
TrustPower

Interim Report | **September 2010**

# TrustPower Limited Unaudited Financial Results for the Six Months Ended 30 September 2010

The first half result for the 2010 financial year was satisfactory given challenging market conditions. High hydro inflow and storage throughout the period contributed to low spot electricity prices. Competition for residential customers remained intense, particularly in the South Island where North Island based SOE generator/retailers reacted to the imposed asset swaps and long term hedging arrangements required by the Ministerial Review by seeking to acquire larger numbers of South Island customers. This acquisition activity was expected and is likely to continue in the near term.

TrustPower's consolidated underlying surplus after tax was $63.8 million for the six months ended 30 September 2010 (a decrease of 12 per cent) compared with $72.5 million for the same period last year. Underlying surplus after tax excludes fair value movements on financial instruments and the impact of one-off adjustments relating to the change of company tax rate and the removal of depreciation deductibility for long life buildings both of which take effect from 1 April 2011.

Earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments ("EBITDAF") decreased by 5 per cent to $147.7 million from $154.9 million in the previous year. The primary drivers of reduced EBITDAF compared with prior period were lower revenue from the Snowtown Wind Farm due to low wind conditions, lower retail customer demand caused by a milder winter and lower South Island energy costs during winter 2009 which improved the prior period result.

Profit after tax attributable to the shareholders of the Company was $59.7 million for the half year compared with $82.4 million for the prior period. This includes the impact of fair value movements on financial instruments and the one-off adjustments due to changes to the company tax rate and deductibility of depreciation on buildings as noted above.

Operating revenue of $403.5 million was down 1 per cent on the prior period. Total electricity volume sold by the Company in New Zealand was 2,141 GWh compared with 2,207 GWh in the prior year. Customer numbers decreased to 222,000 as at 30 September 2010 from 225,000 as at 31 March 2010. The Company was successful in countering some of the impact of increased retail competition through successful acquisition campaigns in North Canterbury, Tasman and Northland as well as increasing sales to the commercial time of use market. Mass market sales were down 10 per cent versus prior period primarily due to a noticeable drop in customer usage due to milder winter conditions experienced through many parts of the country. Time of use sales were up 5 per cent on prior period as the Company successfully placed more product into this market.

The Company's total New Zealand generation production of 1,229 GWh for the first six months was up 173 GWh (16 per cent) on the prior period. North and South Island hydro production was up significantly while wind production at the Tararua Wind Farm was in line with prior period.

The Snowtown Wind Farm in South Australia produced 151 GWh which was 19 per cent down on prior period. Wind generators across South Australia were similarly impacted by low wind resource.

Group operating cash flow was $108.5 million for the half year compared with $110.1 million in the prior half year.

As a result of the change in company tax rate and the removal of depreciation for long life buildings outlined in the May 2010 Budget announcement, a one-off adjustment to deferred tax liabilities has been made. This has resulted in a one-off non-cash net increase to tax expense for the reporting period of $6.3 million.

Debt (including subordinated bonds) to debt plus equity was 35 per cent at 30 September 2010 versus 34 per cent in the previous year.

TrustPower has recently completed a successful retail issue of 7 year Senior Bonds to New Zealand investors raising $75 million. The bonds will mature on 15 December 2017 and will pay a quarterly interest rate of 7.1 per cent.

TrustPower continues to maintain high levels of committed credit facilities. Including subordinated bonds the Company currently has just over NZD equivalent of 1.1 billion of committed debt funding in place. As at 30 September 2010 Group net debt was $740 million.

Stage I of the 36MW Mahinerangi Wind Farm remains on schedule for commissioning in May 2011. Around $12 million has been spent to date on this project.

The installation of pumping equipment at the Highbank hydro generation scheme in Canterbury which will be used to provide additional irrigation capacity to local irrigators is expected to be completed by December 2010.

Progress continues be made on a range of growth options in New Zealand and Australia.

Final conditions for the Arnold hydro consent are expected to be approved shortly and, if in line with expectation, it is likely the Company will commence further feasibility work with respect to geotechnical studies and detailed civil design.

The judgement for the Wairau hydro consent appeal is still awaited and is expected to be received shortly.

During the period TrustPower was successful in acquiring the development rights for a potential wind farm near Waverley. Further feasibility work is in progress with the expectation of making a resource consent application in 2011 if initial positive expectations of wind resource and other key project criteria are validated.

In Australia, the TrustPower Group has been granted approval for an amended planning consent to erect up to another 102 wind turbines at the Snowtown Wind Farm. Discussions with a range of counterparties in relation to a Stage II development are being actively progressed.

The Directors are pleased to announce an interim dividend of 19 cents per share, partially imputed to 13 cents per share, payable 10 December 2010 (record date of 26 November 2010).

While the first half market and climatic conditions were challenging, the Company is currently expecting to achieve a full year EBITDAF result in line with the 2010 financial year result. The Company remains well positioned to meet its customers' needs and to pursue further development of renewable generation opportunities when it is economically justifiable.

B.J. Harker

**Bruce Harker**
Chairman

# CONSOLIDATED INCOME STATEMENT

| For the period ended 30 September 2010 | Note | Unaudited 6 Months Sep 2010 $000 | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|---|
| **Operating Revenue** | | | | |
| Electricity revenue | | **382,694** | 387,780 | 717,349 |
| Carbon revenue | | **4,404** | 5,535 | 9,654 |
| Meter rental revenue | | **2,948** | 2,537 | 5,221 |
| Other customer fees and charges | | **1,658** | 1,966 | 3,800 |
| Telecommunications sales | | **10,933** | 9,436 | 19,672 |
| Other revenue | | **894** | 1,713 | 3,591 |
| | | **403,531** | 408,967 | 759,287 |
| **Operating Expenses** | | | | |
| Energy costs | | **70,289** | 69,985 | 136,893 |
| Generation production costs | | **16,697** | 15,893 | 35,787 |
| Line costs | | **120,996** | 124,092 | 223,027 |
| Market fees and costs | | **7,495** | 8,227 | 13,851 |
| Meter rental costs | | **1,771** | 1,564 | 3,237 |
| Other customer connection costs | | **1,081** | 993 | 2,053 |
| Loss/(gain) on sale of property, plant and equipment | | **(63)** | 7 | 549 |
| Employee benefits | | **15,361** | 14,109 | 28,734 |
| Telecommunications cost of sales | | **8,672** | 7,405 | 15,549 |
| Other operating expenses | | **13,539** | 11,818 | 25,726 |
| | | **255,838** | 254,093 | 485,406 |
| **Earnings Before Interest, Tax, Depreciation, Amortisation and Fair Value Movements of Financial Instruments (EBITDAF)** | | **147,693** | 154,874 | 273,881 |
| Impairment of assets | | **-** | - | 6,120 |
| Fair value (gains)/losses on financial instruments | | **(3,171)** | (14,138) | (12,509) |
| Amortisation of intangible assets | | **2,797** | 2,821 | 5,657 |
| Depreciation | | **26,083** | 22,868 | 49,358 |
| **Operating Profit** | | **121,984** | 143,323 | 225,255 |
| Interest paid | 5 | **30,760** | 28,513 | 59,100 |
| Interest received | 5 | **(443)** | (280) | (385) |
| Net finance costs | | **30,317** | 28,233 | 58,715 |
| **Profit Before Income Tax** | | **91,667** | 115,090 | 166,540 |
| Income tax expense | 6 | **31,957** | 32,673 | 47,127 |
| **Profit After Tax Attributable to the Shareholders of the Company** | | **59,710** | 82,417 | 119,413 |
| Earnings per share (cents per share) | | **18.9** | 26.1 | 37.8 |
| Diluted earnings per share (cents per share) | | **18.9** | 26.1 | 37.8 |

The Board of TrustPower Limited authorised these Interim Financial Statements for issue on 4 November 2010.

The accompanying notes form part of these interim financial statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the period ended 30 September 2010 | | Unaudited 6 Months Sep 2010 $000 | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|---|
| Profit after tax attributable to the shareholders of the Company | | **59,710** | 82,417 | 119,413 |
| **Other Comprehensive Income** | | | | |
| Fair value gains on generation assets | 7 | **-** | - | (159) |
| Currency translation differences on revaluation reserve | 7 | **(157)** | 298 | 3,719 |
| Fair value gains/(losses) on cash flow hedges | 8 | **(36,537)** | 1,135 | 23,746 |
| Other currency translation differences | 9 | **1,285** | 227 | 5,344 |
| Movements in employee share option reserve | 9 | **(30)** | 10 | 160 |
| Tax effect of the following: | | | | |
| Fair value gains on generation assets | 7 | **(1)** | - | 1,865 |
| Fair value gains/(losses) on cash flow hedges | 8 | **10,814** | (340) | (7,182) |
| Currency translation differences | 9 | **442** | 3,044 | 3,413 |
| Effect of the change in corporate tax rate on the following: | | | | |
| Revaluation reserve | 7 | **11,251** | - | - |
| Cash flow hedge reserve | 8 | **(279)** | - | - |
| Foreign currency translation reserve | 9 | **(407)** | - | - |
| **Total Other Comprehensive Income** | | **(13,619)** | 4,374 | 30,906 |
| **Total Comprehensive Income** | | **46,091** | 86,791 | 150,319 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the period ended 30 September 2010 | | Unaudited 6 Months Sep 2010 $000 | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|---|
| Total Comprehensive Income | | **46,091** | 86,791 | 150,319 |
| Issue of shares pursuant to the employee share option scheme | 10 | **-** | 415 | 1,707 |
| Own shares repurchased | 10 | **(2,856)** | - | - |
| Dividends paid | 11 | **(60,013)** | (85,114) | (144,949) |
| **Total Movements in Equity** | | **(16,778)** | 2,092 | 7,077 |
| Equity at the beginning of the period | | **1,437,146** | 1,430,069 | 1,430,069 |
| **Equity at the end of the period** | | **1,420,368** | 1,432,161 | 1,437,146 |

The accompanying notes form part of these interim financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| **As at 30 September 2010** | Note | **Unaudited Sep 2010 $000** | Unaudited Sep 2009 $000 | Audited Mar 2010 $000 |
|---|---|---|---|---|
| **Equity** | | | | |
| *Capital and reserves attributable to shareholders of the Company* | | | | |
| Share capital | 10 | **173,895** | 175,169 | 176,751 |
| Revaluation reserve | 7 | **878,589** | 862,668 | 867,493 |
| Retained earnings | | **362,126** | 384,969 | 362,432 |
| Cash flow hedge reserve | 8 | **(10,596)** | (363) | 15,406 |
| Other reserves | 9 | **16,354** | 9,718 | 15,064 |
| **Total Equity** | | **1,420,368** | 1,432,161 | 1,437,146 |
| *Represented by:* | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | **18,043** | 20,630 | 9,492 |
| Bond deposits on trust | | **2,000** | 2,500 | 2,300 |
| Accounts receivable and prepayments | | **99,284** | 115,904 | 117,453 |
| Derivative financial instruments | 12 | **8,000** | 4,493 | 5,182 |
| | | **127,327** | 143,527 | 134,427 |
| **Non Current Assets** | | | | |
| Term receivable | | **-** | 1,098 | - |
| Property, plant and equipment | | **2,371,539** | 2,362,157 | 2,366,252 |
| Derivative financial instruments | 12 | **7,159** | 11,151 | 20,340 |
| Investments | | **2,186** | 1,731 | 2,195 |
| Intangible assets | | **33,733** | 37,877 | 35,583 |
| | | **2,414,617** | 2,414,014 | 2,424,370 |
| **Total Assets** | | **2,541,944** | 2,557,541 | 2,558,797 |
| **Current Liabilities** | | | | |
| Accounts payable and accruals | | **72,328** | 95,500 | 103,831 |
| Unsecured bank loans | | **-** | - | 193,904 |
| Derivative financial instruments | 12 | **9,218** | 5,332 | 4,287 |
| Taxation payable | | **8,914** | 12,084 | 7,078 |
| | | **90,460** | 112,916 | 309,100 |
| **Non Current Liabilities** | | | | |
| Unsecured bank loans | | **349,722** | 481,002 | 142,943 |
| Unsecured subordinated bonds | | **261,474** | 260,938 | 261,206 |
| Bond subscriptions received not yet allotted | | **9,176** | - | - |
| Unsecured senior bonds | | **137,666** | - | 137,518 |
| Derivative financial instruments | 12 | **22,430** | 14,820 | 4,361 |
| Deferred tax liability | 13 | **250,648** | 255,704 | 266,523 |
| | | **1,031,116** | 1,012,464 | 812,551 |
| **Total Liabilities** | | **1,121,576** | 1,125,380 | 1,121,651 |
| **Net Assets** | | **1,420,368** | 1,432,161 | 1,437,146 |
| Net Tangible Assets Per Share | | **$4.40** | $4.42 | $4.44 |

The accompanying notes form part of these interim financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

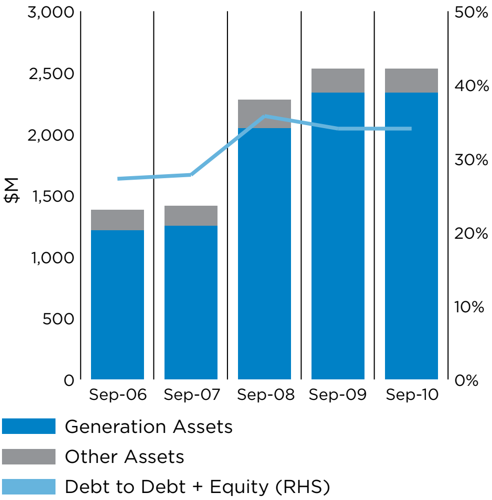
| For the period ended 30 September 2010 | Unaudited 6 Months Sep 2010 $000 | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Receipts from customers | **439,322** | 390,815 | 758,427 |
| Payments to suppliers and employees | **(304,824)** | (264,125) | (493,004) |
| Taxation paid | **(26,089)** | (16,640) | (31,314) |
| **Net Cash Flow from Operating Activities** | **108,409** | 110,050 | 234,109 |
| Sale of property, plant & equipment | **297** | 49 | 243 |
| Subsidiary purchased | **-** | - | 1 |
| Interest received | **720** | 280 | 559 |
| Capitalised interest in construction of property, plant and equipment | **(277)** | - | - |
| Net movement in bond deposits on trust | **300** | 200 | 400 |
| Purchase of property, plant and equipment | **(25,149)** | (11,489) | (33,886) |
| Sale/(purchase) of other investments | **8** | - | (1,674) |
| Purchase of intangible assets | **(947)** | (1,183) | (7,886) |
| **Net Cash Flow from Investing Activities** | **(25,048)** | (12,143) | (42,243) |
| Bank loan proceeds | **95,995** | 114,346 | 79,700 |
| Net bond movements | **-** | - | 140,000 |
| Bond subscriptions received not yet allotted | **9,176** | - | - |
| Issue of shares | **-** | 415 | 1,707 |
| Purchase of own shares | **(2,855)** | - | - |
| Bond brokerage costs | **(74)** | - | (2,630) |
| Bank loan repayments | **(86,556)** | (105,900) | (227,149) |
| Interest paid | **(30,558)** | (28,619) | (57,759) |
| Dividends paid | **(60,014)** | (85,114) | (144,949) |
| **Net Cash Flow from Financing Activities** | **(74,886)** | (104,872) | (211,080) |
| **Net (Decrease) / Increase in Cash, Cash Equivalents and Bank Overdrafts** | **8,475** | (6,965) | (19,214) |
| Cash, cash equivalents and bank overdrafts at beginning of the period | **9,492** | 27,416 | 27,416 |
| Exchange gains/(losses) on cash | **76** | 179 | 1,290 |
| **Cash, Cash Equivalents and Bank Overdrafts at End of the Period** | **18,043** | 20,630 | 9,492 |

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

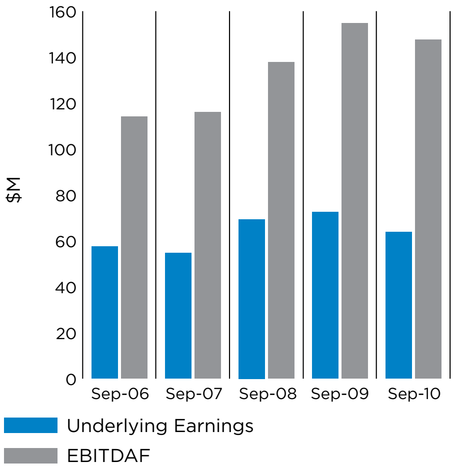
| | | | |
|---|---|---|---|
| Profit after tax attributable to the shareholders of the Company | **59,710** | 82,417 | 119,413 |
| Interest paid | **30,558** | 28,619 | 57,759 |
| Interest received | **(720)** | (280) | (559) |
| Amortisation of debt issue costs | **673** | 268 | 1,076 |
| Non-cash transfer from cash flow hedge reserve to interest expense | **(145)** | - | (194) |
| Fixed, intangible and investment asset charges | **28,817** | 25,680 | 61,684 |
| Movements in financial instruments taken to the income statement | **(3,171)** | (14,138) | (12,509) |
| Option expense | **(30)** | 10 | 160 |
| Increase/(decrease) in deferred tax liability excluding transfers to reserves | **6,210** | 7,187 | 12,098 |
| (Increase)/decrease in working capital | **(13,493)** | (19,713) | (4,819) |
| **Net Cash Flow from Operating Activities** | **108,409** | 110,050 | 234,109 |

The accompanying notes form part of these interim financial statements

### Gearing




### Financial Performance




| | **6 Months Sep 2010** | 6 Months Sep 2009 | 12 Months Mar 2010 |
|---|---|---|---|
| **Operating Statistics** | | | |
| Electricity customer numbers (000's) | **222** | 229 | 225 |
| Telecommunication services provided (000's) | **34** | 32 | 33 |
| | | | |
| Mass market sales (GWh) | **1,053** | 1,173 | 2,057 |
| Time of use sales (GWh) | **1,089** | 1,034 | 2,046 |
| **Total customer sales (GWh)** | **2,142** | 2,207 | 4,103 |
| Weighted average spot price of electricity purchased ($/MWh) | **55** | 43 | 56 |
| | | | |
| North Island hydro generation production (GWh) | **419** | 325 | 615 |
| South Island hydro generation production (GWh) | **545** | 466 | 820 |
| Total hydro generation production (GWh) | **964** | 791 | 1,435 |
| Wind generation production (GWh) | **265** | 265 | 582 |
| **Total New Zealand generation production (GWh)** | **1,229** | 1,056 | 2,017 |
| Weighted average spot price of electricity generated ($/MWh) | **50** | 39 | 50 |
| | | | |
| Australian wind production (GWh) | **151** | 186 | 373 |
| | | | |
| Resource consent non-compliance events | **5** | 2 | 5 |
| Staff numbers (full time equivalents) | **412** | 403 | 406 |

# 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 2010 and have been approved for issue by the Board of Directors on 4 November 2010.

## 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 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 are mandatory for the first time for the financial year beginning 1 April 2010.

- NZ IFRS 3 *Business Combinations* (revised) and NZ IAS 27 Consolidated and Separate Financial Statements (revised), (effective for periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply NZ IFRS 3 (revised) and NZ IAS 27 (revised) prospectively to all business combinations from 1 April 2010.
- NZ IAS 38 *Intangible Assets* (amendment), (effective for periods beginning on or after 1 July 2009). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- NZ IFRIC 18 *Transfers of Assets from Customers,* (effective for transfers of assets on or after 1 July 2009). This interpretation clarifies the requirements for IFRSs in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In some cases the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment.

# 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 Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| **Underlying Earnings After Tax** | **63,771** | 72,520 | 116,819 |
| Underlying earnings per share (cents per share) | **20.2** | 23.0 | 37.0 |
| Diluted underlying earnings per share (cents per share) | **20.2** | 23.0 | 37.0 |

# NOTE 4

## SEGMENT INFORMATION

*Primary Reporting Format - Business Segments*

As at 30 September 2010, 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.

**The unaudited segment results for the six months ended 30 September 2010 are as follows:**

| | **Generation New Zealand $000** | **Generation Australia $000** | **Retail $000** | **Other $000** | **Total $000** |
|---|---|---|---|---|---|
| Total segment revenue | **127,879** | **13,961** | **373,704** | **1,100** | **516,644** |
| Inter-segment revenue | **(112,105)** | **-** | **-** | **(1,008)** | **(113,113)** |
| **Revenue from external customers** | **15,774** | **13,961** | **373,704** | **92** | **403,531** |
| **Adjusted EBITDAF** | **119,362** | **10,084** | **19,485** | **(1,331)** | **147,600** |
| Amortisation of intangible assets | **-** | **-** | **1,904** | **893** | **2,797** |
| Depreciation | **18,050** | **7,095** | **-** | **938** | **26,083** |
| Capital expenditure | **24,934** | **-** | **-** | **1,277** | **26,211** |
| Asset impairment | **-** | **-** | **-** | **-** | **-** |

**The unaudited segment results for the six months ended 30 September 2009 are as follows:**

| | | | | | |
|---|---|---|---|---|---|
| Total segment revenue | 112,440 | 17,719 | 371,829 | 1,111 | 503,099 |
| Inter-segment revenue | (93,072) | - | - | (1,060) | (94,132) |
| **Revenue from external customers** | 19,368 | 17,719 | 371,829 | 51 | 408,967 |

## NOTE 4 CONTINUED

| | Generation New Zealand $000 | Generation Australia $000 | Retail $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|
| **Adjusted EBITDAF** | 113,444 | 13,585 | 28,560 | (708) | 154,881 |
| Amortisation of intangible assets | - | - | 1,904 | 917 | 2,821 |
| Depreciation | 15,731 | 6,292 | - | 845 | 22,868 |
| Capital expenditure | 5,658 | - | - | 4,175 | 9,833 |
| Asset impairment | - | - | - | - | - |

**The audited segment results for the 12 months ended 31 March 2010 are as follows:**

| | Generation New Zealand $000 | Generation Australia $000 | Retail $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|
| Total segment revenue | 192,016 | 35,970 | 686,394 | 2,261 | 916,641 |
| Inter-segment revenue | (155,177) | - | - | (2,177) | (157,354) |
| **Revenue from external customers** | 36,839 | 35,970 | 686,394 | 84 | 759,287 |
| **Adjusted EBITDAF** | 174,031 | 27,624 | 74,913 | (2,051) | 274,517 |
| Amortisation of intangible assets | - | - | 3,808 | 1,849 | 5,657 |
| Depreciation | 34,168 | 14,329 | - | 861 | 49,358 |
| Capital expenditure | 9,022 | 4,729 | - | 18,788 | 32,539 |
| Asset impairment | - | (42) | - | 6,162 | 6,120 |

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.

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 Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Adjusted EBITDAF | **147,600** | 154,881 | 274,517 |
| Depreciation | **(26,083)** | (22,868) | (49,358) |
| Amortisation | **(2,797)** | (2,821) | (5,657) |
| Fair value gains/(losses) on financial instruments | **3,171** | 14,138 | 12,509 |
| Foreign exchange gains/(losses) | **30** | - | (87) |
| Gain/(loss) on sale of property, plant and equipment | **63** | (7) | (549) |
| Impairment of assets | **-** | - | (6,120) |
| Interest received | **443** | 280 | 385 |
| Interest paid | **(30,760)** | (28,513) | (59,100) |
| **Profit before income tax** | **91,667** | 115,090 | 166,540 |

# NOTE 5

## FINANCE INCOME AND COSTS

| | Unaudited 6 Months Sep 2010 $000 | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Amortisation of debt issue costs | **673** | 268 | 1,076 |
| Interest paid on unsecured bank loans | **9,657** | 11,172 | 21,168 |
| Interest paid on unsecured subordinated bonds | **11,171** | 11,171 | 22,281 |
| Interest paid on unsecured senior bonds | **5,426** | - | 3,168 |
| Other interest costs and fees | **4,110** | 5,902 | 11,407 |
| Interest capitalised in construction of property, plant and equipment | **(277)** | - | - |
| **Total Interest Paid** | **30,760** | 28,513 | 59,100 |
| Interest received on cash at bank | **443** | 280 | 385 |
| **Total Interest Received** | **443** | 280 | 385 |

# NOTE 6

## INCOME TAX EXPENSE

| | **Unaudited 6 Months Sep 2010 $000** | **Unaudited 6 Months Sep 2009 $000** | **Audited 12 Months Mar 2010 $000** |
|---|---|---|---|
| Profit before income tax | **91,667** | 115,090 | 166,540 |
| Tax on profit @ 30% | **27,500** | 34,527 | 49,962 |
| Tax effect of permanent differences | **(1,624)** | (1,854) | (1,833) |
| Income tax (over)/under provided in prior year | **(200)** | - | (1,002) |
| Removal of tax depreciation on buildings | **11,079** | - | - |
| Change in corporate income tax rate | **(4,798)** | - | - |
| | **31,957** | 32,673 | 47,127 |
| *Represented by:* | | | |
| Current tax | **32,223** | 25,486 | 35,094 |
| Deferred tax | **(266)** | 7,187 | 12,033 |
| | **31,957** | 32,673 | 47,127 |

The 2010 Budget contained two provisions which have had a material effect on the Group's 2010 tax expense:

A decrease in the corporate income tax rate from 30 per cent to 28 per cent, effective from the income tax year ending 31 March 2012. As a result of this change, deferred tax which is not expected to crystallize in the next 12 months has been restated to 28 per cent, as deferred tax is required to be recorded at the tax rate that will apply when the future tax liability is expected to crystallize. See note 7 for impact on revaluation reserve.

The removal of tax depreciation on buildings with estimated useful lives of 50 years or more. TrustPower will no longer be able to claim tax depreciation on buildings from its income tax year ending 31 March 2011. This has resulted in an increased deferred tax liability in respect of buildings completed before May 2010. TrustPower is currently involved in industry discussions with Inland Revenue with the aim of determining what components of electricity generation schemes are deemed to be buildings. This work is ongoing and is likely to result in some changes to the tax effect when TrustPower publishes its full year accounts for the year ended 31 March 2011.

# NOTE 7

## REVALUATION RESERVE

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Balance at beginning of period | **867,493** | 862,370 | 862,370 |
| Revaluation of generation assets | **-** | - | (159) |
| Transfer (to)/from deferred tax liability | **(1)** | - | 1,865 |
| Transfer (to)/from retained earnings | **3** | - | (302) |
| Foreign exchange movements | **(157)** | 298 | 3,719 |
| Tax effect of change in corporate tax rate | **11,251** | - | - |
| | **878,589** | 862,668 | 867,493 |

# NOTE 8

## CASH FLOW HEDGE RESERVE

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Balance at beginning of period | **15,406** | (1,158) | (1,158) |
| Fair value gains/(losses) | **(46,049)** | (7,704) | 12,869 |
| Tax on fair value gains/(losses) | **13,668** | 2,312 | (3,919) |
| Transfers to energy cost expense | **8,365** | 8,407 | 11,036 |
| Tax on transfers to energy cost expense | **(2,510)** | (2,522) | (3,311) |
| Transfers to carbon revenue | **1,150** | 432 | (209) |
| Tax on transfers to carbon revenue | **(345)** | (130) | 63 |
| Transfers to interest paid | **(3)** | - | 50 |
| Tax on transfers to interest paid | **1** | - | (15) |
| Effect of change in corporate tax rate | **(279)** | - | - |
| | **(10,596)** | (363) | 15,406 |

# NOTE 9

## OTHER RESERVES

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| **Foreign Currency Translation Reserve** | | | |
| Balance at beginning of period | **14,871** | 6,114 | 6,114 |
| Transfer to deferred tax | **442** | 3,044 | 3,413 |
| Currency translation differences | **1,285** | 227 | 5,344 |
| Effect of change in corporate tax rate | **(407)** | - | - |
| | **16,191** | 9,385 | 14,871 |
| **Employee Share Option Reserve** | | | |
| Balance at beginning of period | **193** | 323 | 323 |
| Transfer to share capital | **-** | - | (290) |
| Fair value movements charged to the income statement | **(30)** | 10 | 160 |
| | **163** | 333 | 193 |
| **Total Other Reserves** | **16,354** | 9,718 | 15,064 |

# NOTE 10

## SHARE CAPITAL

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Authorised and issued ordinary share capital at beginning of the period | **176,751** | 174,754 | 174,754 |
| Own shares repurchased | **(2,856)** | - | - |
| Transfer from employee share option reserve | **-** | - | 290 |
| Issue of share capital pursuant to the employee share option scheme | **-** | 415 | 1,707 |
| | **173,895** | 175,169 | 176,751 |

| | **000's of Shares** | 000's of Shares | 000's of Shares |
|---|---|---|---|
| Authorised and issued ordinary shares at beginning of the period | **315,516** | 315,236 | 315,236 |
| Own shares repurchased | **(399)** | - | - |
| Issue of shares pursuant to the employee share option scheme | **-** | 70 | 280 |
| | **315,117** | 315,306 | 315,516 |

# NOTE 11

## DIVIDENDS ON ORDINARY SHARES

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Dividends (forfeited)/reinstated | **-** | - | (113) |
| Final dividend prior year | **60,013** | 53,590 | 53,590 |
| Interim dividend current year | **-** | - | 59,948 |
| Special dividend paid during the year | **-** | 31,524 | 31,524 |
| Supplementary dividend paid | **65** | 69 | 161 |
| Foreign investor tax credit | **(65)** | (69) | (161) |
| | **60,013** | 85,114 | 144,949 |

# NOTE 12

## DERIVATIVE FINANCIAL INSTRUMENTS

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| **Current** | | | |
| Interest rate derivative assets | **33** | - | 15 |
| Electricity price derivative assets | **5,575** | 4,395 | 4,118 |
| Exchange rate derivative assets | **2,392** | 98 | 1,049 |
| | **8,000** | 4,493 | 5,182 |
| Interest rate derivative liabilities | **2,083** | 3,047 | 3,175 |
| Electricity price derivative liabilities | **6,812** | 2,285 | 1,112 |
| Exchange rate derivative liabilities | **323** | - | - |
| | **9,218** | 5,332 | 4,287 |
| **Non-current** | | | |
| Interest rate derivative assets | **4,256** | 4,933 | 3,903 |
| Electricity price derivative assets | **658** | 4,802 | 14,348 |
| Exchange rate derivative assets | **2,245** | 1,416 | 2,089 |
| | **7,159** | 11,151 | 20,340 |
| Interest rate derivative liabilities | **8,161** | 6,895 | 3,407 |
| Electricity price derivative liabilities | **14,269** | 7,925 | 954 |
| | **22,430** | 14,820 | 4,361 |

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 Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Balance at beginning of period | **266,523** | 251,137 | 251,137 |
| Current period changes in temporary differences affecting tax expense | **(266)** | 7,187 | 10,946 |
| Current period changes in temporary differences affecting reserves | **(11,722)** | (2,704) | 1,903 |
| Reclassification of prior year temporary differences | **-** | - | 1,087 |
| Exchange rate movements on foreign denominated deferred tax | **397** | 84 | 1,450 |
| *Effect of announced change in corporate tax rate on:* | | | |
| Income tax expense | **(4,798)** | - | - |
| Revaluation reserve | **(11,251)** | - | - |
| Cash flow hedge reserve | **279** | - | - |
| Foreign currency translation reserve | **407** | - | - |
| Effect of removal of tax depreciation on buildings on income tax expense | **11,079** | - | - |
| | **250,648** | 255,704 | 266,523 |
| *Deferred tax liabilities consist of temporary differences on:* | | | |
| Revaluations | **185,073** | 196,598 | 196,323 |
| Other property, plant and equipment movements | **69,407** | 57,409 | 61,565 |
| Employee benefits | **(1,220)** | (1,123) | (1,283) |
| Provisions | **(840)** | (90) | (600) |
| Carbon revenue recognition | **2,663** | - | 2,853 |
| Customer base assets | **7,379** | 9,048 | 8,477 |
| Financial instruments | **(6,058)** | (1,707) | 4,508 |
| Unrealised losses on Australian dollar loan | **(5,693)** | (4,882) | (5,251) |
| Other | **(63)** | 451 | (69) |
| | **250,648** | 255,704 | 266,523 |
| Net deferred tax liability | **250,648** | 255,704 | 266,523 |

# NOTE 14

## PROPERTY, PLANT AND EQUIPMENT

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| Assets acquired at cost | **25,149** | 6,954 | 21,383 |
| Net book value of assets disposed | **359** | 33 | 792 |
| Gain/(loss) on disposal | **63** | 16 | (549) |

# NOTE 15

## COMMITMENTS

| | **Unaudited 6 Months Sep 2010 $000** | Unaudited 6 Months Sep 2009 $000 | Audited 12 Months Mar 2010 $000 |
|---|---|---|---|
| *Capital Commitments* | **66,212** | - | 2,824 |

The capital commitments relate to the construction of the Mahinerangi Wind Farm in Otago and the Highbank irrigation project in Canterbury.

*Electricity Purchase Commitments*
TrustPower has a long term contract with Mighty River Power Limited to purchase the output from the Rotokawa geothermal power station until 31 March 2013. This commitment cannot be quantified.

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

TrustPower has a contract with Ngawha Generation Limited to purchase all of the output from its Ngawha power 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 2009, the volume of customer sales was 16% higher than for the six months ended 31 March 2010.

# NOTE 17

## INTEREST BEARING BORROWINGS

During the six month period ended 30 September 2010, interest bearing borrowings of $95,995,000 (six month period ended 30 September 2009: $114,346,000, year ended 31 March 2010: $219,700,000) were drawn down and repayments of $86,556,000 (six month period ended 30 September 2009: $105,900,000, year ended 31 March 2010: $227,149,000) were made.

# 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. The Group believes the tax treatment adopted is correct and is defending its position. Should Inland Revenue be completely successful in its claim, the resulting liability would give rise to an additional tax payment of $6,779,000 and interest expense of $3,115,000. Further the Group would need to revise its policy for claiming tax deductions for feasibility expenditure in the 2009 and future years. This would give rise to a further estimated tax payment of $4,542,000 and interest expense of $328,000 in respect of the 2009, 2010 and 2011 years.

The Group has provided a guarantee to Rangitata Diversion Race Management Limited (RDR) to allow RDR to borrow funds to purchase land. The maximum amount the Group could be liable to pay is $756,000 (30 September 2009: nil, 31 March 2010: $756,000). This maximum liability would only be payable if RDR was unable to service its debt and was unable to sell the land.

# NOTE 19

## RELATED PARTY TRANSACTIONS

The Group is controlled by Infratil Limited (incorporated in New Zealand) which owns 50.4% of the Company's shares. The Tauranga Energy Consumer Trust owns 32.9% and the residual 16.7% are widely held.

A related entity of H.R.L. Morrison & Co Limited manages Infratil Limited and M Bogoievski, a Director of TrustPower Limited, is the Chief Executive of H.R.L. Morrison & Co Limited. Mr HRL Morrison is an alternate Director of TrustPower Limited and is a Director of Infratil Limited. Infratil Limited is a significant shareholder in TrustPower Limited and $1,000 (30 September 2009: $5,000, 31 March 2010: $7,000) was paid to H.R.L. Morrison & Co Limited and related entities during the period for consultancy services. As at 30 September 2010 none of this amount was outstanding (30 September 2009: nil, 31 March 2010: nil).

For the year ended 31 March 2010 consultancy fees of $10,000 were paid to Victoria Electricity Pty Ltd which is a subsidiary of the Group's ultimate parent. As at 31 March 2010 none of this amount was outstanding. No consultancy fees were paid in the six-month period ended 30 September 2010 (30 September 2009: nil).

Mr MJ Cooney, a Director of TrustPower Limited, is a partner in the law firm Cooney Lees Morgan. $16,000 was paid to Cooney Lees Morgan for legal services in the six months to 30 September 2010 (30 September 2009: $14,000, 31 March 2010: $14,000). As at 30 September 2010 none of this amount was unpaid (30 September 2009: $2,000, 31 March 2010: nil).

| Key management personnel compensation (including Directors' fees) is as follows: | **Unaudited 6 Months September 2010 $000** | Unaudited 6 Months September 2009 $000 | Audited 12 Months March 2010 $000 |
|---|---|---|---|
| Salaries and other short-term employee benefits | **2,353** | 2,588 | 4,535 |
| Share based payments | **-** | 10 | 22 |
| | **2,353** | 2,598 | 4,557 |

Except as noted above, no transactions took place with related parties during the year. 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 2010 (30 September 2009: nil, 31 March 2010: nil).

# NOTE 20

## FINANCIAL RISK MANAGEMENT

TrustPower's activities expose it to a variety of financial risks: electricity price risk, interest rate risk, exchange rate 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.

### 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.

### 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.

# NOTE 21

## SUBSEQUENT EVENTS

The Group has issued $75,000,000 of unsecured, unsubordinated bonds subsequent to balance date. These funds received will be used for general corporate purposes, including repaying other debt.

There have been no other material events subsequent to 30 September 2010.

TrustPower