



all the
little
things

Investor Day | 17 July 2018

Welcome and agenda for the day



Welcome and
Strategic
overview

1.00pm



Overview
of Retail

1.30pm



Presentations
by senior
managers in
small groups

2.15pm



Wrap up
and
Questions

4.30pm



Finish

5.30pm



Trustpower leadership team – depth of experience and talent



Trustpower key facts



Tauranga based national electricity generator and retailer of energy and telco

1923

History dates back to **1923** as the Tauranga Electric Power Board

\$1.8b

Market capitalisation circa **\$1.8 billion**



FY19 EBITDAF forecast to be **\$205 million to \$225 million**



Key shareholders **Infratil (51.0%)** and **TECT (26.8%)**

1,954 GWh

New Zealand generation capacity (hydro) **487MW** producing an average of circa **1,954GWh** per annum



Approximately **247,000** customers



100,000 customers have more than one product



Approximately **803** FTE employees



Electricity industry poised for growth

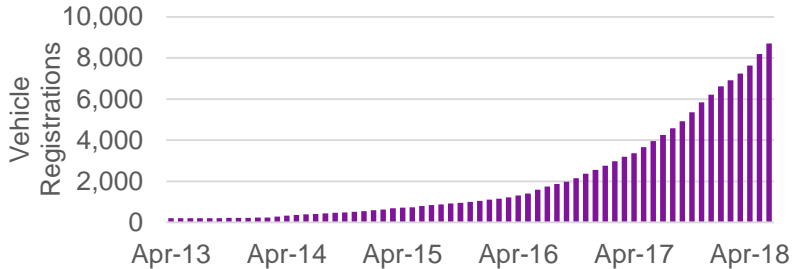
The NZ economy is electrifying!

“Synlait commits to never building another coal fired boiler – new boiler to be electric”¹

We are already starting to see the evidence

EV fleet size²

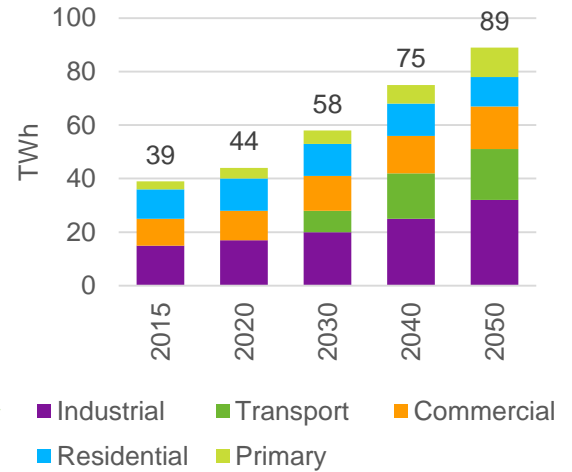
EV's will soon start to make a difference



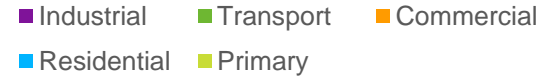
1. Synlait announcement 28 June 2018, 2. <https://www.transport.govt.nz/resources/vehicle-fleet-statistics/monthly-electric-and-hybrid-light-vehicle-registrations/>

Transpower's view

“ the major difference between the last 10 years and the next 30 years will be significantly more electrification”³



Estimated delivered electricity demand by sector



3. Te Mauri Hiko Energy Futures – Transpower White Paper 2018 (page 20)



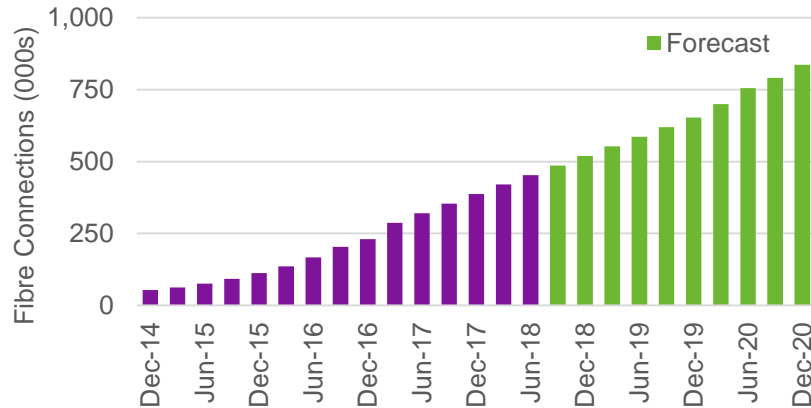


Fibre rollout and data consumption driving significant telco growth

Actual and forecast fibre connections

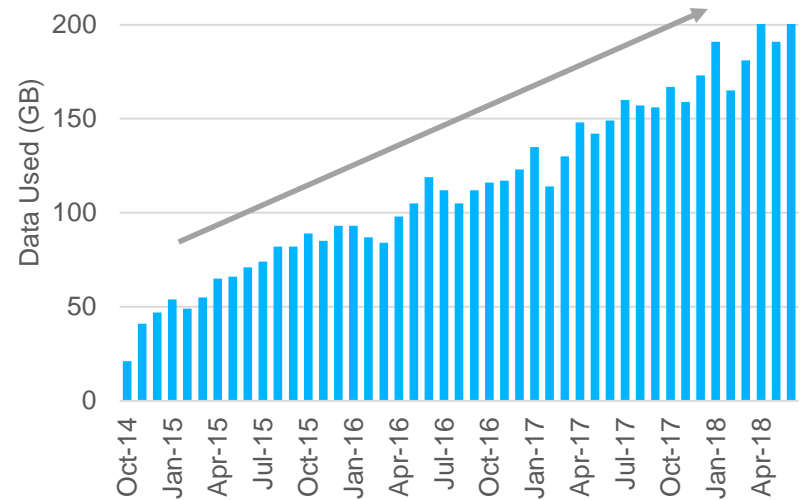
Fibre opportunity growing fast

- Driven by data hungry customers
- Creates new opportunity for customer engagement



Trustpower's customers are showing no signs of slowing down

Average data use per customer per month





Summary of key messages

Our retail business is well positioned

- Our differentiated bundled strategy is adding value with a significant growth opportunity due to the fibre rollout
- Being a value led rather than price lead competitor is a long term sustainable and profitable position
- We have made significant progress in our digital strategy and are well positioned for the digital future

We have developed a high level of capability that gives us the flexibility and agility to perform well in a changing future

- A highly capable organisation that focuses on collective learning and fast decision making
- A strong focus on the communities in which we operate and a commitment to be a positive contributor
- Agile and flexible technology platforms that support our commitment to digital initiatives
- We are extracting significant scale benefits from our telco platform

Our generation assets are well placed to capitalise on a renewable future

- Geographical diversity and high levels of availability

We are facing a high level of regulation both in energy and in telco

- This could be positive or negative for Trustpower. However we are fully engaged and believe we have the flexibility and capability to prosper whatever the outcome.

We are well positioned to grow both organically and through acquisition



Trustpower's key strategic convictions

Irrespective of which political party is in government societal pressures will lead towards lower carbon and increased renewable generation

- Transition to a lower carbon world will lead to increased demand for electricity
- Existing and new renewable generation will be well placed in both the lower carbon and increased renewable generation scenarios
- Transitioning NZ to an increased renewable generation portfolio will lead to periods of instability and short term high prices benefitting generators with flexible generation which have high levels of availability

Not all customers make their decisions based solely on price

- Customers will continue to see value in the bundle and will be attracted to it without the need to price discount
- The current fibre rollout provides a significant opportunity for continued growth
- Trustpower can maintain its loyal energy only customer base for an extended period without the need for aggressive price discounting by continuing to provide excellent service and value enhancements

Extensive use of digital technology such as AI and machine learning will become the norm

- Customers will expect to be able to interact via multiple channels of their choice
- The cost efficiencies from digitisation will be a necessity to keep customers and stay profitable over the long term
- Digital benefits will be available without the need for expensive large scale computer systems making agility and speed to market key differentiators

Trustpower's strategy – to create executable options driving shareholder returns





Retail Overview

Craig Neustroski – GM Markets





Electricity segment – not for the faint hearted

Consumer market highly competitive



Comment

- Circa 40 retail brands now present

Electricity only

- Electricity segment remains highly competitive with consolidation and failures likely
- Trustpower has a balanced portfolio across Commercial, Industrial, Government and Consumer
- We have opportunity in new energy and emerging technology
- Cross sell within the Consumer segment is moving our customers out of this category

Commercial and Industrial market

- Diverse customer base, typical contract term 2-3 years
- Average tenure over 7 years, supply relationships with some of New Zealand's most recognised corporates for over 15 years
- Profitable and sustainable circa 1,700GWh p.a.

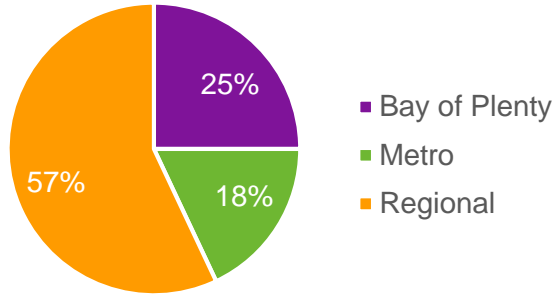




Electricity segment – diversity & tenure

Consumer market

Electricity customer base by region



Comment

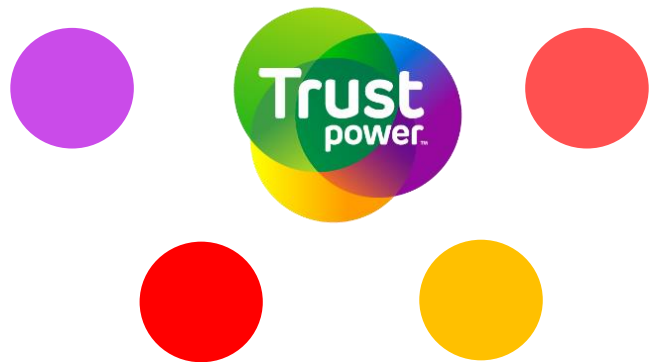
- Electricity only customer base biased away from the metros
- Around 60% of customers have 5+ years tenure

Product innovation





Trustpower the leading multi-utility business



Comment

- We created a new category and others have followed
- There is plenty of room for growth in this category

Our achievements



Over 100,000 customers have more than one product

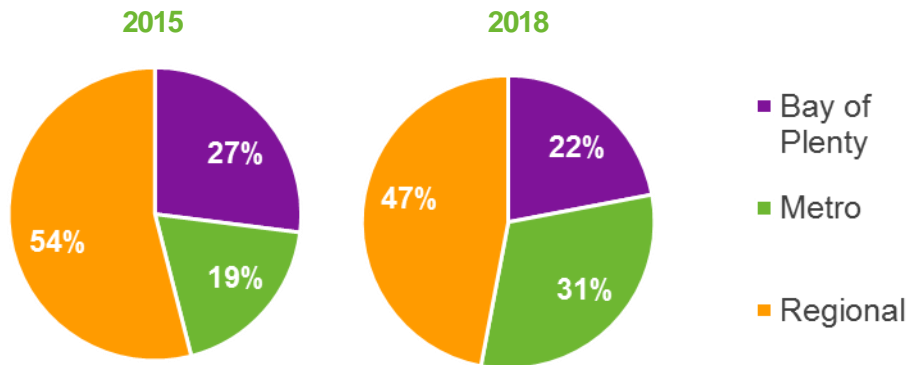
- Growth from a base of around 20,000 multi-utility customers in mid 2013
- We continue to see strong telecommunications growth
- We are now realising material scale and cost to serve benefits
 - E.g. caching delivering savings of ~\$3m p.a.





We are building value

Total customers by region



Comment

- We are creating a diverse and resilient customer base
- We are creating a high value customer base
- Significant opportunity remains for us

Current connections



273,000
electricity



38,000
gas



89,000
telco

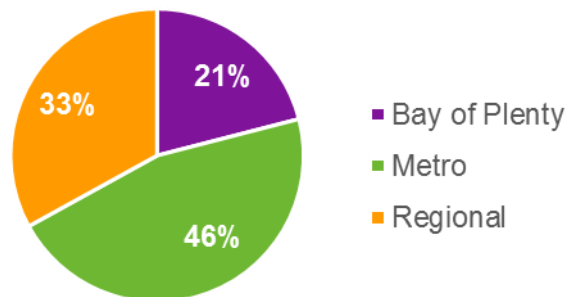


Over 100,000 customers have
more than one product



Differentiated from competition

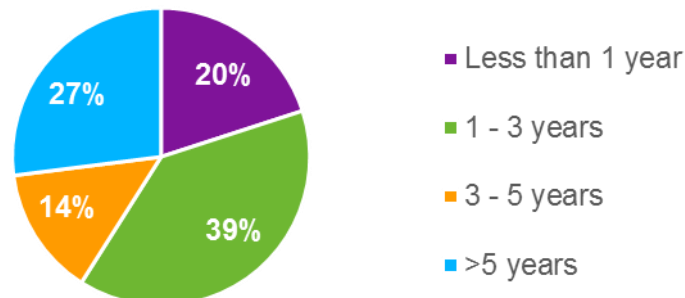
Bundle customers by region



Targeted acquisition

- Growth coming largely from the metros
- Targeted outbound campaigns are seeing 80% of new customers taking two or more products

Bundle customers by tenure



Focused cross sell and retention in FY18

- Over 3,000 existing energy customers added Telco
- 1,200 electricity customers added gas
- 5,600 customers upgraded from DSL to Fibre



Value based offers outperform simple price discounting

Get your choice of 12 months FAN PASS or 24 months NEON

FREE
6 Months Unlimited Data Fibre

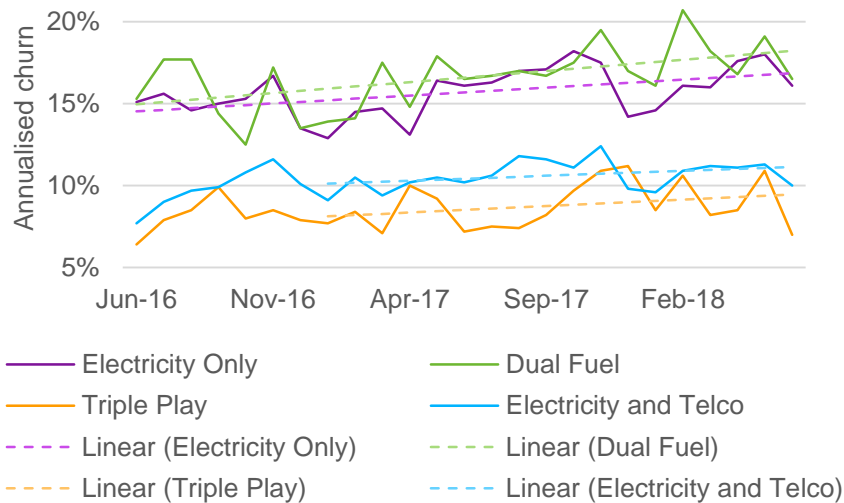
A smart decision deserves a Samsung Home Appliance!

We make it easy...
...for you to enjoy Mt Ruapehu all winter long.

Our acquisition incentive costs are similar to other in market discounts or cash incentives, however value based offers outperform:

- Better sales conversion and lower sales leakage
- Higher energy for consumption and larger data plans driving higher margin per customer
- Lower churn and lower credit risk
- We have a solid suite of offers aimed at our target segments

Electricity only vs multi-product churn





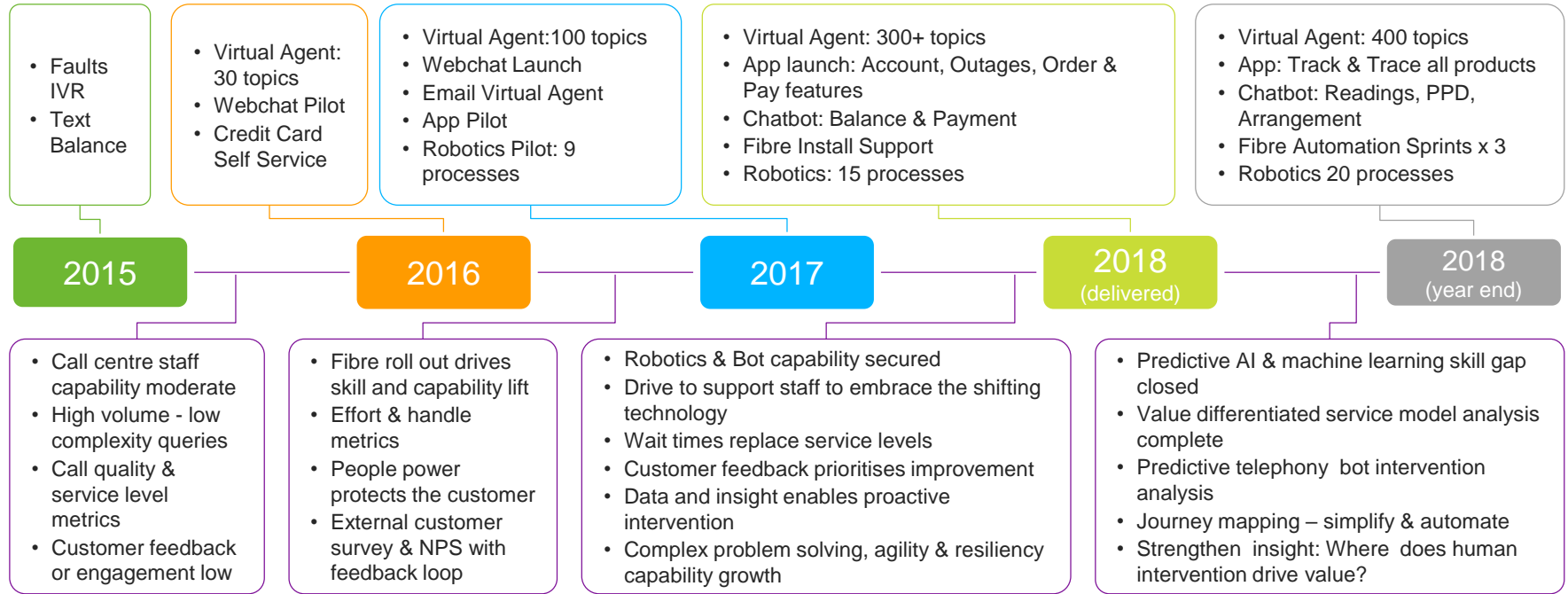
Customer Operations

Fiona Smith – GM Customer Operations





Our digital journey so far...





With measurable outcomes ...

	FY-16	FY-17	FY-18	FY-19 Budget
On Queue FTE	163	160	147	140
Number of services (000s)	270	330	359	375
Services per FTE	1,656	2,061	2,442	2,677
Total contacts (000s)	891	1,018	1,440	1,651
Total staffed contacts (000s)	873	906	937	875
Staffed contacts %	98%	89%	65%	53%
Staffed contacts per FTE	5,355	5,665	6,371	6,249
Labour cost ¹ per service	\$36.41	\$35.23	\$34.96	\$34.07

39% increase in total services with 54% growth in Telco

62% ratio of services to CEA² improvement (mitigating 86 FTE)

85% growth in total contacts

Staffed Volume controlled through digitisation, & efficiency with volume of complexity rising

Labour cost per service decreasing

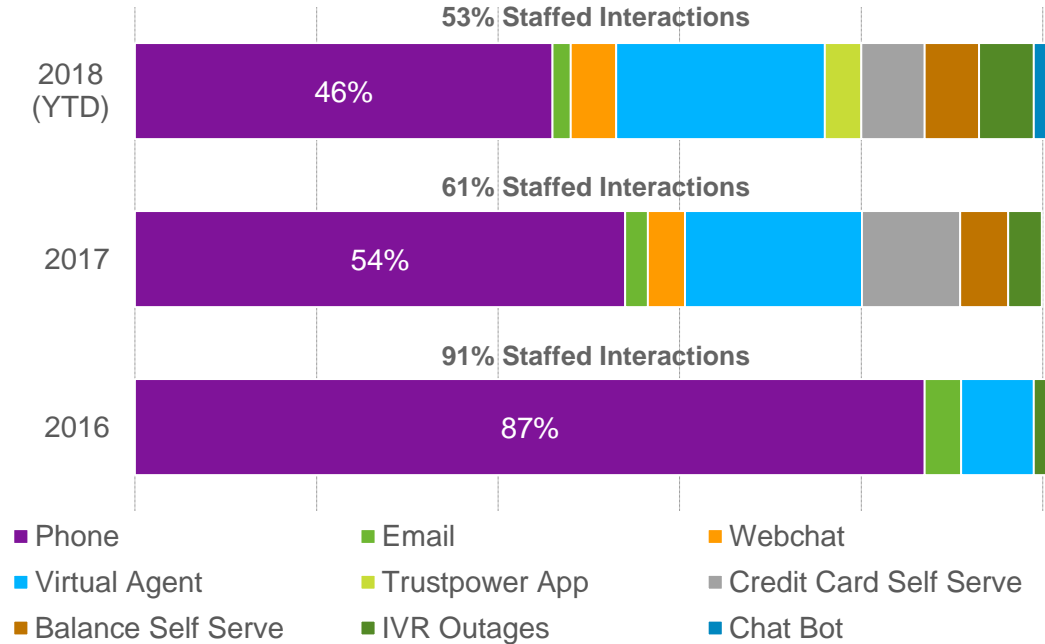
1. Labour cost : Total salary cost of the Service, Provisioning, Billing, Cash & Collections Teams

2. CEA = Customer Experience Agent or call centre staff member



And digital success...

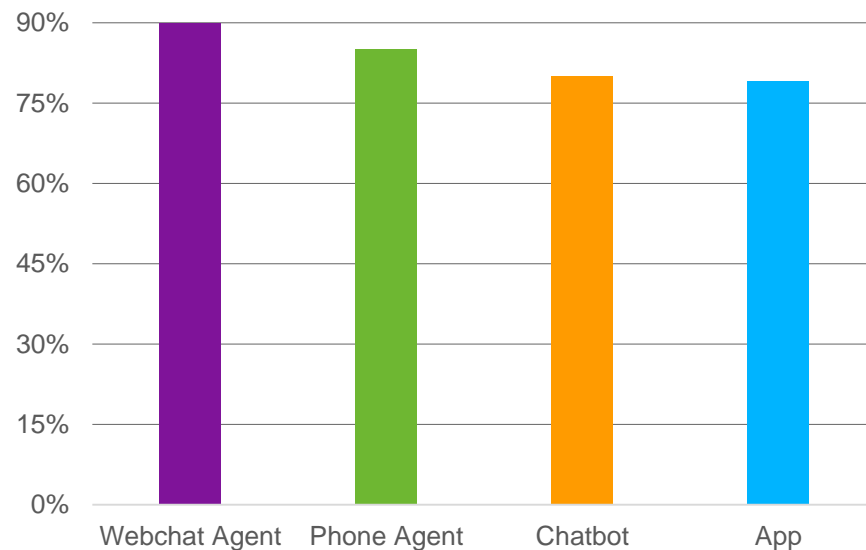
- 47% of all customer contacts are now serviced without human intervention
- Goal to reduce staffed contacts by another 12% across the next 18 months & reduce on queue FTE by 10%
- Delivering a hybrid staffed/non-staffed model with a focus on value add human interactions



While getting the balance right...

- Non Staffed interactions receive customer satisfaction ratings on par with agent channels
- Automating with a full understanding of the consequences
- Analysis supports our conviction that staffed channels remain important
- Staffed channels focus on the moments that matter, the complex and the emotional, where propensity to churn spikes

Satisfaction ratings by channel

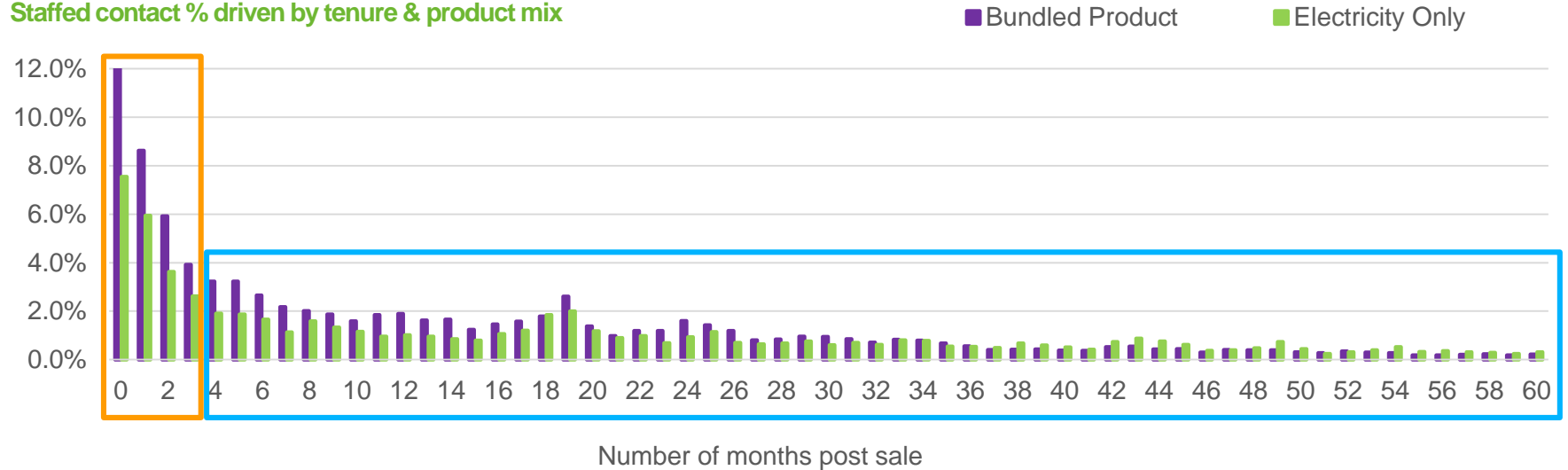




And we know where to tackle next...

Bundled customers drive higher contacts up front (Cost to Acquire) but in line with electricity-only customers longer term.

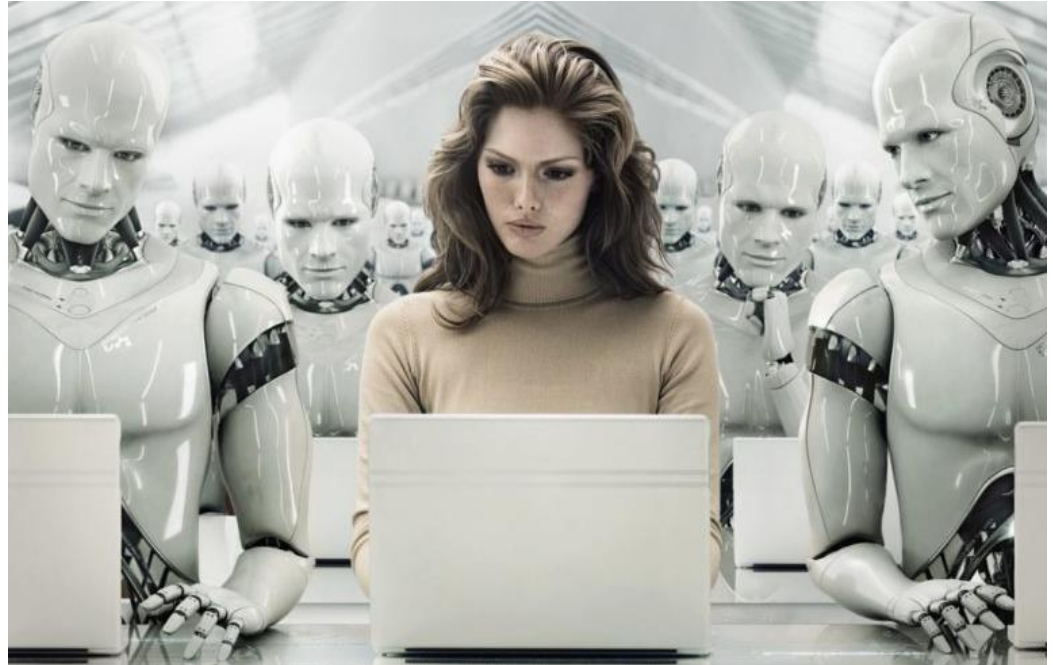
Staffed contact % driven by tenure & product mix





And building capability...

- Driving the human-robot relationship takes careful planning & collaboration
- Starting early & experimentation builds new capability & supports agility
- Understanding that sometimes human contact is the answer, not the problem & building their capability to adapt





To deliver on our convictions

**We become
more effective**



Robotics
Simplification
Ease of effort

Faster

**We become
more efficient**



Automation
Prescriptive AI
Digitisation
Insight led

Cheaper

**& maximise
human connection**



Customer centred
Relationship focussed
Proactive personalisation

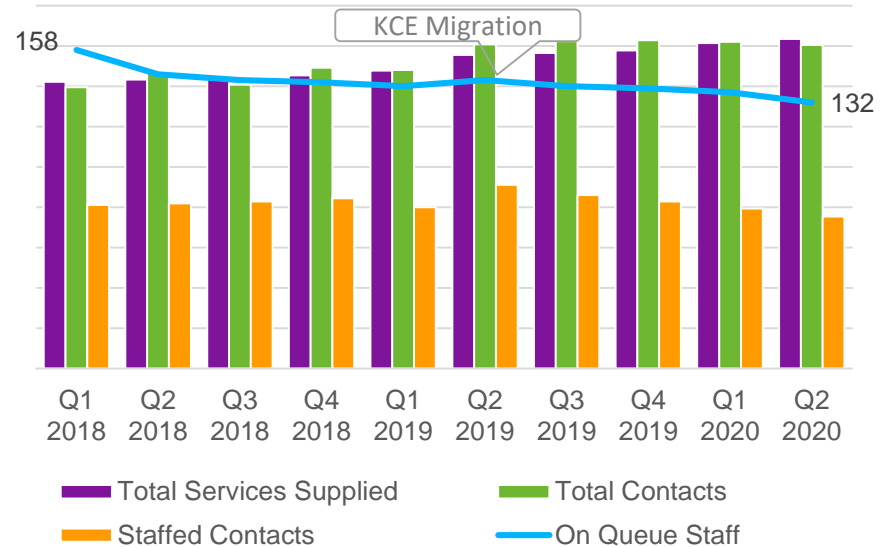
Valued



...and aspirations

- Reduce staffed contacts from 53% to 40% enabling efficient service growth & focussing human interactions on the moments that matter
- Reduce on-queue FTE by increasing their productivity by at least 10% (services/FTE)
- More than double the amount of automation in telco provisioning
- Support 13,000 ex KCE customers (17,000 ICP) with no back office FTE increase & on queue lift of 4 FTE
- Deliver back office initiatives delivering savings of \$600,000 +

Forecast on-queue staffing & volumes





Energy and Regulatory Risk

Peter Calderwood – GM Strategy and Growth





Portfolio strategy

Key focus areas

Strategic regulatory Issues

- Joined up thinking within Government
- Climate change and move to low emissions economy
- Evolution of gas and telco regulatory governance arrangements
- Water allocation and quality
- Electricity Price Review
- Tax Working Group
- Ongoing TPM work

Energy risk management

- Making sure energy risk management maximises EBITDA within acceptable volatility
- Continuing to improve generation dispatch to maximise revenue
- Co-optimisation of:
 - Energy
 - Avoided Cost of Transmission
 - Reserves
 - Demand Side Management

New opportunities

- Potential M&A Opportunities
- Divestment where other owners are better fit
- Continuous scanning of new technology and products for existing customers



Climate change and low emissions economy

Key focus areas

Trustpower's Position

- Trustpower supports the now bi-partisan view that New Zealand should significantly reduce its green house gas emissions.
- Decarbonisation of other sectors will lead to increase in electricity gross demand.
- The transition to a new normal will be turbulent and needs careful and deliberate policy and regulatory governance to minimise disruption, and protect the interests of investors

Key Areas for Involvement

- Productivity Commission
- Climate Change Commission (Zero Carbon Bill)
- Joined up thinking across Government organisations
 - Recognise the positive impact of existing hydro generation on NZ's Emissions footprint
 - Linkage to Water Reform (incl. via tax reform)
- Market structures for transition to new normal

Opportunities

- New storage and generation technologies – both grid connected and behind the meter
- Enhancement of existing assets to support new intermittent generation
- Participation in new markets



Electricity price review

Key focus areas

Trustpower's Position

- The current market functions well.
- The review is a valuable opportunity to fine-tune industry governance
- Trustpower continues to support competition as the most effective way of delivering the best outcome to consumers.
- Ideal opportunity for a review of governance arrangements for a new future energy mix.

Key Areas for Involvement

- Contribute to the review to assist the Government to deliver more effective outcomes particularly for vulnerable customers.

Opportunities

- Leverage from Trustpower as a knowledgeable and long term retailer



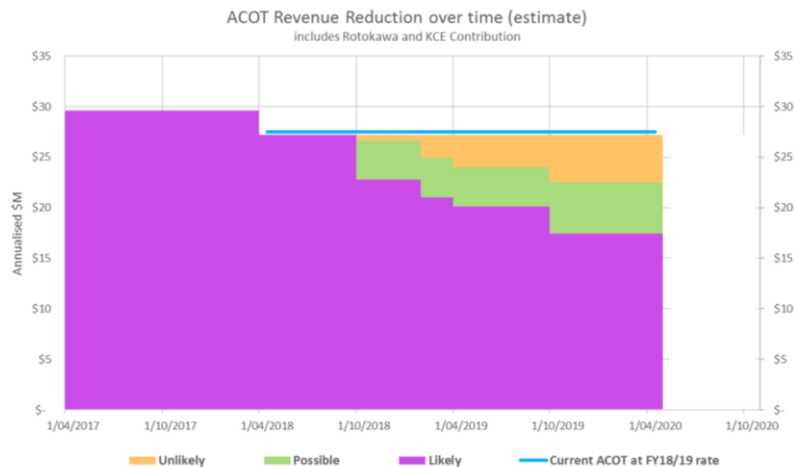
Review of DGPPs (ACOT payments)

Assessment of ongoing ACOT (Avoided Cost of Transmission) payments

- Electricity Authority's final decision announced 6 December 2016
- Lower SI review complete
- Lower NI proposed beneficiaries published and presently subject to consultation
- Outcomes are in line with previous guidance.

Current Trustpower estimate of future ACOT revenue

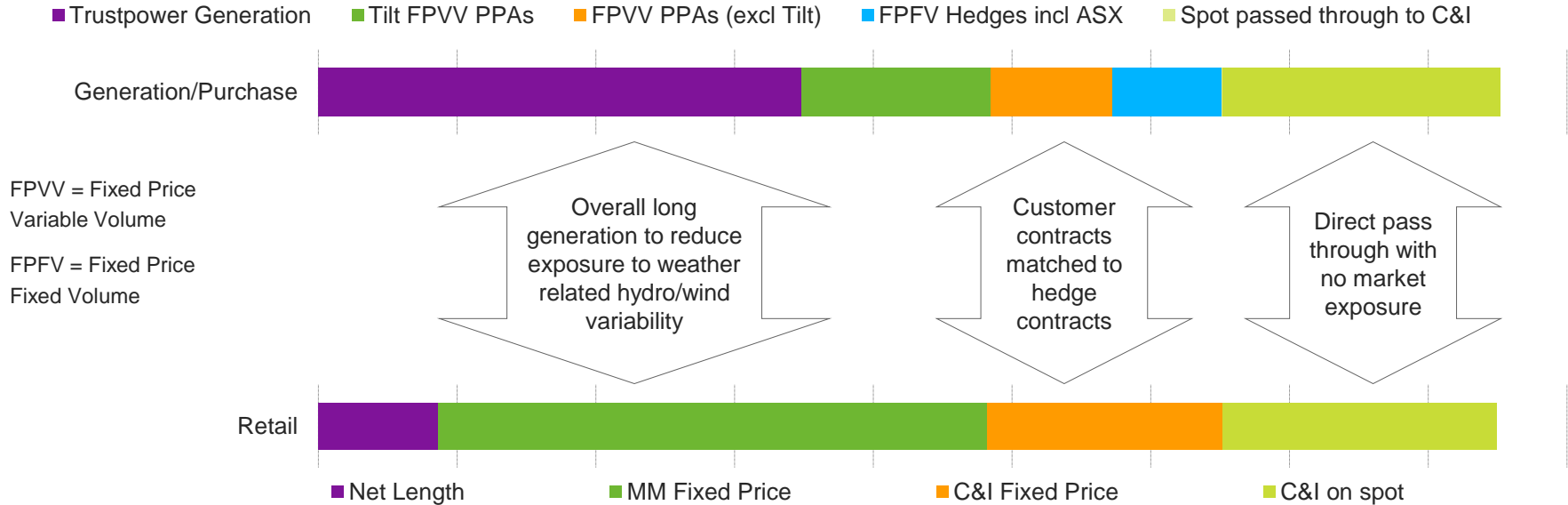
ACOT revenue reduction over time (estimate), incl. Rotokawa and KCE Contribution





Balanced exposure to wholesale risk

Overview of a typical year





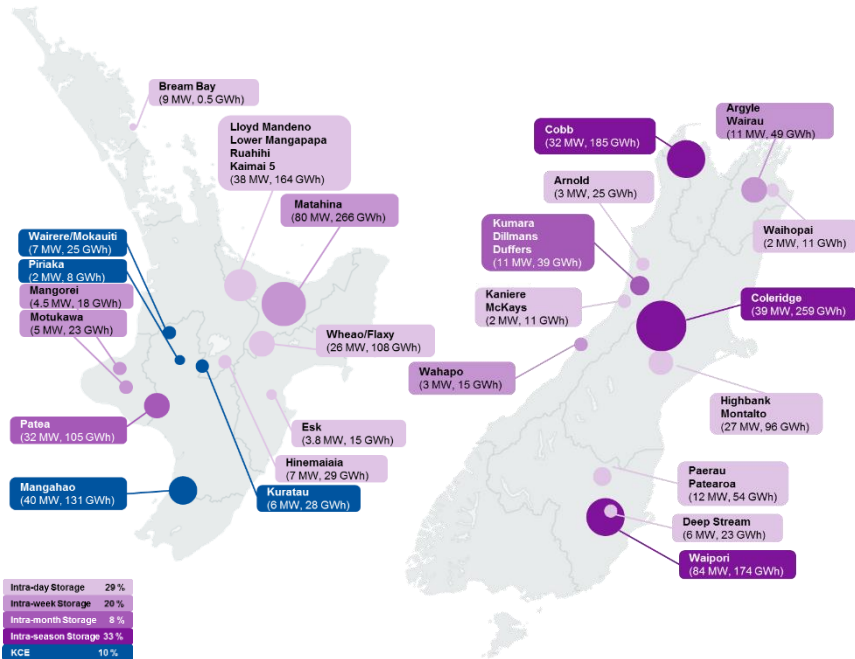
Generation Overview

Stephen Fraser – GM Generation





Generation portfolio – provides efficient, flexible risk management



43

hydro power stations across

26

schemes

75%

shareholding in King Country Energy

496MW

total NZ installed generation capacity

20%

shareholding in Rangitata Diversion Race Management Limited (New Zealand's largest irrigation scheme)

75% - 80%

of Trustpower's EBITDAF is provided by the NZ generation business

Flexible and low marginal cost

portfolio benefits from market firming and able to optimise growth, hold or divest





We will continue to drive portfolio profitability & manage risk in the near term through a number of different focus areas

Key focus areas

Maximizing portfolio profitability

- Continuous improvement and focus on revenue growth with an eye on cost efficiencies
- Improved project/programme delivery and supply chain optimisation

Our licence to operate and risk management

- Focus on health, safety and the environment, dam/civil safety – delivering our ‘licence to operate’ agenda

Asset efficiency

- Targeted asset management practices that focus on the efficiency, reliability and availability of our highest value assets
- Improving asset management maturity – more data and analytics, predictive and preventative focus

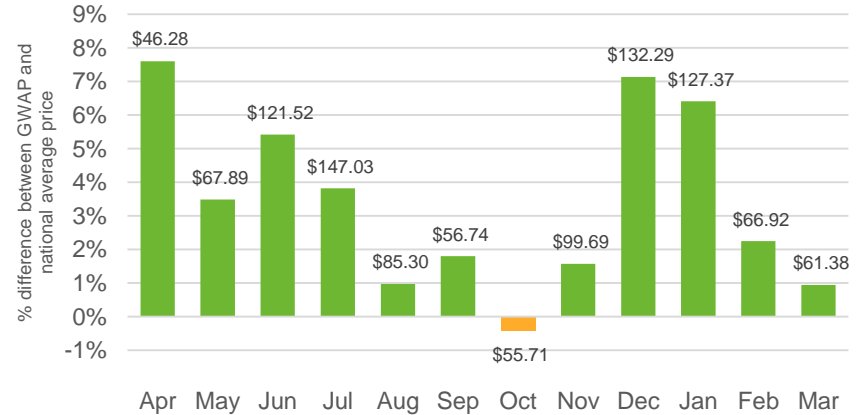
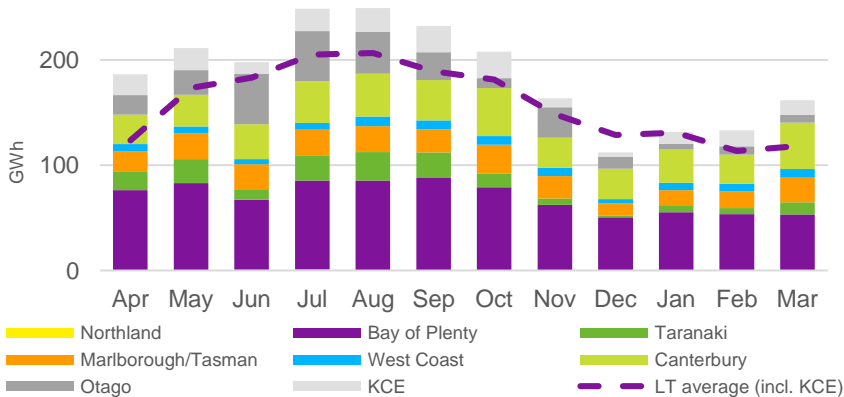
Identifying new generation opportunities

- Sharper focus on development: ‘brownfield’ enhancement and ‘greenfield’ growth by keeping an eye out for the right opportunities



Generation portfolio – outperforms market

- Strong output from NI schemes in FY18; our geographically diverse spread of generation stabilises our output against regional hydrology.
- This enabled us to outperform market expectations of price for the majority of the financial year while our competitors experienced difficult portfolio positions in the South Island.
 - Our average monthly Generation Weighted Average Price (GWAP) was 3.4% higher than the national average price.





Matahina G1 refurbishment + enhancement – case study

- Refurbished second-hand 56 MVA Transformer replaced end-of-life single-phase transformers – total installed cost of \$1.5m versus \$3-5m for a new transformer
- Investigations initiated for a Low-flow Turbine to increase total station GWh

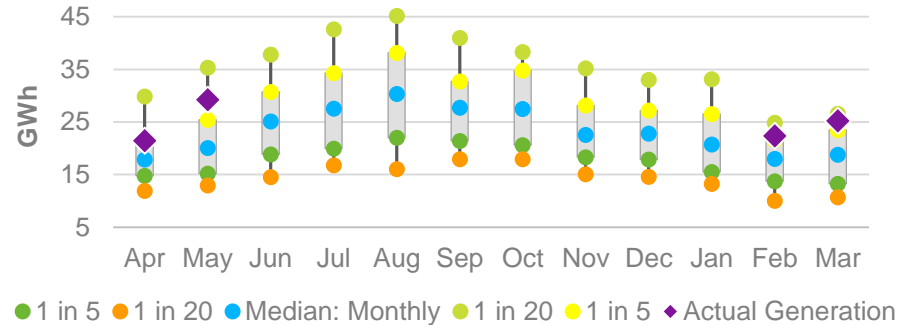


Transformer lifted onto trailer for short journey to switchyard



Installed in final location in switchyard

Matahina – based on actual generation



Matahina Station (In top 5 highest value in portfolio):

- Outage timed to minimise lost generation
- Concurrent major rotor refurbishment works
- ‘Healthy’ outage concept with good H&S results

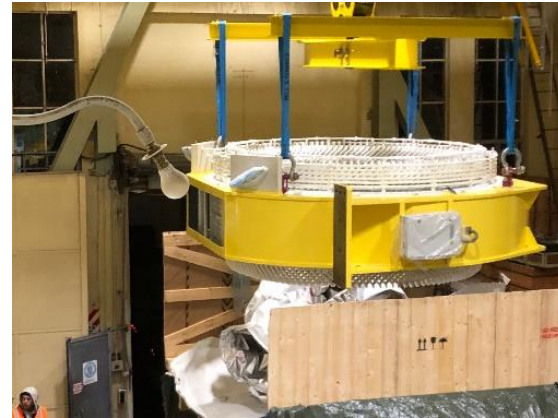


Coleridge G2 & G3 generator replacement

- Condition assessment and Asset Management Plan identified Coleridge Generators G2 & G3 (12 MW each) as two of our six top-earning machines, but being in very poor condition
- International tendering process to select preferred supplier and installer
- Optimal timing for generator replacement balanced the risk of failure (lost revenue) with the benefit of delay (project cost).



New G3 rotor awaiting installation



G3 stator being lifted into station



People, Culture and Communication

Mel Dyer – GM People & Culture





Building organisational capability

Key Capabilities

Driving action based on data, analytics and insight

Delivering products, propositions, and service that meet our customers' needs.

Building, maintaining and leveraging strong, positive relationships with our stakeholders.

Keeping our workforce and contractors safe and well

Fostering an open organisational culture with a collective learning focus.



People capability to execute on future opportunities

Key Capabilities

Future organisational capability

- Targeted development to strengthen resiliency, leadership, and collaboration for better business outcomes
 - Over 50% of Leadership program spots taken by women in the last 4 years
- Focus on cross functional teams to match our customers' experience and to deal with increasing complexity
- Fast business improvement skills development
 - Focusing on driving efficiency and a better outcome for our customers
- Internal Facilitators trained to help groups work in different ways and break down barriers

<https://www.trustpower.co.nz/Getting-To-Know-Us/Working-For-Trustpower>



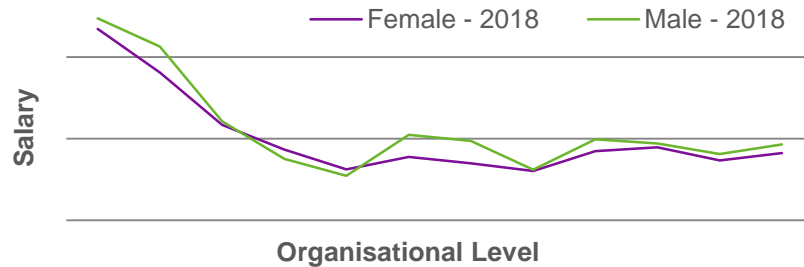


Focus on diversity to build capability and drive success

Diversity for adaptability and flexibility

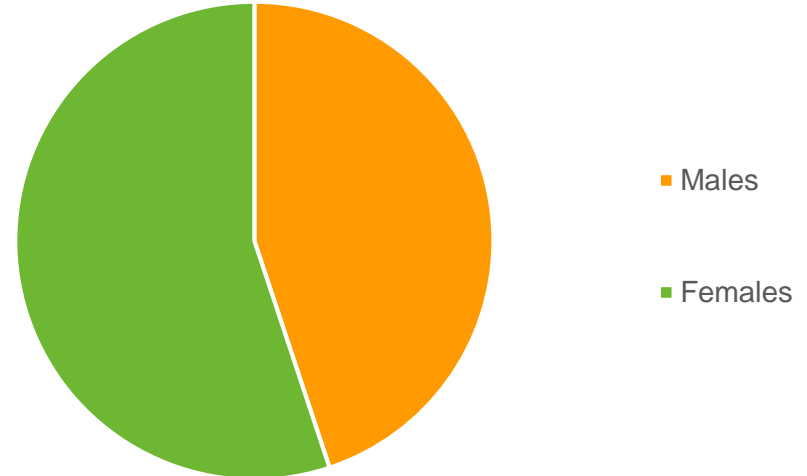
- Recent review of our remuneration has ensured we are competitive - but with no desire to be the highest payer in our markets
- Focus is on providing an environment where people can flourish
- analysis of the pay gap between males and females for the same position shows no significant difference between genders

Male v female remuneration, 2018



Demographics

Gender balance

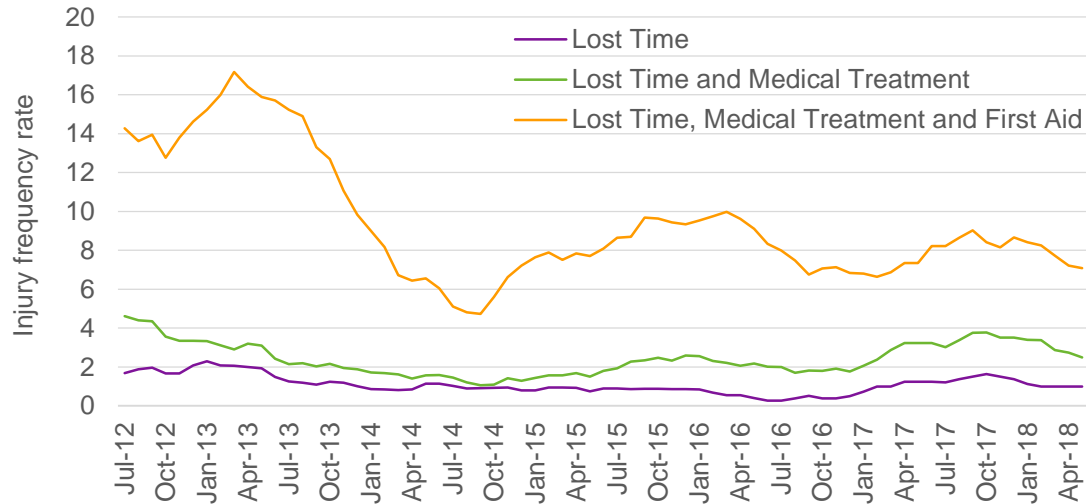




Safety and wellbeing

Keeping our workforce safe and well

Injury frequency rates per 200,000 hours worked - 12 month rolling average



Key focus areas

- Completed production of new Safety Management System
- New incident reporting system implemented with better reporting for root cause diagnosis
- Public Safety accreditation maintained
- Wellbeing initiatives in major projects
- New in car monitoring system implemented
- Participation in industry StayLive forum



Maintaining a strong community presence which recognises the value of being a good corporate citizen



Community Awards

13 regional and 1 national Community Awards events held annually to celebrate the work of volunteers and community groups



Generation team
tree planting



Sponsorship of the TECT
Rescue Helicopter



Lend a Hand
Foundation





A range of efforts are helping build and maintain positive relationships with our key stakeholder groups



Enhancement funds that provide for local environmental, cultural and community projects in the catchments Trustpower operates



Fisheries management – including eel management programmes, trout release in some catchments, and ongoing fish passage investigations and initiatives



This year Trustpower received an environmental management accreditation from BRAID in recognition of the work undertaken on the Rakaia River to restore braided river bird habitat





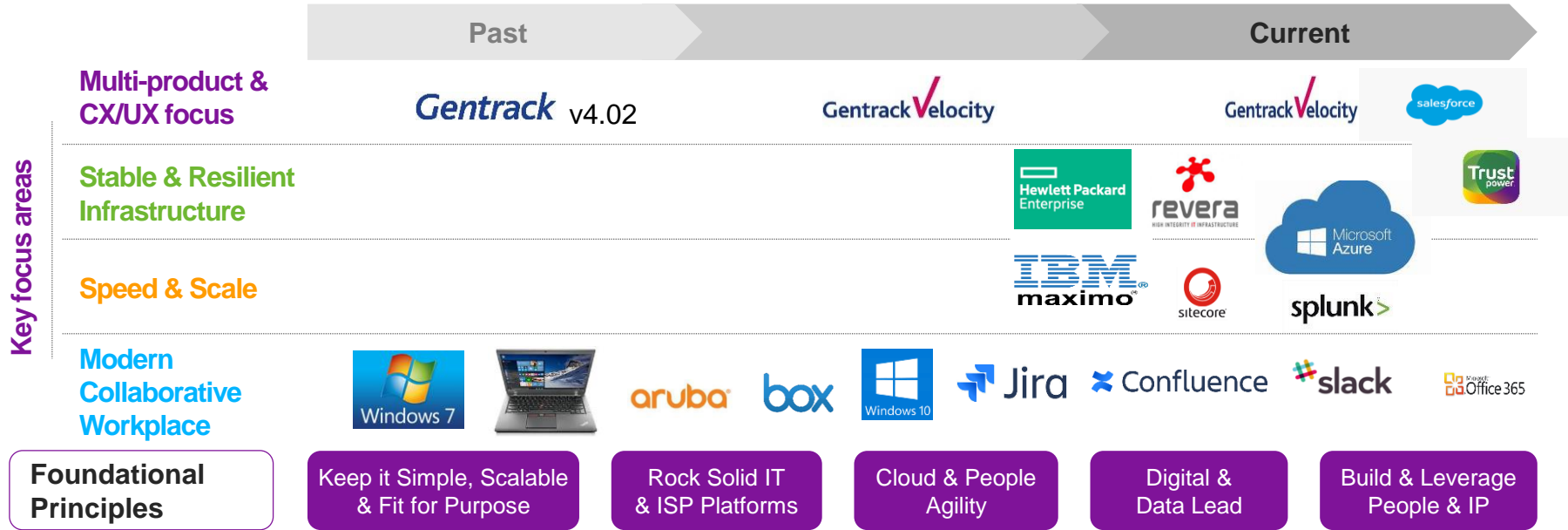
Digital Platforms

Simon Clarke – GM Business Solutions & Technology



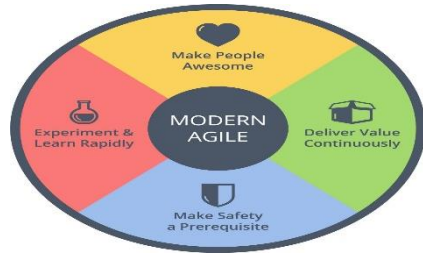


Our responsive tech foundations will underpin our evolution to a future ready digital business





We are transitioning to an agile delivery model focused on value and user & customer experience (UX/CX)



Nine cross-functional teams working in sprints with quarterly reviews

Work prioritised by business owners based on value & impact with long term strategic goals in mind

Digitising operations

Based on insight & focused on automating processes and lowering costs across the business

Examples

Chorus B2B integration

- enabling fibre install support
- ~\$160K cost for \$500K pa saving

Baseband IP Migration

- ~27,000 telco customers
- <\$400K cost for \$~2.75M pa saving

Digitising UX/CX

Based on market insight and user and customer response

Examples

Customer App

- >12,000 downloads
- >5000 contacts mitigated

Webchat

- ~10,000 interactions/month

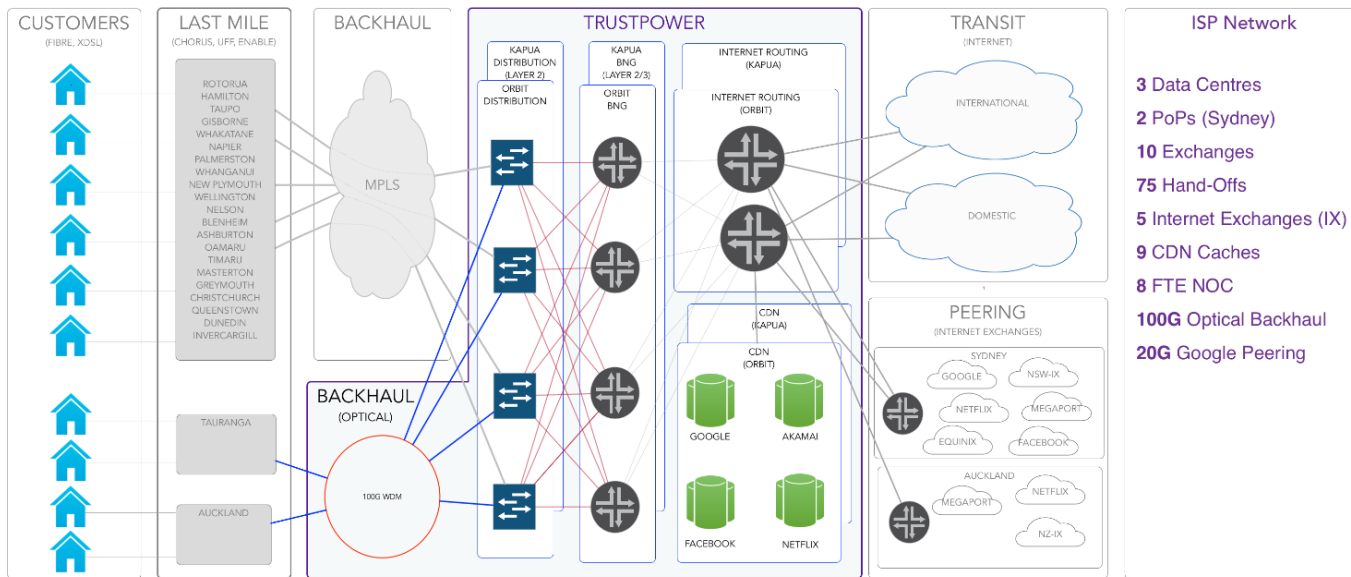
AI Chatbot

- ~2,000 interactions/month





We have a scalable & modern ISP platform & capability



- ISP Network**
- 3 Data Centres
 - 2 PoPs (Sydney)
 - 10 Exchanges
 - 75 Hand-Offs
 - 5 Internet Exchanges (IX)
 - 9 CDN Caches
 - 8 FTE NOC
 - 100G Optical Backhaul
 - 20G Google Peering

Optical backhaul gives us more control & visibility in key markets

Increasing caching & Trans Tasman peering capability provides better customer experience & reduces international bandwidth and input costs

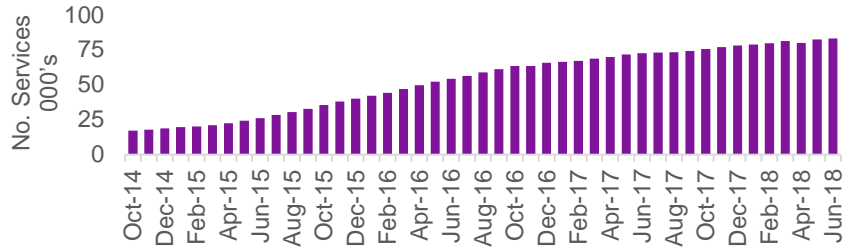
In-house ISP Network Operations Team means less reliance on upstream vendors and closer connection to customer



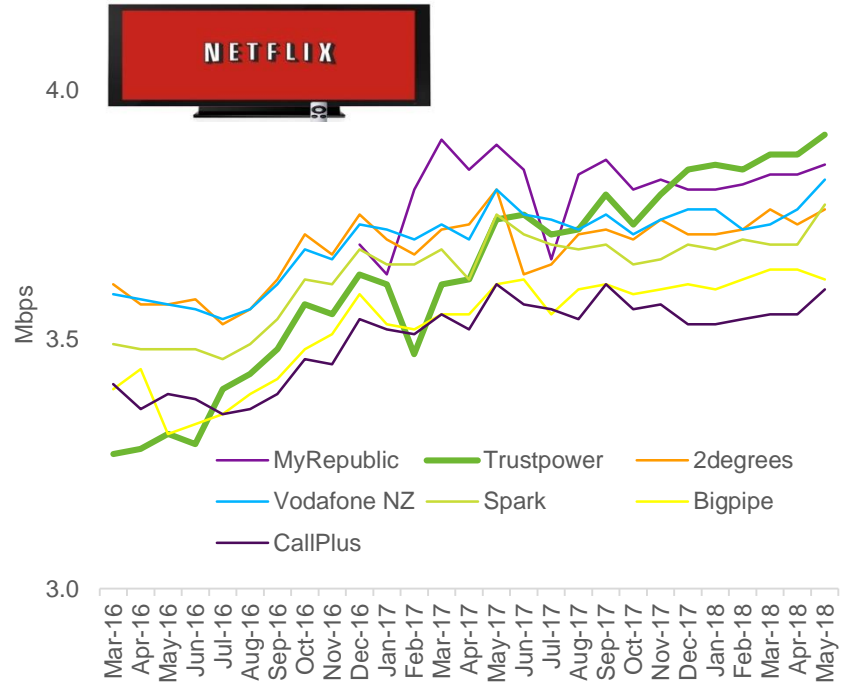
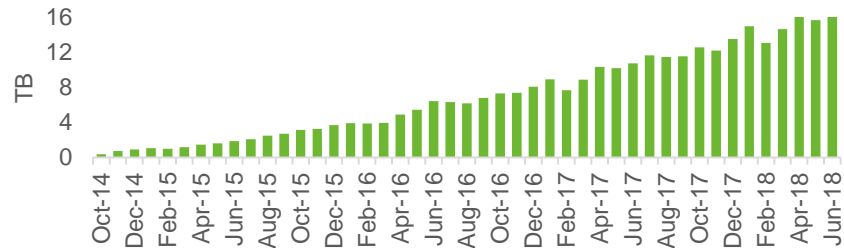


Our ISP network has supported significant growth & is NZ leading

Total services



Total bandwidth

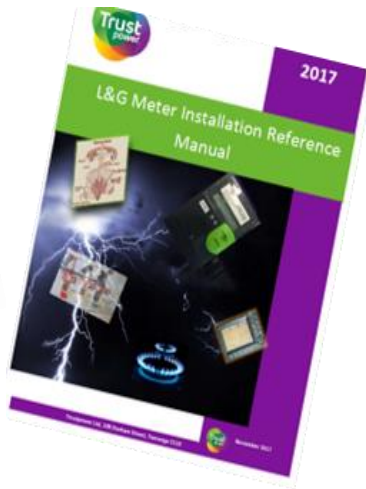


<https://ispspeedindex.netflix.com/country/new-zealand>





We are last to the dance on smart meters - but best dressed



- Cost based business case (only now just making sense)
- Partnership with Australasian metering technology & service company L+G/intelliHub
- “Proof of Performance” over the last 12 months to test technology & business processes - complete
- Internal development of fit for purpose & scalable meter data management (MDM) platform - complete
- 3 year deployment programme - commenced



Finance Overview and Wrap up

Kevin Palmer– Chief Financial Officer

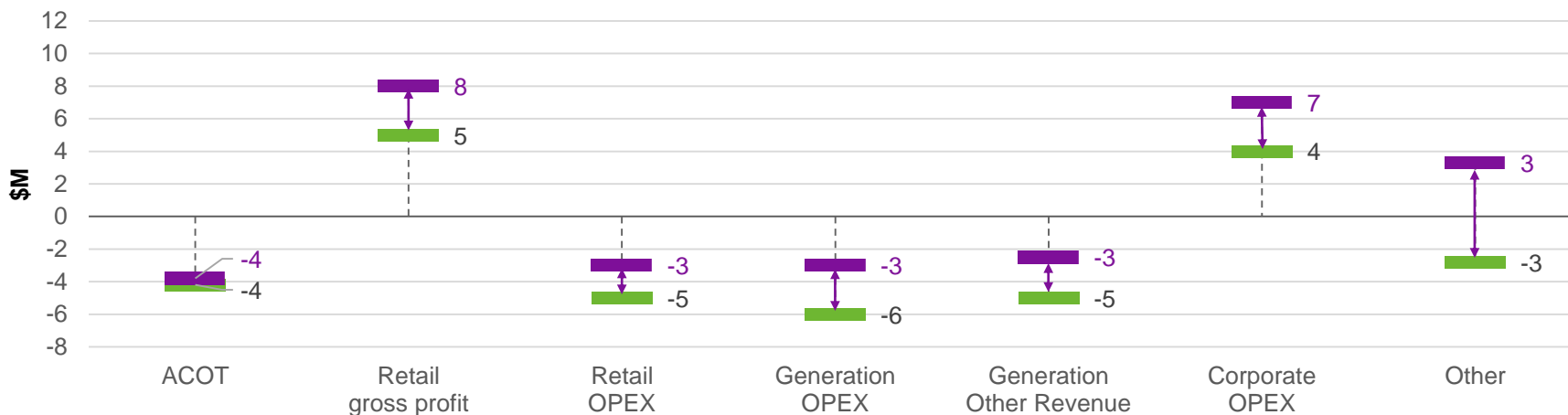




FY19 guidance remains unchanged

After normalising for the sale of our Australian (GSP) assets (~\$27m) and abnormal hydrology during FY18 (~\$20m), we retain our current EBITDAF guidance of \$205-\$225m:

FY18 to FY19 Bridge – Difference (range) from FY18



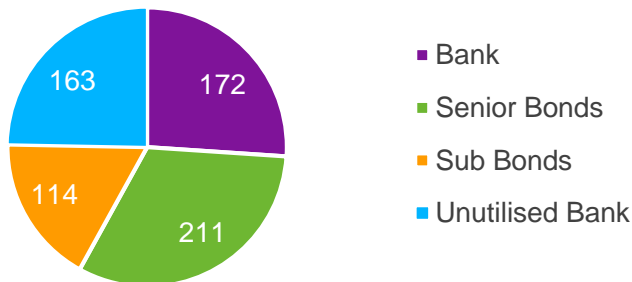


Debt position

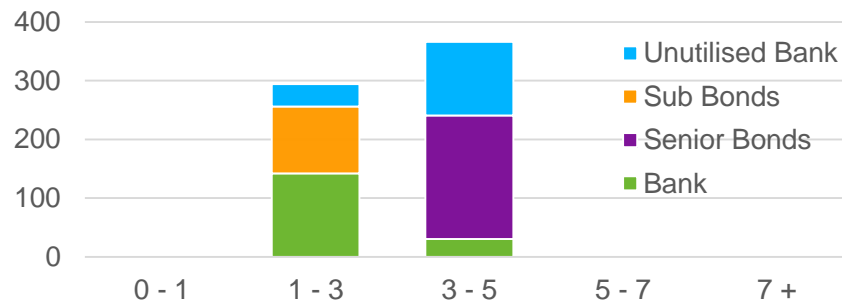
Key comments

- Debt levels forecast to be ~2x Debt/EBITDA and are below industry peers. A capital distribution programme is being considered by the Board to return Trustpower to 2.5x-2.8x debt/EBITDAF over time.
- The average tenor of debt is shorter than ideal but is not a real concern at these debt levels – while not seen as urgent Trustpower is considering a debt capital market issuance.

Sources of debt (\$m)



Debt maturity (\$m)





Summary of key messages

Our retail business is well positioned

- Our differentiated bundled strategy is adding value with a significant growth opportunity due to the fibre rollout
- Being a value led rather than price lead competitor is a long term sustainable and profitable position
- We have made significant progress in our digital strategy and are well positioned for the digital future

We have developed a high level of capability that gives us the flexibility and agility to perform well in a changing future

- A highly capable organisation that focuses on collective learning and fast decision making
- A strong focus on the communities in which we operate and a commitment to be a positive contributor
- Agile and flexible technology platforms that support our commitment to digital initiatives
- We are extracting significant scale benefits from our telco platform

Our generation assets are well placed to capitalise on a renewable future

- Geographical diversity and high levels of availability

We are facing a high level of regulation both in energy and in telco

- It is yet to be seen if this will be a positive or negative for Trustpower. However we are fully engaged and believe we have the flexibility and capability to prosper whatever the outcome.

We are well positioned to grow both organically and through acquisition



Thank You



Non-GAAP Measures

- 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. The EBITDAF shown in the financial statements excludes the Australian business which is a discontinued operation.
- Reconciliation between statutory measures of profit and EBITDAF, as well as EBITDAF per the financial statements and total EBITDAF, is given below:

	2017	2018
Operating Profit	141,883	191,068
Fair value losses / (gains) on financial instruments	(3,825)	2,675
Impairment of assets	3,479	5,099
Depreciation and amortisation	44,742	44,242
Discount on acquisition	-	-
EBITDAF per financial statements	186,279	243,084
EBITDAF of Australian business	31,552	26,684
Reclassification of foreign currency translation reserve	-	(3,022)
Total EBITDAF	217,831	266,746

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