(decrease) to profit of a 10% increase in electricity forward price	(482)	1,170	1,096
Increase/(decrease) to profit of a 10% decrease in electricity forward price	482	(1,170)	(1,096)
Increase/(decrease) to equity of a 10% increase in electricity forward price	5,788	4,954	10,377
Increase/(decrease) to equity of a 10% decrease in electricity forward price	(5,788)	(4,954)	(10,377)

