



all the
little
things

Investor Briefing 2018 Half Year Results | 8 November 2018

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trustpower interim report highlights

/ for the six months ended 30 September 2018

\$65 million

net profit after tax of \$65 million down 21% on last year's unusually high profit driven by a 'once in decade' combination of high levels and pricing



\$130 million

operating earnings (EBITDAF) of \$130 million



5 per cent

Trustpower telco connections up 5%. Trustpower now has New Zealand's fourth largest fixed line internet service provider (ISP) base



17 cents

fully imputed interim dividend of 17 cents

25 cents

unimputed special dividend of 25 cents



70GWh

generation volume up 70 GWh or 6% compared to long run average

80 per cent

around 80% of new customers are now purchasing more than one product from Trustpower

\$28 million

retail earnings (EBITDAF) of \$28 million



Netflix has rated Trustpower the best performing network in New Zealand for the last 10 months in a row



Retail Overview



Overall steady progress

Metric	1H19	1H18	Var %
Mass Market Electricity Sales (GWh)	1,067	1,090	(2)
Mass Market Gas Sales (TJ)	687	714	(4)
Total Connections	399,000	390,000	2
Customers with 2+ services	102,000	94,000	9
Telco connections	91,000	80,000	14
EBITDAF (\$000)	27,917	29,578	(6)

Note: Apr-Sep numbers for each year.

Comment

- Continued Telco growth
- Offset by increased costs

Current connections



270,000 electricity



38,000 gas

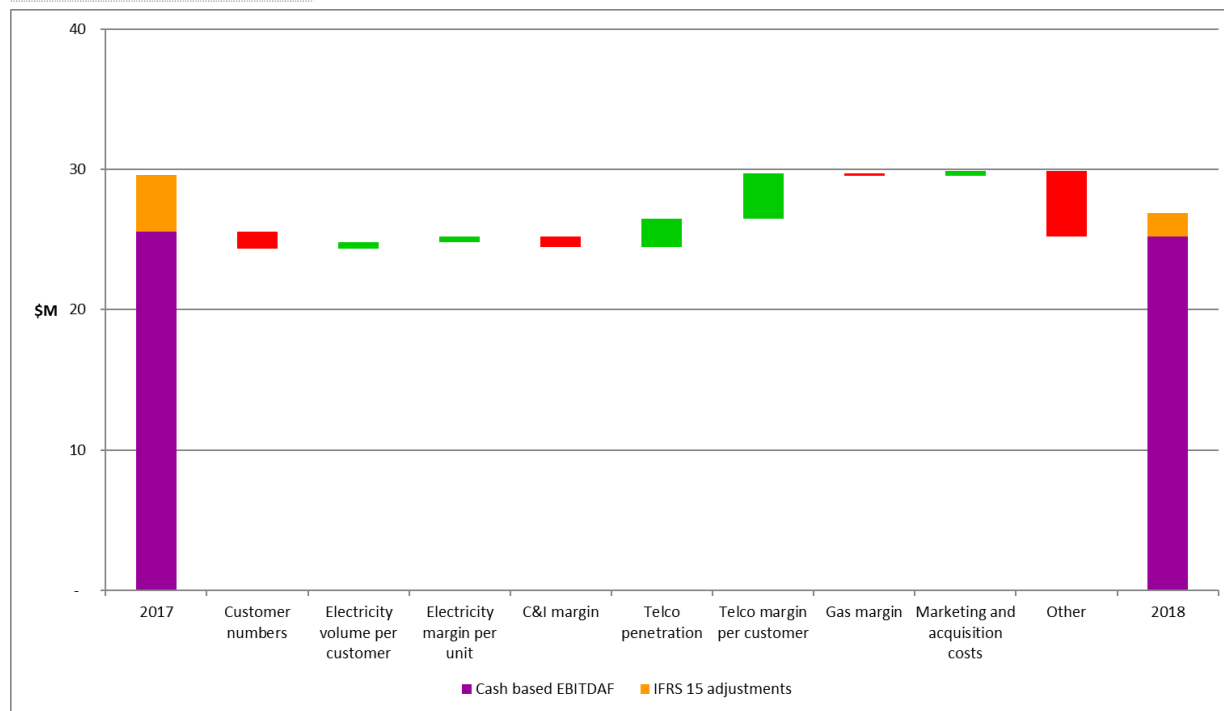


91,000 telco



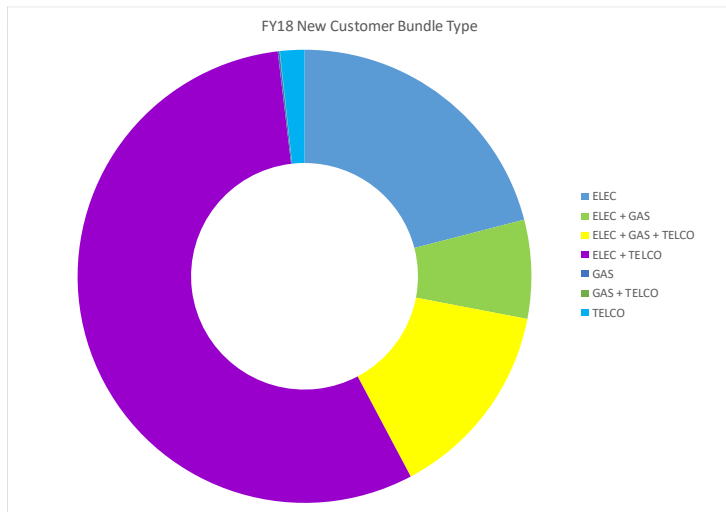
102,000 customers have more than one product

Solid retail performance



Other costs are primarily increased wage inflation in response to a tightening labour market and increased job complexity, as well as an increased share of Corporate cost allocations.

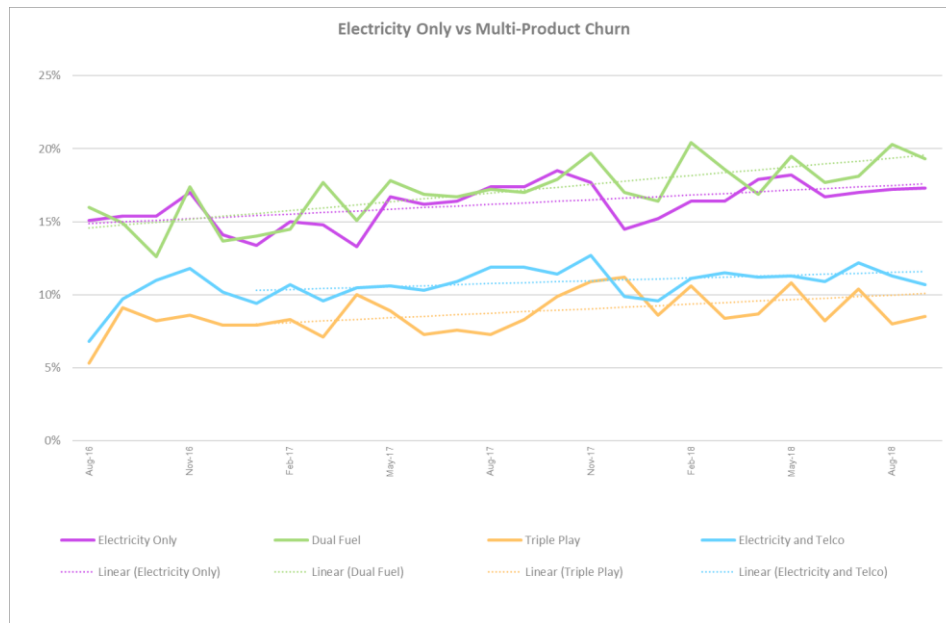
Success is measured by acquisition quality and retention



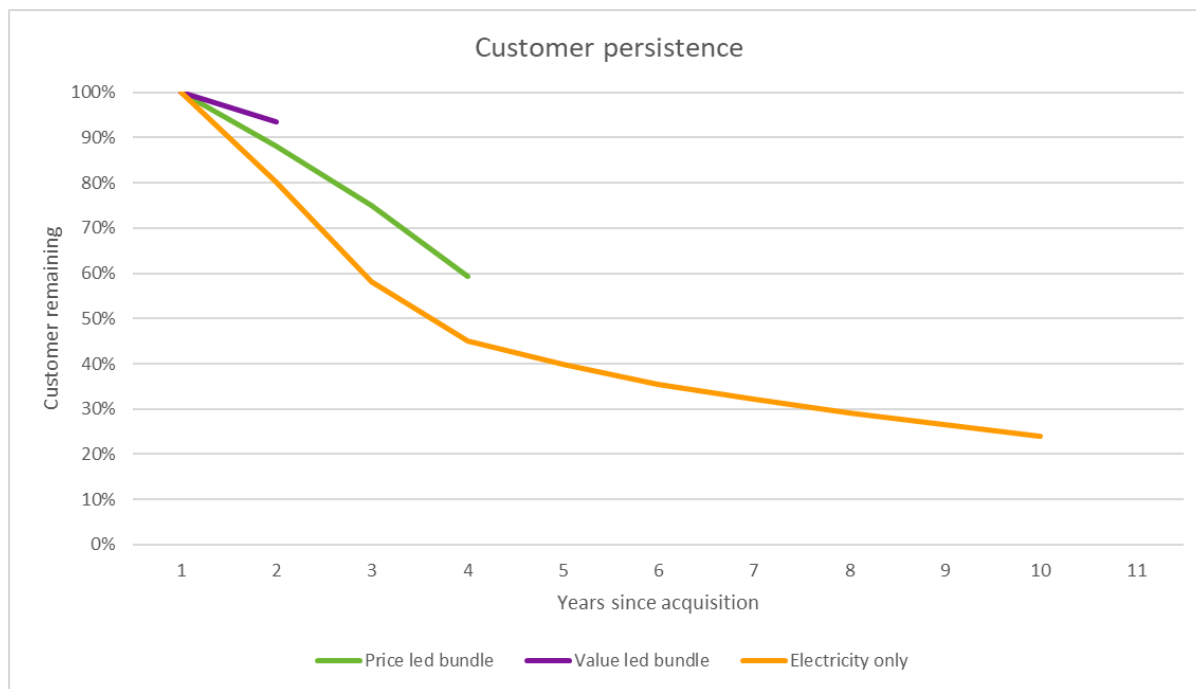
Comment

- Around 80% of new customers are taking more than one product
- Bundled churn now stabilised at a materially lower level than energy only

Churn has stabilised



Bundled strategy demonstrates long term value

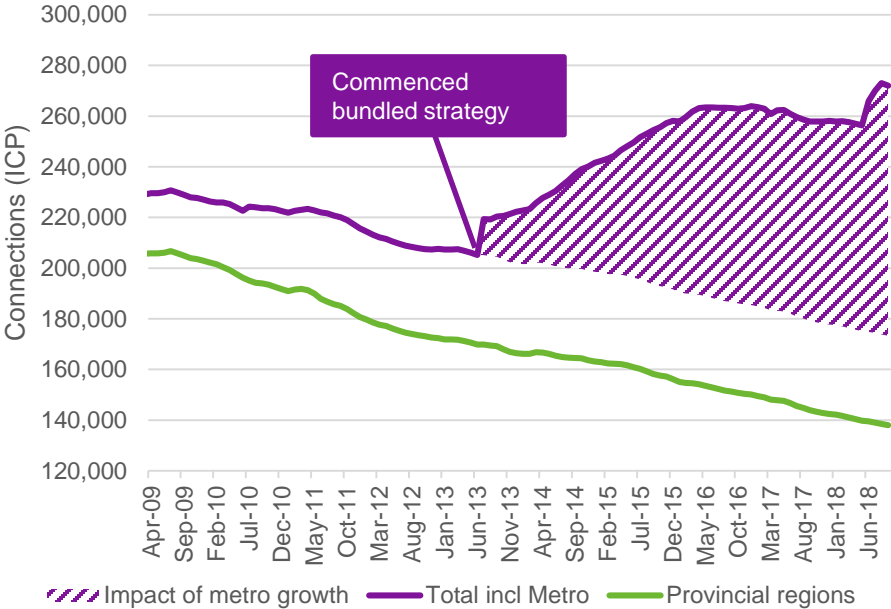


Bundled customer retention outperforms electricity only

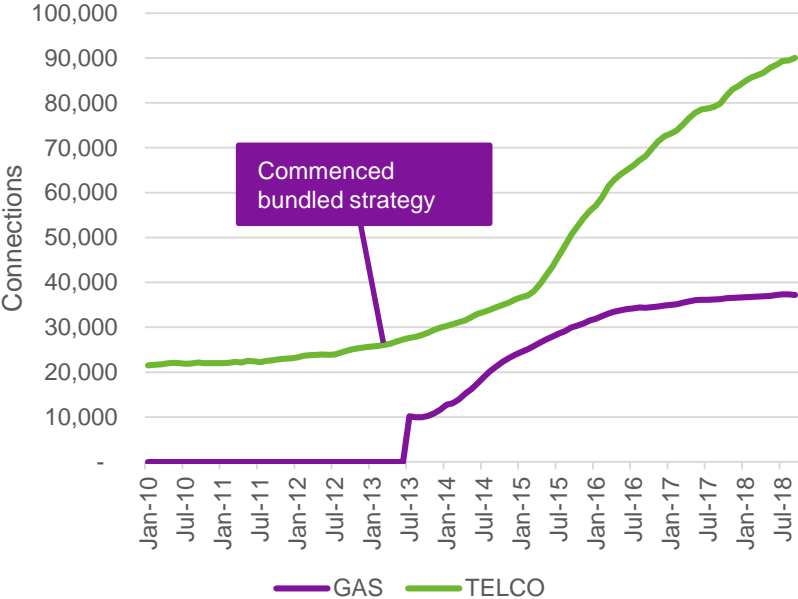
Early signs are that value led bundles outperform price based bundles

Bundled proposition delivers results

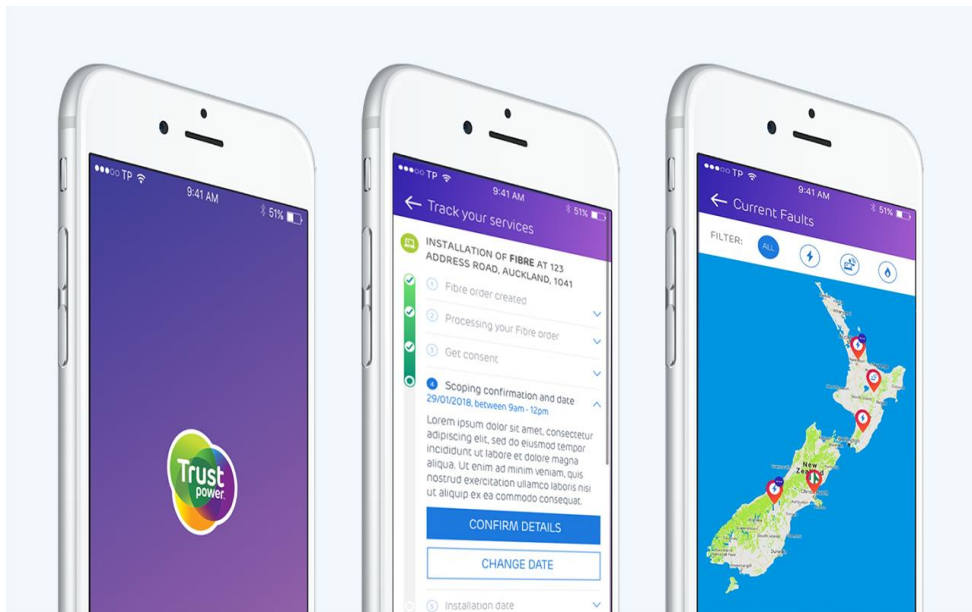
Electricity Connections



Telco and Gas Connections

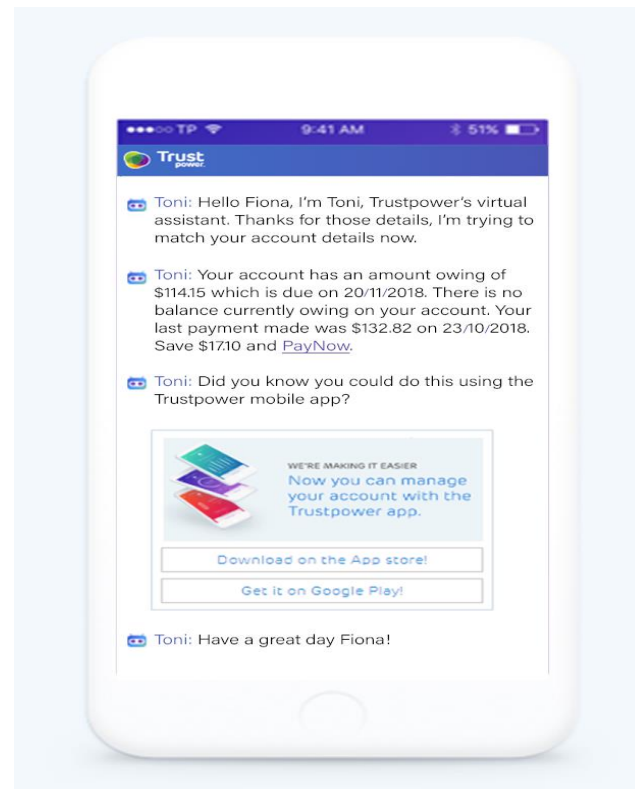


Value add customer engagement



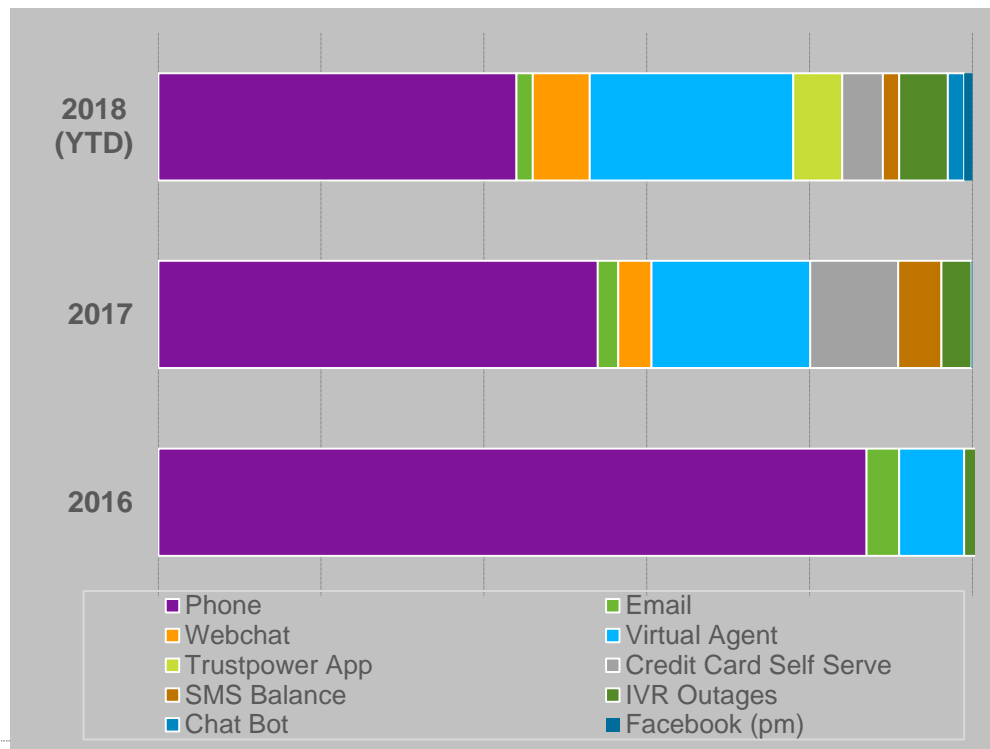
Comment

- We continue to enhance our hybrid service model through enabling value add features and new channels which drive satisfaction and reduce effort



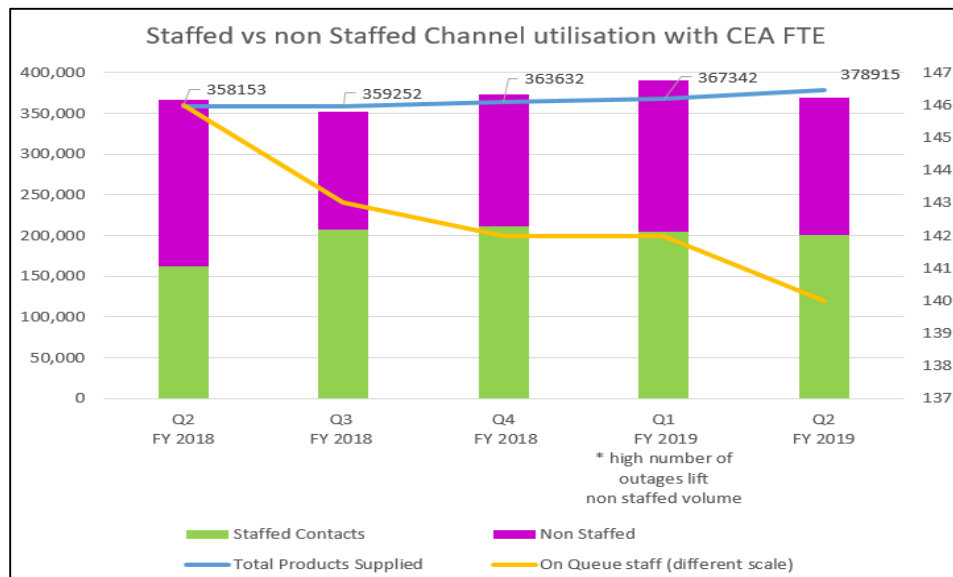
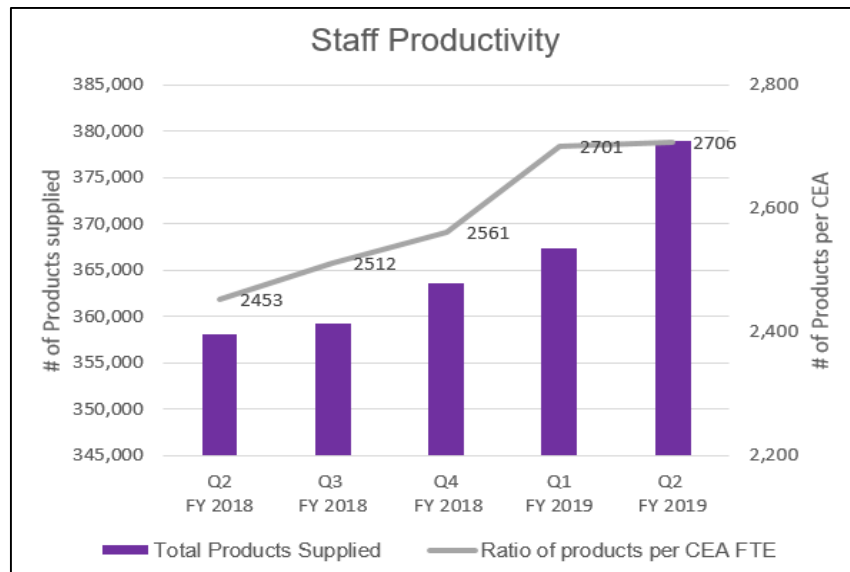
Automation providing customers with choice

- 47% of all customer contacts are now serviced without human intervention
- The non staffed interaction volume we report is only those we believe mitigated a human contact. If all customer self service actions are included this figure rises significantly to 64.5% of all interactions being serviced without human intervention
- Adoption of award winning Trustpower App ahead of expectations and customer satisfaction ratings on par with an agent
- Staffed channels are focussed on positively impacting churn through delivering high quality service in the moments that matter



Focus on efficiency, automation and digital solutions

We continue to increase the numbers of products supplied with associated customer contacts offset by the migration of customers to non staffed channels, leading to lower staff numbers



Pro-active NZ wide smart meter programme underway

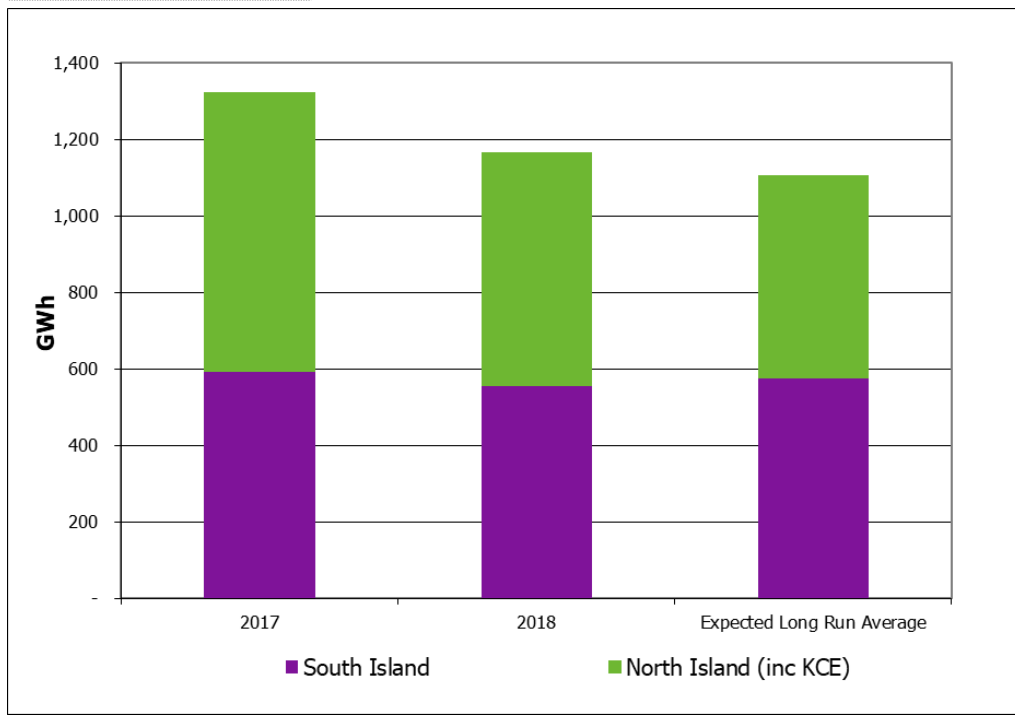


- “Proof of Performance” to test technology & business processes completed
- Signed long term deployment & service agreement with Australasian metering technology & service intelliHUB Group (JV between Landis+Gyr & Pacific Equity Partners)
- Ongoing development of fit for purpose & scalable meter data management (MDM) platform progressing
- intelliHUB using latest LTE/CatM communication network
- 3 year customer deployment programme (commenced & per day installations across NZ now starting to ramp up)

Generation and Wholesale Market Overview



NZ generation – 6 months



Generation down 159GWh (12%) due to strong hydrological inflows in 2017. Up 5% on expected long run average.

Generation performance focus

- Emphasis on health & safety, dam/civil safety and maintaining our licence to operate and compliance projects
- Sharper focus on enhancement and incremental growth to create earnings uplift
- Improving asset management maturity – more predictive and preventative focus for long term

Coleridge G2 and G3 Replacement (units ranked 5 & 6th highest value in the portfolio):

- Delivered ahead of schedule and under budget despite unexpectedly replacing the units in parallel due to the failure of the old G2 during the outage for the replacement of G3.
- Technical specification met or exceeded
- Strong relationships built with GE both locally and internationally.



New G3 being installed



Project team in front of the new G2

Market view

Over supply has largely gone

- Trustpower agrees with other market commentators and participants that the market has largely reached a supply/demand balance
- We are now seeing changes in short term hydrology and thermal fuel availability having a more direct impact on wholesale pricing

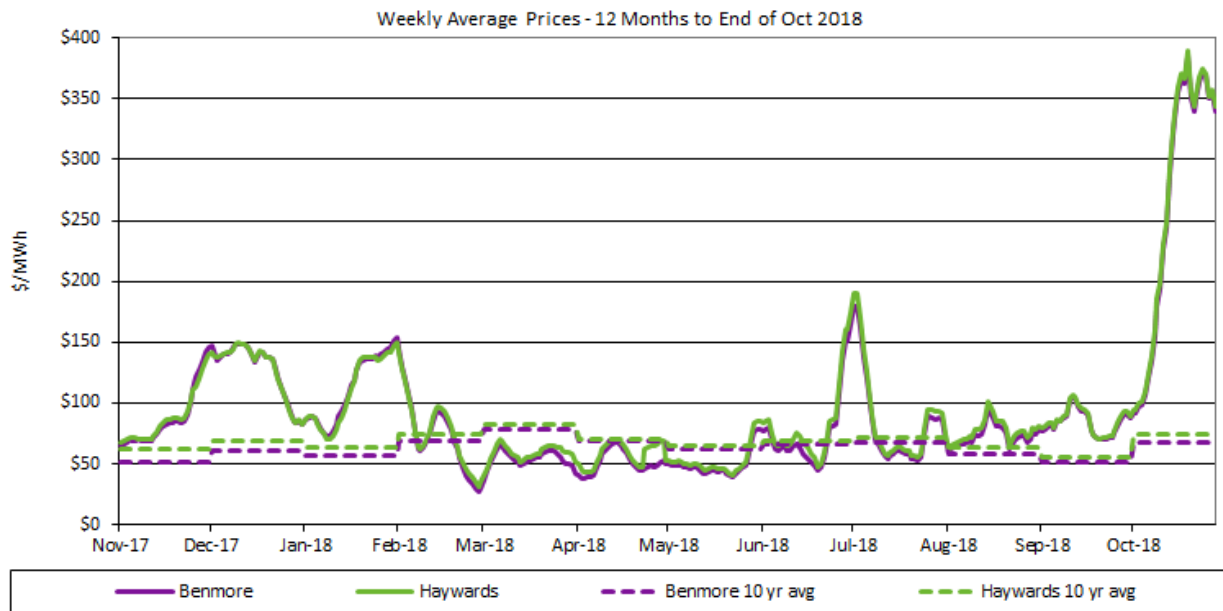
Short term view

- Wholesale prices will be more volatile and this is starting to be reflected in forward wholesale pricing but not yet retail pricing. Retailers who do not manage this risk may face going out of business

Long term view

- A credible case is now being made for significant increases in long term demand. There remains considerable uncertainty as to how this demand will be met
- Trustpower is unlikely to invest in a significant new generation build in the near term but is positioning itself for future development

NZ wholesale prices above average



Generation Weighted Average Price (GWAP) for half year \$88/MWh in line with average

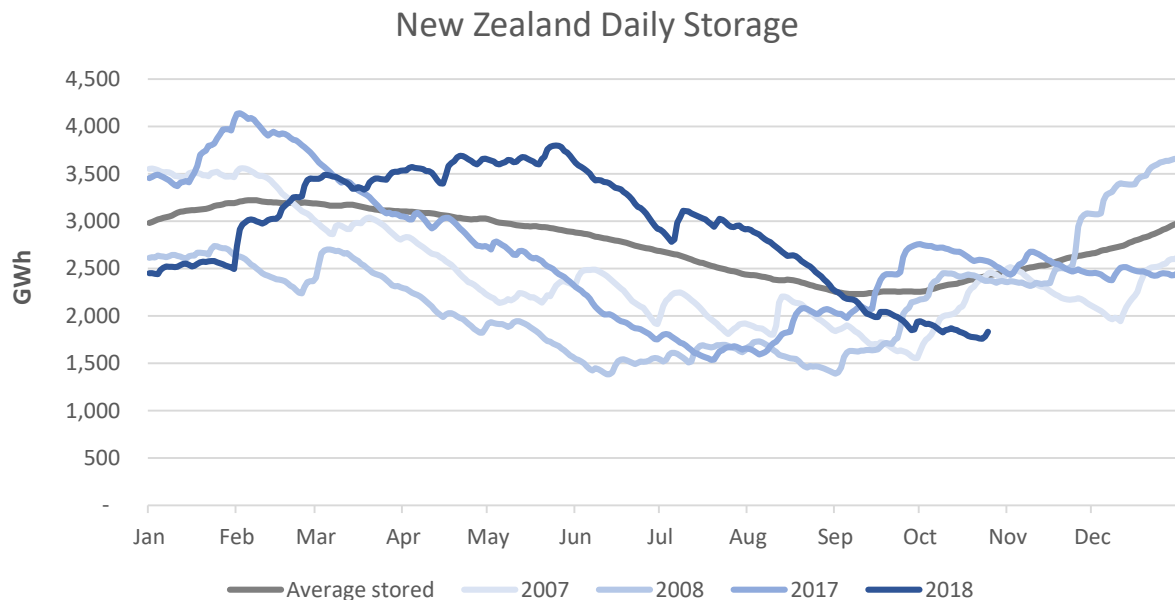
Current prices elevated due to a gas outage and low hydro storage

Trustpower remains of the view that a number of retailers are pricing below the long term sustainable level for a retailer who is prudently managing this risk

Source: NZX Energy

Next year will be interesting

A dry winter is a real possibility



Current levels well below average

Heightened risk of a dry winter which will be the first since 2008

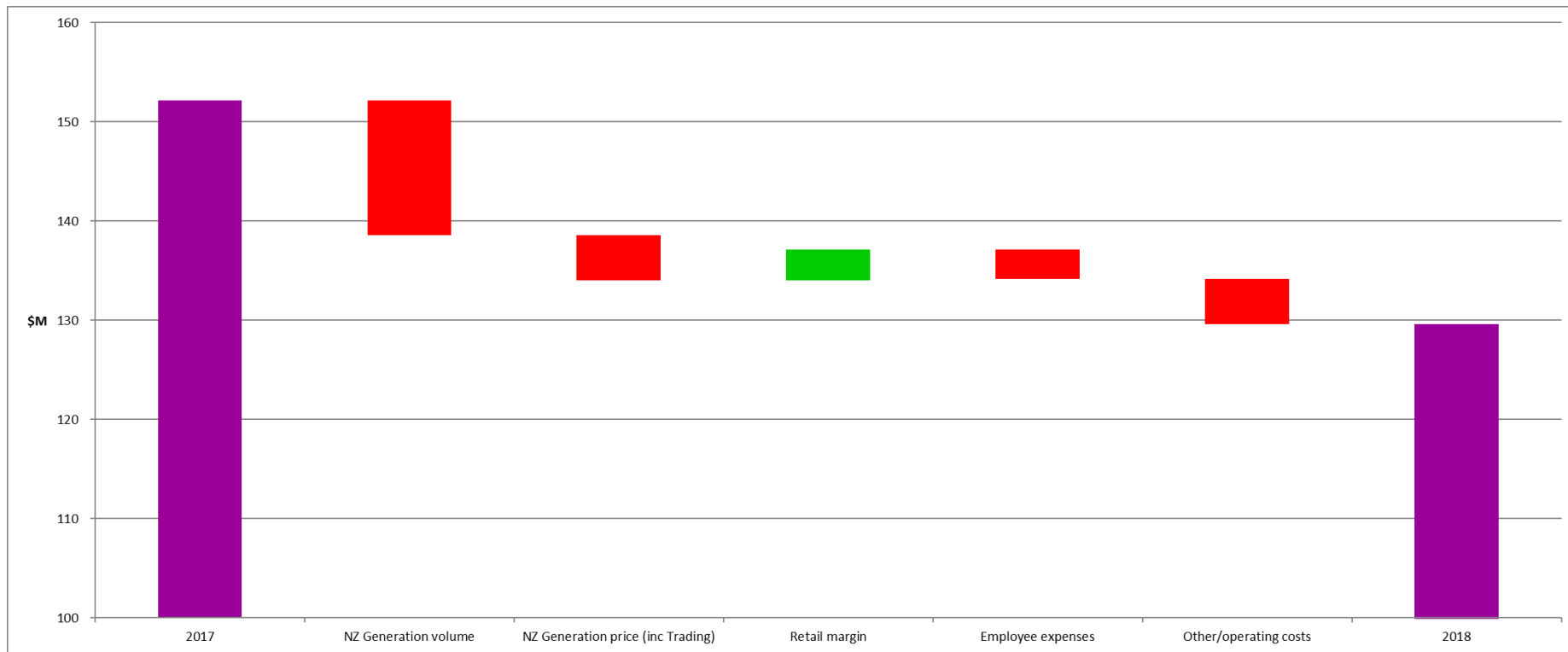
Highlights the importance of prudent risk management

Source: NZX Energy Hydro Summary

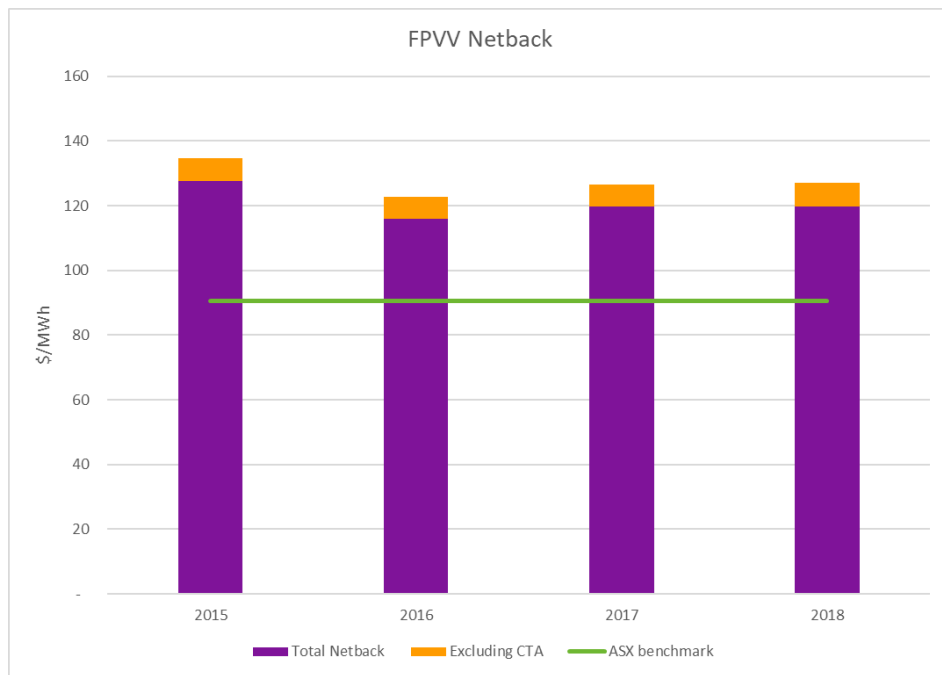
Overview of Financial Results



EBITDAF bridge half year September 2017 - 2018



Netback



Strong retail profitability reflects:

- Retention of existing customers through excellent service
- Targeting of value adding new customers

Interim dividend

Interim Dividend declared of

17 cps Fully Imputed

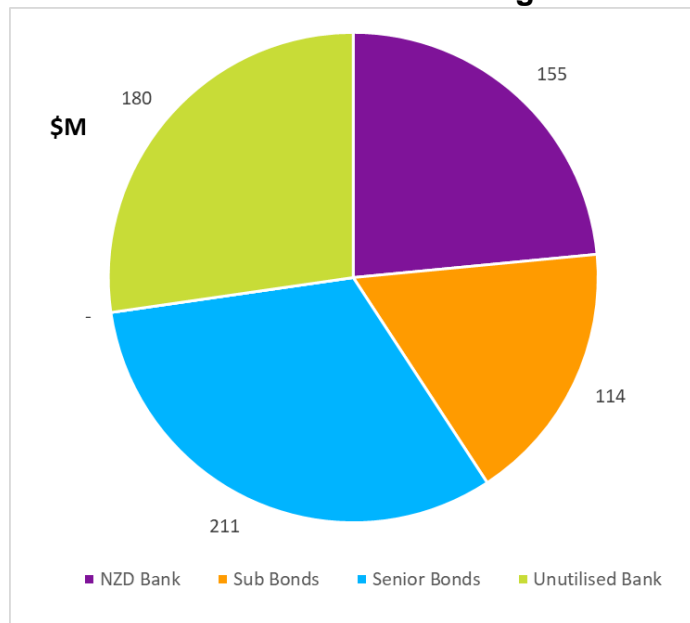
All ordinary dividends expected to be fully imputed from now onwards.

Special Dividend declared of

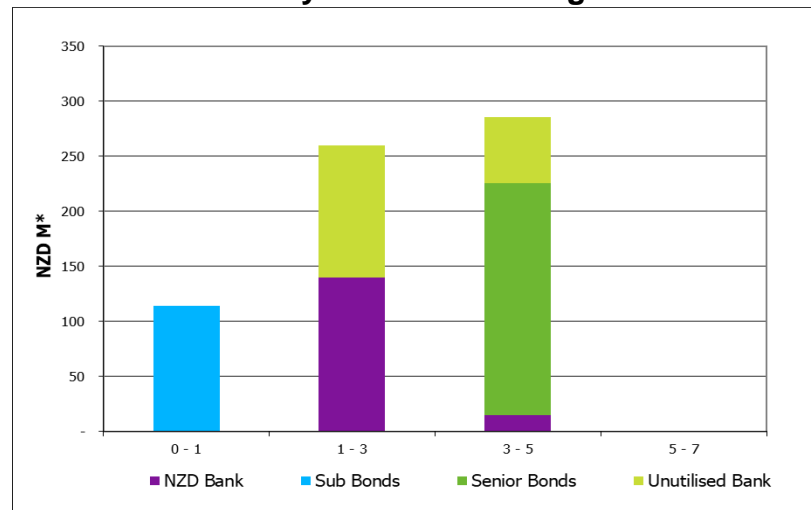
25 cps Unimputed

Debt capital management

Source of debt financing



Maturity of debt financing



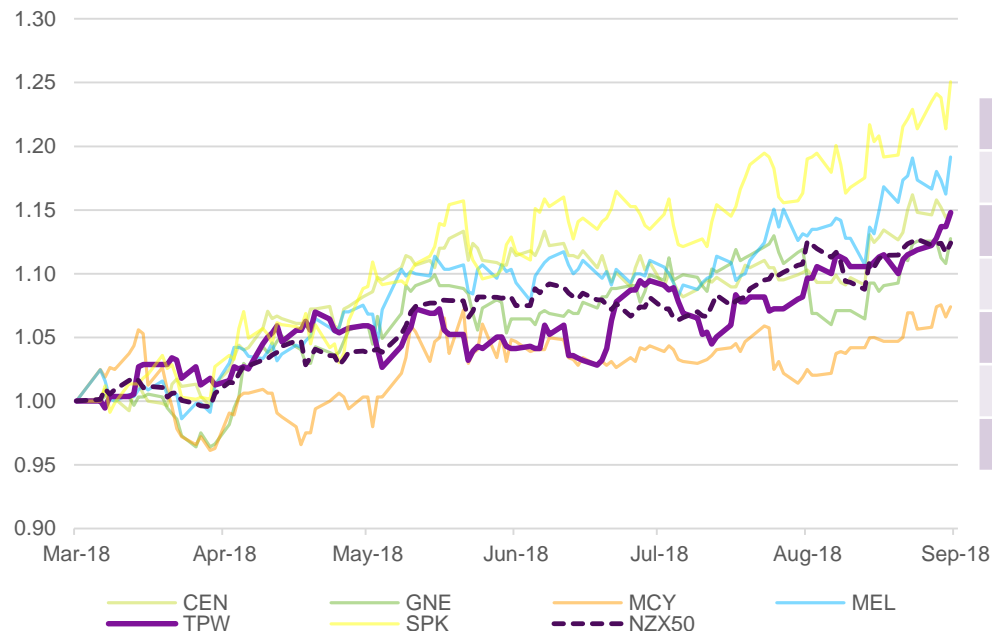
- Continue to consider a retail bond issue. Now unlikely this calendar year
- Net debt to EBITDAF expected to be 2.3 to 2.5 times once interim and special dividend are paid in December 2018.

Trustpower adds shareholder value

Share price is starting to reflect underlying value

- Refocus and renewed momentum since demerger
- High dividend yield
- Sustainable gearing allowing for future growth
- Supportive major shareholders
- Credible retail growth story
- Flexible and geographically diverse fleet of generation assets that will optimise value under a variety of scenarios

Total Shareholder Return from 1st April 2018



TPW	14.8%
CEN	14.8%
GNE	12.8%
MCY	7.4%
MEL	19.1%
SPK	25.1%
NZX50	12.4%

Market Overview and Outlook

A large white rectangular screen is the central focus, displaying the text 'Market Overview and Outlook' in a bold, blue, sans-serif font. The screen is held up by two silver spotlights at the top. Below the screen, five stylized human figures are positioned on a purple floor. From left to right: two figures are pulling a rope on the far left; a figure in an orange shirt stands with arms raised; a figure in a blue shirt stands with arms raised; a figure in a black shirt stands with arms raised; and two figures are on a ladder on the far right, one reaching up. The entire scene is set against a solid purple background, and the floor is highly reflective, showing clear reflections of the figures and the screen.

Key regulatory issues

Overview

- The Coalition Government is completing several key regulatory review programmes and has flagged some future changes will result
- Trustpower is well placed to support the transition to a low emissions and increased renewable electricity future

Electricity price review (EPR)

- The review provides a valuable opportunity to fine-tune industry governance
- The review has found no evidence that generators or retailers are making excessive profits, but that there may be issues associated with energy affordability and fairness
- Outcomes will need to provide for the anticipated electrification of the economy, and include strong incentives to invest in generation
- Gas is an important contributor to maintain security of supply

Regulatory frameworks for telecommunications and gas

- Trustpower would like to see similar issues regulated consistently across the electricity, gas and telecommunications sectors
- Trustpower would like to see pro-competitive measures adopted, and we remain interested in access to mobile networks

Water Reform

- The Government has announced a 2 year programme of reform, recognising a balance of public, iwi, and existing user interests, will need to be accounted for
-

March 2019 forecast

On 15th October 2018, Trustpower advised it now expects its FY-19 EBITDAF to be in the range of **\$215 million to \$235 million** this is an increase on its earlier guidance of \$205 million to \$225 million.

The increased forecast is being driven by the favourable trading conditions in the year to date, and a revision of the expected trading conditions for the remainder of the year. Noting that the current trading conditions are experiencing highly volatile and elevated prices due to a gas field outage and low hydrology. Trustpower is expecting a reversion to more average trading conditions towards the end of the 2018 calendar year.

The forecast is underpinned by the following assumptions:

- Long run average generation volumes for the remainder of the year
- NZ Wholesale prices are in line with current forward pricing for the remainder of the year
- Average temperatures and average electricity consumption for the remainder of the year
- Total customers increase to between 240,000 and 250,000 including circa 98,000 telco customers



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Appendices

A large white rectangular screen is suspended in the center of a dark purple stage. The word "Appendices" is written in a bold, green, sans-serif font in the middle of the screen. Two spotlights are mounted on the ceiling, casting a soft glow on the screen. At the bottom of the screen, seven tiny human figures are visible. From left to right: two people are pulling a rope that runs along the left edge of the screen; a person in an orange shirt stands with arms raised; a person in a blue shirt stands with arms raised; a person in a black shirt stands with arms raised; and two people are on a ladder on the right side, one reaching up towards the screen. The entire scene is reflected on the glossy purple floor.

Trustpower key facts

- Tauranga based national electricity generator and retailer of energy and telco
- History dates back to 1923 as the Tauranga Electric Power Board
- Market capitalisation circa \$1.9 billion
- Key shareholders Infratil (51.0%) and TECT (26.8%)
- New Zealand generation capacity (hydro) 433MW producing an average of circa 1,723GWh per annum
- Approximately 237,000 customers
- 102,000 customers have more than one product
- Approximately 798 FTE employees (including King Country Energy)

Retail transfer price

Methodology

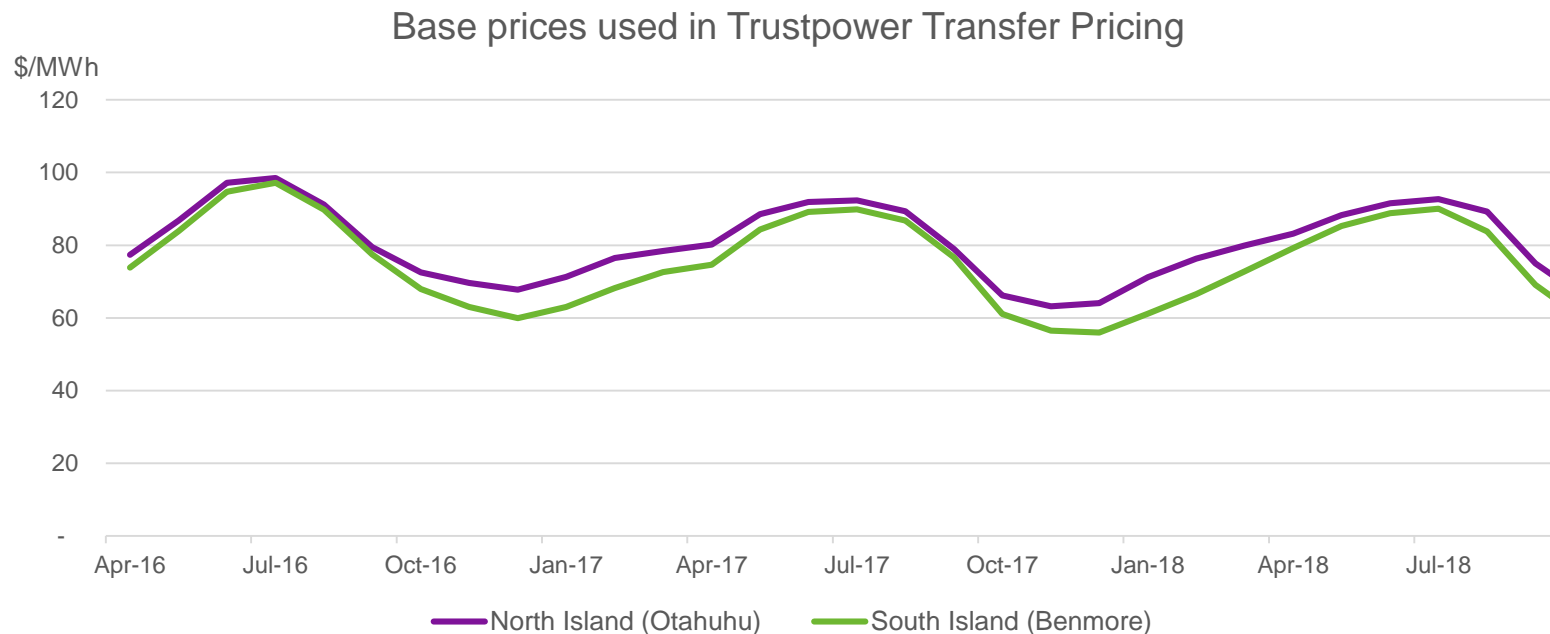
1. Establish a monthly base rate based primarily on ASX pricing (1/3 based 3 years ago, 1/3 2 years ago, 1/3 1 year ago).
2. Adjust for location factors and load shape relative to pricing peaks (peaking factor)
3. Adjust for the annual volume option premium provided by the internal trading division and an allowance the transaction costs.
4. Establish a fixed volume for each month and location. If actual volume varies then Retail needs to buy/sell at spot prices.

Industry practice

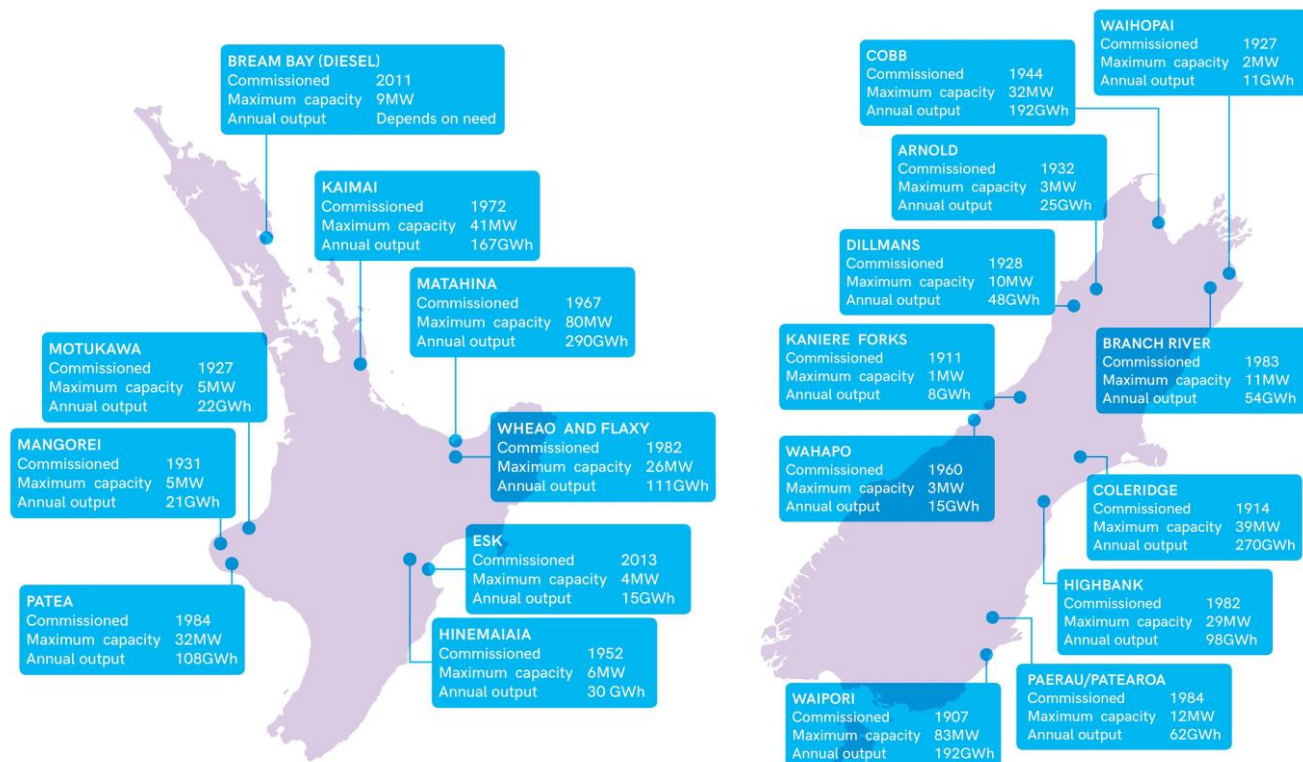
Steps 1 & 2 seem to be fairly consistent with market practice for setting transfer prices however steps 3 & 4 seem unique to Trustpower. Others appear to use variable volume, load following hedges with no premium above ASX.

	FY17 \$000	FY18 \$000	FY18 (6 months) \$000	FY19 (6 months) \$000
Reported Retail EBITDAF	44,965	59,593	29,578	27,917
Volume settled at spot	4,535	(1,177)	331	623
Option premium/transaction costs	4,320	4,114	2,297	2,333
Retail EBITDAF if hedge volume is variable and no risk premium	53,819	62,530	32,206	30,873

Transfer Price



Trustpower's generation assets



Non-GAAP Measures

- 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 impairment of generation assets.
- 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 the measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector.
- Reconciliation between statutory measure of profit and the two measures above are given below:

	2017	2018
Profit after tax attributable to shareholders of the Company	80,775	63,790
Fair value losses / (gains) on financial instruments	2,228	1,033
Asset impairments	-	291
Changes in income tax expense in relation to adjustments	(624)	(371)
Underlying Earnings After Tax	82,379	64,743
Operating Profit	127,518	103,420
Fair value losses / (gains) on financial instruments	2,228	1,033
Asset impairments	-	291
Depreciation and amortisation	22,460	24,899
EBITDAF	152,206	129,643

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