Market Announcement
Friday, 15 May 2009

TrustPower Limited Audited Financial Results for the Year Ended 31 March 2009

TrustPower's consolidated underlying surplus after tax excluding fair value movements on financial instruments which are inherently volatile and prior year adjustment for change in tax rate was $118.8 million for the year ended 31 March 2009. This represents an increase of 28 per cent compared with $92.6 million for the same period last year.

Earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments ("EBITDAF") grew by 25 per cent to $260.0 million from $208.0 million in the previous year.

Profit after tax attributable to the shareholders of the Company was $105.1 million compared with $98.1 million for the prior year. This includes the impact of fair value movements on financial instruments and prior year adjustment for change in tax rate.

Operating expenses including energy and line costs increased 11 per cent on the previous year, primarily driven by higher wholesale electricity costs during the first half of the year.

Operating revenue of $785.4 million increased 15 per cent on the previous year as a result of higher energy prices charged to those customers paying spot market prices through the first half of the year together with a $17.0 million revenue contribution from telecommunication services, $8.4 million from sale of carbon credits and $24.2 million from the Snowtown Wind Farm in South Australia.

Total electricity volume sold by the Company in New Zealand was 4,032 GWh compared with 4,540 GWh in the year to 31 March 2008 mainly due to the restructure and volume reduction of a large industrial contract. Customer numbers increased to 227,000 at 2009 year end from 222,000 a year earlier.

The New Zealand electricity market was volatile through the first half of the 2009 financial year with a combination of low wind production, low hydro inflows and reduced HVDC transmission capacity causing significant increases in wholesale prices. The major South Island hydro storage lakes remained at lower than average levels through until September 2008 which elevated wholesale electricity prices for a number of months.

While TrustPower was negatively impacted through the first quarter because of these market conditions, it was favourably impacted in the second quarter due to high inflows into its own catchments which enabled the Company to run its hydro generation plant strongly during a period of high prices.

The second half of the financial year has seen above average inflows into key South Island hydro catchments and storage levels being quickly replenished and remaining at above average for the remainder of the financial year. Consequently, wholesale electricity prices have fallen significantly.

The Company's New Zealand generation production of 2,127 GWh for the year was up 5 per cent on the previous year but around 190 GWh down on long term average. Total hydro production was up 96 GWh (7 per cent) on the previous year due to significantly higher North Island hydro production (up 204 GWH or 37 per cent) off-set by a 107 GWh (12 per cent) decline in South Island hydro production. Wind production was up 2 per cent on the previous year but was down 11 per cent on expected long term average performance. Most of this shortfall occurred in the autumn months of the first quarter.

Below average wind production during the third quarter from the Snowtown Wind Farm contributed to a 16 GWh (6 per cent) lower than expected output for the 2009 financial year of 254 GWh. All 47 turbines have now passed final acceptance testing under the turbine supply contract. The Company is pleased with the successful execution of the first stage of this wind farm which is the Company's first project constructed outside of New Zealand.

Following the introduction of International Financial Reporting Standards ("IFRS"), the accounting standards require that certain changes in the fair value of financial instruments be reflected in the Income Statement.

TrustPower utilises various financial instruments to hedge electricity price risks, foreign currency risks and interest rate risks to which it is exposed. While the Company utilises valid economic risk management instruments to hedge these risks, these instruments must also meet the stringent criteria prescribed under IFRS in order to qualify for hedge accounting. For those instruments that do not qualify for hedge accounting, the change in fair value is recognised in the Income Statement.

The financial instruments in TrustPower's portfolio that do not qualify for hedge accounting are mostly interest rate swaps and Energy Hedge Market transactions. Due to the significant drop in long term interest rates in both New Zealand and Australia over the second half of the financial year there has been a significant fair value reduction in the interest rate hedge portfolio.

Return on average equity, adjusted for fair value movements on financial instruments but including the impact of the revaluation of generation assets was 8.8 per cent (last year 7.9 per cent).

Group operating cash flow was $214.2 million for the 2009 financial year versus $161.0 million in the previous year.

Taking into account the shortfall in production from the Company's own generation assets and volatile wholesale prices in the first half of the financial year, the result was good.

TrustPower has a policy of independently reviewing the value of its generation assets at least every three years. The last valuation was completed as at 31 March 2007. However, IFRS require that key valuation inputs are re-examined annually and if there has been a material change then a revaluation must be undertaken.

TrustPower has determined that there have been material changes in forward electricity prices to warrant a revaluation being completed. Additionally, a number of generation projects were completed since the last revaluation namely, Tararua Stage III wind farm, Deep Stream hydro and the Snowtown Wind Farm. Consequently, Deloitte Corporate Finance has independently valued the Group's generation assets as at 31 March 2009.

The financial impact of the revaluation has been an uplift in generation asset values of $259.7 million. $204.1 million has been accounted through the revaluation reserve in equity with the balance of $55.6 million accounted as an increase to deferred tax liability.

During the financial year TrustPower successfully raised $100 million of seven year subordinated bonds from retail investors. TrustPower is one of only three corporate issuers that have successfully raised subordinated debt over the last two years and is testimony to the Company's investment brand and conservative capital structure.

Debt (including subordinated bonds) to debt plus equity was 33.9 per cent at year end, including the impact of the revaluation of generation assets, versus 34.3 per cent in the previous year.

TrustPower continues to maintain high levels of committed credit facilities. Including subordinated bonds the Company currently has NZD equivalent of 1 billion of committed debt funding in place. As at 31 March 2009 Group net debt was $705 million. Given the ongoing uncertainty in financial markets the Company has recently accepted refinancing offers for $100 million of bank facilities due to mature in July 2009 together with a $20 million increase. These facilities are expected to be extended to July 2011 and are in the final stages of documentation

The Government is undertaking a review of the climate change legislation. A government select committee is due to report to Parliament shortly and the Government has advised that it intends to have an amended Emissions Trading Scheme ("ETS") enacted by September 2009. However, the Government has also indicated that it would like to see harmonisation, where possible, with the proposed Climate Pollution Reduction Scheme ("CPRS") that the Australian Government was targeting to introduce by July 2010. The Australian Government recently announced that the introduction of the CPRS will be delayed to mid 2011. It is likely that the CPRS will not be approved by the Australian Senate without the support of minor parties. This could cause further delays in finalising an amended ETS in New Zealand.

The Australian Government has announced that it will increase the Mandatory Renewable Energy Target ("MRET") from 9,500 GWh per annum to 45,000 GWh by 2020 and for the scheme to remain in place through to 2030. The extension of this scheme will support new renewable energy development in Australia, in particular wind development which is currently viewed as the most economic renewable generation option. Legislation is expected to be passed to extend the scheme by July 2009.

On 1 April 2009, the Minister of Energy and Resources announced that there will be a ministerial review of the electricity market. The stated objective of the review is to improve the performance of the electricity market and its institutions and governance arrangements. The review will consider the findings of a number of recent or upcoming reviews and investigations including the pending Commerce Commission reports on wholesale and retail competition. A Technical Advisory Group of six experts has been appointed to support the review process and advise the Minister. A discussion paper is expected to be provided to Cabinet in June and released for public consultation in July. Any legislative change arising from the review is expected to be enacted by June 2010.

Good progress has been made on a range of growth options in New Zealand and Australia.

TrustPower currently has consents for 420MW of wind farm development in the South Island and is well advanced with a further 118 MW of South Island hydro consents at Arnold and Wairau.

In Australia, the TrustPower Group has planning consent for up to another 235 MW of capacity at the Snowtown Wind Farm and is awaiting approval for an extension to the 48 MW Myponga Wind Farm planning consent.

TrustPower is progressing negotiation with a small number of parties that have appealed the Arnold consent with the objective of avoiding another costly Environment Court process.

The Wairau consent appeal will inevitably go through an Environment Court process and a hearing has been scheduled for October 2009. The Company is undertaking further analysis in preparation for this process.

Good progress is being made in reaching agreement with landowners for potential wind farm developments at a number of New South Wales, Victoria and South Australia sites.

Forecast capital expenditure in the 2010 financial year is expected to be around $38 million which includes generation expenditure undertaken as part of the Company's 10 year asset management plan, small hydro enhancement projects and implementation of the Company's new customer care and billing system.

Generation development costs to be expensed in the 2010 financial year are projected to be around $7 million continuing the high level of investment in growing the Company's portfolio of investment options. TrustPower is working to ensure that it is in a position to progress renewable projects should the Company conclude that shareholder value is likely to be created.

The first stage of TrustPower's IT systems upgrade has been completed with a new financial reporting system successfully implemented shortly after year end. Design work for the new customer care and billing system is well underway with a first stage completion target date of early March 2010.

The Directors are pleased to announce a final dividend of 17 cents per share, partially imputed to 9 cents per share, payable 8 June 2009 (record date of 29 May 2009). This together with an interim dividend of 16 cents per share provides a total payout of 33 cents per share for the 2009 financial year compared with 30 cents per share for the 2008 financial year, representing dividend growth of 10 per cent. The Company anticipates ongoing growth of normal dividends.

The Company also paid a 10 cent unimputed special dividend in December 2008. The Directors have approved a further unimputed special dividend of 10 cents per share with the same record and payment dates as the final dividend. The Company believes that following the payment of the final and special dividends it is positioned to pursue growth opportunities.

New Zealand hydro storage is currently around 124 per cent of average for this time of year and TrustPower's hydro storage lakes are also at above average levels. The current New Zealand hydro storage position should ensure a comfortable level of electricity supply to meet demand over the 2009 winter.

While it is too early to make predictions about the 2010 financial year, it is worth noting that the Company is well positioned to meet its customers' needs and to pursue further development of electricity generation assets when it is economically justifiable.

BJ HARKER

CHAIRMAN