



7 November 2016

Interim financial statements

On 31 October 2016, Trustpower Limited implemented its demerger whereby the company separated into two separate companies: Trustpower Limited (formerly Bay Energy Limited, Trustpower) and Tilt Renewables Limited (Tilt). The demerger is described in more detail in the scheme booklet published in August 2016.

For the half year to 30 September 2016, Trustpower Limited operated as a single company, and accordingly a set of interim financial statements for the pre-demerger Trustpower entity has been prepared and accompanies this announcement.

The interim pre demerger financial results include (under Note 2) separate financial information for Trustpower and Tilt showing various financial measures for the two demerged entities for that half yearly period (prepared by allocating actual historical financial information but without the pro forma adjustments included in the Scheme Booklet). That note includes a summary of the basis on which that financial information has been prepared.

Going forward, Trustpower and Tilt will produce separate annual and half year reports. Separate stand-alone accounts will be prepared for Trustpower and Tilt for the financial year ending 31 March 2017. Those financial results will include actual performance for the individual entities for the period from 1 November 2016 to 31 March 2017 and separated results from the pre-demerger entity results for the period from 1 April 2016 to 31 October 2016.

Trustpower delivers customer growth in half year prior to demerger

Performance for six months to 30 September 2016:¹

- Total utility accounts increase to 378,000, 2% higher than 31 March 2016
- Customers with two or more utilities increase to 84,000, 9% higher than 31 March 2016
- New Zealand hydro generation 943 GWh, 1% below 1H 2016²
- Australian hydro generation 100GWh, 47% higher than 1H 2016
- Demerged EBITDA³ of \$110 million, \$10m lower than demerged 1H 2016
- Demerged underlying earnings after tax⁴, excluding demerger expenses of \$9 million, of \$58 million, 1% above demerged 1H 2016
- Demerged Net Profit after Tax of \$45 million, 8% below demerged 1H 2016
- Dividend of 16 cents per share payable on 9 December 2016

Trustpower Limited (NZX:TPW) today announced its interim financial results for the six months to 30 September 2016. During this period, Trustpower was operating as part of the wider Trustpower Group, which has since split into two separate companies: Trustpower Limited and Tilt Renewables Limited.

Trustpower Chair Paul Ridley-Smith said the Board was pleased with the Company's performance during a very demanding period.

"During the six months under review Trustpower continued to strengthen its customer base by adding an additional 7,000 retail customers who buy two or more of their utility services from Trustpower. Margins have been maintained in challenging market conditions, and underlying earnings have remained stable. Management has also ensured the company was well prepared for the demerger; a highly important strategic initiative which was implemented just a few days ago."

Chief Executive Vince Hawkworth said the \$110 million demerged EBITDAF³ included the \$8.7 million costs of the demerger and one-off costs associated with the closure of the Energy Direct brand.

"Excluding these costs, the demerged EBITDAF³ result is on a par with the previous year supported by the contribution from King Country Energy. It reflects the low wholesale price environment and the variable nature of hydro generation. The additional costs of our successful multi-product retail sales strategy are expected to add value into the future." Said Mr Hawkworth.

An interim dividend of 16 cents per share, partially imputed to 14 cents per share, has been declared and is payable on 9 December 2016. This will be the first dividend of the new post-demerger Trustpower.

"The dividend is in accordance with our policy to pay out between 70% and 90% of free cash flow subject to the Board's consideration of performance in any given period, working capital needs, the risks from predicted short and medium term economic and hydrological conditions and potential future capital requirements" said Mr Ridley-Smith.

Retail operations

Trustpower's retail business continued to make good progress with its multi-product growth strategy. Customer account numbers increased in all product groups during the period. Most importantly, the number of customers taking two or more services rose to 84,000, up 9% from the 77,000 customers at the same time last year.

"While the market remains highly competitive, Trustpower's customer churn rate is still consistently lower than the market average, and we expect the higher penetration of bundled services to further reduce churn in future" said Mr Hawkworth.

Overall costs were up on the prior period primarily due to the overhead costs of supporting increased customer numbers, closure of the Energy Direct brand and costs associated with the demerger.

Generation

New Zealand generation production was above the prior period mainly due to the impact of the King Country Energy acquisition, however it remained 5 per cent below the long term average due to generation being withheld in response to low spot prices. Nationally electricity prices remained very soft, particularly during winter when the weather was warmer than average. The average spot price received for generation was \$55/MWh, on a par with last year's \$54/MWh.

Production from, the three Australian hydro stations, was 100 GWh, 47% higher than in the prior period reflecting very strong hydro inflows in the period.

King Country Energy

The six months to 30 September was the first full period in which the operations of King Country Energy were consolidated into the operating results. King Country Energy's contribution to EBITDAF was \$7.1 million. Its generation contributed 116 GWh with sales of 113 GWh to its 17,000 retail customers.

"The acquisition is proving to be a very good strategic fit for Trustpower, and we are well advanced with work to develop value-accretive opportunities for the two companies" said Mr Hawksworth.

Financial position

Demerged net debt⁵ (including subordinated bonds) to EBITDAF³ on an annualised basis is 3.36 times. Gearing as measured by demerged debt/ debt + equity is 34% well below the 41% for the total Group.

Operating cash flow remains strong and is consistent with the level of EBITDAF reflecting the Company's ability to turn sales into cash.

Regulatory matters

In July, Trustpower received an unfavourable judgment from the Supreme Court in its tax dispute with Inland Revenue. The disappointing outcome overturned a well-established and widely used process for determining the deductibility of feasibility expenditure. There was no financial impact in this result as the costs associated with the dispute had been fully provided for in the prior year financial statements.

"This decision is likely to have a negative impact on a wide range of taxpayers and ultimately the New Zealand economy" said Mr Hawksworth.

Also in July, Trustpower applied to the High Court for a judicial review of the Electricity Authority's consultation process regarding its review of transmission pricing and distributed generation. While the outcome of the review is not known, the Authority has recently announced that it will shortly be consulting on further refinements to its proposed transmission pricing methodology guidelines, and has delayed by one year its proposed implementation date for any change to the distributed generation pricing principles (to 1 April 2018 at the earliest).

"While these moves were positive, we remain of the view that the process still falls well short of good regulatory practice" said Mr Hawksworth.

Outlook

Looking ahead, Trustpower will continue its pursuit of profitable growth – both organically through its multi-product retail strategy, or via the acquisition of aligned business where it can add value. It will continue to seek technology opportunities to improve customer experience and drive product growth, and will also remain focused on optimising the value generated by its generation assets.

For further information:

Vince Hawksworth, Chief Executive	021 223 4609
Kevin Palmer, Acting Chief Financial Officer	021 471 779

About Trustpower

Trustpower is New Zealand's fifth largest electricity generator and fourth largest energy retailer by market share, with approximately 13% electricity retail market share. It owns 26 hydro power schemes throughout New Zealand and Australia with a total installed capacity of 570MW. It operates a multi-product retail business, including electricity, gas and telecommunications services with approximately 280,000 electricity customer connections, 31,500 gas customer connections and 69,000 telecommunications customer connections. The Australian and New Zealand wind generation assets and wind and solar development projects previously held by Trustpower were transferred to Tilt Renewables in a demerger in October 2016. For further information see www.trustpower.co.nz

Key performance data for the six months to September:

	Sep-16	Sep-15	Variance
EBITDAF (\$M)	110	120	-9%
Profit After Tax (\$M)	45	49	-8%
Total utility accounts (000s)	378	331	14%
Customers with two or more utilities (000s)	84	66	27%
Total New Zealand generation production (GWh)	1,059	955	11%
Total Australian generation production (GWh)	100	68	47%

Notes

1. On 31 October 2016 the Trustpower Group demerged into two separate groups - Trustpower Limited (formerly Bay Energy Limited) and Tilt Renewables Limited. These results and any reference to "demerged" performance relate to Trustpower Limited operations within the Trustpower Group pre-demerger. The full financial statements for the Trustpower Group have been lodged with NZX and are available from the NZX and Trustpower websites.
2. References to 1H 2016 or prior period are for the six month period to 30 September 2015
3. EBITDAF (Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition adjustments) is a non-GAAP financial measure commonly used within the electricity industry as a measure of performance as it shows the level of earnings before the impact of gearing and non-cash charges such as depreciation and amortisation.
4. 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.
5. Net debt is a measure of indebtedness to external funding providers net of funds held with those providers and is defined as bank loans plus subordinated bonds plus senior bonds less cash at bank.