

# INTERIM REPORT

## 31 DECEMBER 2007



### TRUSTPOWER LIMITED RESULT FOR THE NINE MONTHS ENDED 31 DECEMBER 2007

TrustPower's unaudited after tax profit for the nine months to 31 December 2007 was \$78.9 million, compared with \$87.6 million as restated for NZIFRS adjustments, for the same period last year. The result for the period includes a reduction in tax expense of \$4.5 million attributable to a lower deferred tax liability arising from the change in the corporate tax rate from 33 per cent to 30 per cent effective from 1 April 2008. Earnings before Interest, Tax, Depreciation, Amortisation, and Fair Value Movements of financial instruments ("EBITDAF") were \$161.8 million versus \$161.0 million for the prior period.

The trading environment for the nine months to 31 December 2007 has seen a continuation of the weak hydro inflows and lower than average electricity spot prices experienced throughout the financial year to date. This was in contrast to the trading conditions experienced by the Company during the previous year when hydro inflows were significantly higher but in line with the long term average.

TrustPower's own generation assets produced 1,600 GWh for the nine months versus 1,570 GWh in the prior period. Wind production has been higher for the nine month period than the previous period, boosted by the commissioning of the 93MW expansion of the Tararua Wind Farm. Hydro generation was well down on long term average and was 180 GWh lower in the nine months compared with the prior period. TrustPower's hydro generation storage catchments are close to average levels in the South Island but are currently well below average levels in the North Island.

Electricity customer numbers were up slightly at 221,000 as at 31 December 2007. Total electricity sold to customers in the nine months totalled 3,475 GWh compared with 3,508 GWh sold in the prior period.

Telecommunication customers have increased to 22,000 from 16,000 at the end of the last quarter.

The Company's balance sheet remains strong. The ratio of debt to debt plus

equity was 32 per cent as at 31 December 2007 up from 28 per cent at the same time the previous year.

Construction on the 5 MW Deep Stream, Otago hydro generation scheme has been slower than projected due to adverse weather conditions and commissioning is now expected during March.

Provisional resource consent has been received for the 72 MW Wairau hydro generation scheme in Marlborough. However, a further process is required to determine the specific conditions of the consent. The hearing to determine the conditions of consent is currently underway. Once conditions have been finalised, subject to appeal, the Company will re-assess project economics.

The resource consent hearing for up to 46 MW of hydro generation at Arnold, on the West Coast, has recommenced during January 2008.

The resource consent decision approving the 200 MW Lake Mahinerangi wind project in Otago has been released.

The Company is currently working through the appeal process and appeals to the Environment Court are scheduled to be heard in April 2008.

A resource consent application for up to 240 MW of wind generation at Kaiwera Downs in Southland was lodged in November 2007 and a resource consent hearing is scheduled to begin at the end of March 2008.

TrustPower continues to actively assess other wind and hydro generation opportunities, particularly in the North Island.

The first wind turbine at Snowtown in South Australia was erected and commenced operation prior to the end of 2007. The remainder of the project schedule is on track with progressive erection and commissioning of turbines expected during the period March to November 2008.

TrustPower has reached agreement with Suzlon Energy Australia to provide an additional five S88 2.1 MW wind turbines for the Snowtown site, in addition to the 42 turbine wind farm presently under construction. This will increase the total capacity of the wind farm to 98.7 MW with an annual expected production of 390 GWh. The expanded wind farm has been granted an amendment to the existing generation licence issued by the Essential Services Commission of South Australia. The forecast project cost, including capitalised interest, is now expected to be approximately AUD 215 million. The additional wind turbines are expected to be commissioned within the original construction timetable.

The Board has resolved that TrustPower will cease reporting on a quarterly basis from the end of the 2008 financial year. TrustPower will continue to provide an operations report and an update on progress of generation development projects on a quarterly basis.

The result for the nine months to 31 December 2007 was satisfactory given the lower than average level of hydro generation produced. At this stage the Directors are confident that the business fundamentals are sound, which augurs well for a satisfactory annual result.



**BJ HARKER**  
CHAIRMAN

## CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2007

	NOTE	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
<b>OPERATING REVENUE</b>				
Electricity sales		489,851	486,007	617,707
Meter rental revenue		2,865	2,602	3,523
Other customer fees and charges		2,902	2,911	3,891
Telecommunications sales		9,121	600	675
Other revenue		1,042	369	521
<b>TOTAL REVENUE</b>		<b>505,781</b>	<b>492,489</b>	<b>626,317</b>
<b>OPERATING EXPENSES</b>				
Energy costs		120,106	123,979	160,391
Generation production costs		19,573	15,019	20,787
Line costs		146,707	145,220	186,552
Market fees and costs		11,363	11,077	14,282
Meter rental costs		1,957	1,750	2,408
Other customer connection costs		730	743	1,075
Salary and wage costs		18,583	15,573	20,819
Telecommunications cost of sales		6,522	557	598
Other operating expenses		18,420	17,550	22,974
		<b>343,961</b>	<b>331,468</b>	<b>429,886</b>
<b>EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION AND FAIR VALUE MOVEMENTS OF FINANCIAL INSTRUMENTS (EBITDAF)</b>		<b>161,820</b>	<b>161,021</b>	<b>196,431</b>
Fair value gains on financial instruments		(2,176)	(1,648)	(1,975)
Amortisation of intangible assets		3,736	3,206	4,227
Depreciation		20,202	17,856	23,826
<b>OPERATING PROFIT</b>		<b>140,058</b>	<b>141,607</b>	<b>170,353</b>
Interest paid	9	30,240	21,468	28,940
Interest received	9	(750)	(1,196)	(1,584)
Net finance costs		<b>29,490</b>	<b>20,272</b>	<b>27,356</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>110,568</b>	<b>121,335</b>	<b>142,997</b>
Income tax expense	12	31,638	33,740	40,869
<b>PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>		<b>78,930</b>	<b>87,595</b>	<b>102,128</b>
Earnings per share (cents per share)		25.0 cents	27.8 cents	32.4 cents
Diluted earnings per share (cents per share)		24.9 cents	27.7 cents	32.3 cents

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD ENDED 31 DECEMBER 2007

	NOTE	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
<b>Net fair value gains/(losses):</b>				
- Generation assets		-	-	418,021
- Cash flow hedges (including electricity price derivatives)		(6,829)	(53,316)	(55,037)
<b>Effect of change in corporate tax rate on:</b>				
- Revaluation reserve		12,840	-	-
- Cash flow hedge reserve		(206)	-	-
Currency translation differences		(28)	-	-
Movements in employee share option reserve		(30)	63	63
<b>NET INCOME RECOGNISED DIRECTLY IN EQUITY</b>		<b>5,747</b>	<b>(53,253)</b>	<b>363,047</b>
Profit for the period		78,930	87,595	102,128
<b>TOTAL RECOGNISED INCOME FOR THE PERIOD ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>84,677</b>	<b>34,342</b>	<b>465,175</b>

The Board of TrustPower Limited authorised these Interim Financial Statements for issue on 31 January 2008.

The accompanying notes form part of these interim financial statements

## CONSOLIDATED INCOME STATEMENT

### FOR THE PERIOD ENDED 31 DECEMBER 2007

NOTE	UNAUDITED 3 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 3 MONTHS DECEMBER 2006 \$000'S
<b>OPERATING REVENUE</b>		
Electricity sales	147,373	137,167
Meter rental revenue	981	890
Other customer fees and charges	1,107	988
Telecommunications sales	3,446	37
Other revenue	452	121
<b>TOTAL REVENUE</b>	<b>153,359</b>	<b>139,203</b>
<b>OPERATING EXPENSES</b>		
Energy costs	34,818	29,610
Generation production costs	6,559	5,164
Line costs	44,686	43,036
Market fees and costs	4,087	3,000
Meter rental costs	675	500
Other customer connection costs	215	190
Other fixed, intangible and investment asset charges	-	(664)
Salary and wage costs	6,026	5,252
Telecommunications cost of sales	2,486	20
Other operating expenses	8,155	6,259
	107,707	92,367
<b>EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION AND FAIR VALUE MOVEMENTS OF FINANCIAL INSTRUMENTS (EBITDAF)</b>	<b>45,652</b>	<b>46,836</b>
Fair value (gains)/losses on financial instruments	(735)	123
Amortisation of intangible assets	1,257	1,020
Depreciation	7,711	5,961
<b>OPERATING PROFIT</b>	<b>37,419</b>	<b>39,732</b>
Interest paid	(i) 10,246	6,673
Interest received	(i) (260)	(838)
Net finance costs	9,986	5,835
<b>PROFIT BEFORE INCOME TAX</b>	<b>27,433</b>	<b>33,897</b>
Income tax expense	(ii) 8,754	5,216
<b>PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>	<b>18,679</b>	<b>28,681</b>
Earnings per share (cents per share)	5.9 cents	9.1 cents
Diluted earnings per share (cents per share)	5.9 cents	9.1 cents
<b>(i) FINANCE INCOME AND COSTS</b>		
	<b>UNAUDITED 3 MONTHS DECEMBER 2007 \$000'S</b>	<b>UNAUDITED 3 MONTHS DECEMBER 2006 \$000'S</b>
Amortisation of debt issue costs	239	211
Interest paid on unsecured bank loans	6,902	1,313
Interest paid on unsecured subordinated bonds	4,543	6,358
Other interest costs and fees	(185)	-
Interest capitalised in construction of fixed assets	(1,253)	(1,209)
<b>TOTAL INTEREST PAID</b>	<b>10,246</b>	<b>6,673</b>
Interest received on cash at bank	260	838
<b>TOTAL INTEREST RECEIVED</b>	<b>260</b>	<b>838</b>
<b>(ii) INCOME TAX EXPENSE</b>		
	<b>UNAUDITED 3 MONTHS DECEMBER 2007 \$000'S</b>	<b>UNAUDITED 3 MONTHS DECEMBER 2006 \$000'S</b>
Profit before income tax	27,433	33,897
Tax on profit @ 33%	9,052	11,186
Tax effect of permanent differences	(298)	(20)
Tax effect of change in corporate tax rate on deferred tax liability	-	-
Income tax over provided in prior period	-	(5,950)
	8,754	5,216
<b>Represented by:</b>		
Current tax	7,439	3,543
Deferred tax	1,315	1,673
	8,754	5,216

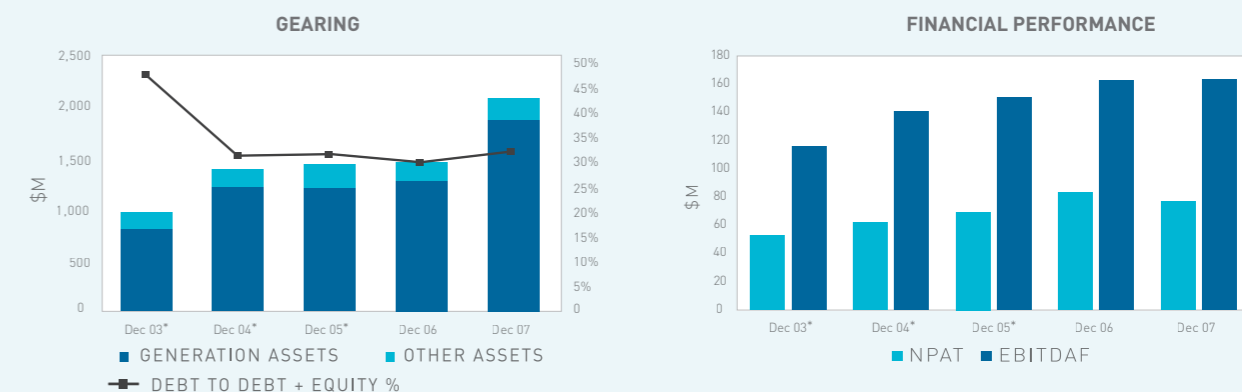
The accompanying notes form part of these interim financial statements

## CONSOLIDATED BALANCE SHEET

### AS AT 31 DECEMBER 2007

NOTE	UNAUDITED DECEMBER 2007 \$000'S	UNAUDITED DECEMBER 2006 \$000'S	UNAUDITED MARCH 2007 \$000'S
<b>EQUITY</b>			
Capital and reserves attributable to shareholders of the Company			
Share capital	11 175,995	174,658	174,658
Revaluation reserve	671,851	240,709	659,016
Retained earnings	396,093	394,020	408,595
Cash flow hedge reserve	(14,522)	(5,436)	(7,485)
Other reserves	221	279	279
<b>TOTAL EQUITY</b>	<b>1,229,638</b>	<b>804,230</b>	<b>1,235,063</b>
<b>Represented by:</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	15,977	23,334	44,256
Bond deposits on trust	3,100	3,100	3,100
Electricity market security deposits	-	-	3,000
Accounts receivable and prepayments	78,257	58,951	63,277
Derivative financial instruments	7 4,504	5,526	2,653
Taxation receivable	-	-	3,314
	101,838	90,911	119,600
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	1,931,575	1,326,543	1,902,496
Derivative financial instruments	7 634	673	670
Investments	517	30	-
Intangible assets	40,772	39,423	42,549
	1,973,498	1,366,669	1,945,715
<b>TOTAL ASSETS</b>	<b>2,075,336</b>	<b>1,457,580</b>	<b>2,065,315</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	87,395	66,141	120,494
Dividend payable	-	40,960	-
Current portion unsecured subordinated bonds	50,511	86,182	86,182
Derivative financial instruments	7 11,332	5,402	4,173
Taxation payable	2,027	9,884	-
	151,265	208,569	210,849
<b>NON CURRENT LIABILITIES</b>			
Unsecured bank loans	350,722	77,776	211,612
Unsecured subordinated bonds	161,377	211,154	211,357
Derivative financial instruments	7 6,292	7,370	7,456
Deferred tax liability	13 176,042	148,481	188,978
	694,433	444,781	619,403
<b>TOTAL LIABILITIES</b>	<b>845,698</b>	<b>653,350</b>	<b>830,252</b>
<b>NET ASSETS</b>	<b>1,229,638</b>	<b>804,230</b>	<b>1,235,063</b>
<b>Net Tangible Assets Per Share</b>	<b>\$3.77</b>	<b>\$2.43</b>	<b>\$3.78</b>

The accompanying notes form part of these interim financial statements



\* Information for years prior to the Group's transition date of 1 April 2006 to NZ IFRS have been prepared under existing NZ FRS and have not been translated to equivalent NZ IFRS amounts.

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2007

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Receipts from customers	490,803	538,822	674,437
Interest received	669	1,196	1,584
Payments to suppliers and employees	(340,737)	(386,113)	(472,915)
Interest paid	(28,620)	(20,534)	(27,221)
Taxation paid	(27,068)	(22,150)	(40,363)
NET CASH FLOW FROM OPERATING ACTIVITIES	95,047	111,221	135,522
Sale of property, plant & equipment	2,199	161	194
Sale of investments	-	360	360
Capitalised interest in construction of property, plant and equipment	(4,175)	(2,545)	(5,274)
Net movement in bond deposits on trust	-	(100)	(100)
Net movement in electricity market security deposits	3,000	16,000	13,000
Purchase of property, plant and equipment	(84,825)	(82,274)	(171,258)
Purchase of intangible assets	(1,958)	(1,142)	(2,495)
NET CASH FLOW FROM INVESTING ACTIVITIES	(85,759)	(69,540)	(165,573)
Bank loan proceeds	175,092	66,800	186,300
Bond repayments	(86,182)	-	-
Issue of shares	1,337	1,154	1,021
Bank loan repayments	(36,375)	(52,347)	(38,100)
Dividends paid	(91,439)	(37,759)	(78,719)
NET CASH FLOW FROM FINANCING ACTIVITIES	(37,567)	(22,152)	70,502
NET (DECREASE) / INCREASE IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS HELD	(28,279)	19,529	40,451
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT BEGINNING OF THE PERIOD	44,256	3,805	3,805
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF THE PERIOD	15,977	23,334	44,256
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	78,930	87,595	102,128
Amortisation of debt issue costs	923	681	976
Fixed, intangible and investment asset charges	24,187	21,408	28,925
Movements in financial instruments taken to the income statement	(2,176)	(1,648)	(1,975)
Option expense	(31)	-	133
Increase/(decrease) in deferred tax liability excluding transfers to reserves	(772)	5,176	7,289
(Increase)/decrease in working capital	(6,014)	(1,991)	(1,954)
NET CASH FLOW FROM OPERATING ACTIVITIES	95,047	111,221	135,522
	9 MONTHS DECEMBER 2007	9 MONTHS DECEMBER 2006	12 MONTHS MARCH 2007
OPERATING STATISTICS			
Electricity customer numbers (000's)	221	219	219
Telecommunications customers (000's)	22	-	16
Customer sales (GWh)	3,475	3,508	4,575
Weighted average spot price of electricity purchased (\$/MWh)	58	69	63
Hydro generation production (GWh)	1,182	1,362	1,667
Wind generation production (GWh)	418	208	274
Weighted average spot price of electricity generated (\$/MWh)	56	66	62

The accompanying notes form part of these interim financial statements

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 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.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Truman Road, Te Maunga, Mount Maunganui. The Company is listed on the New Zealand Stock Exchange.

These interim financial statements relate to the nine months ended 31 December 2007 and have been approved for issue by the Board of Directors on 31 January 2008.

### 2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these unaudited interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### 2.1 Basis of Preparation

These unaudited interim financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZGAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-orientated entities. The interim financial statements have been prepared in accordance with, and comply with all aspects of, NZ IAS 34 *Interim Financial Reporting*.

#### Entities reporting

The consolidated financial statements of the Group are for the economic entity comprising TrustPower and its subsidiaries. The consolidated entity is designated as a profit-oriented entity for financial reporting purposes.

#### Statutory base

TrustPower Limited is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

#### Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

This is the first year TrustPower has prepared financial statements in accordance with NZ IFRS. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements. Financial statements of the Group until 31 March 2007 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing the Company and Group financial statements for the nine months ended 31 December 2007, the Company has amended certain accounting and valuation methods applied in the NZ FRS financial statements to comply with NZ IFRS. The comparative figures were restated to reflect these adjustments. The comparative period to 31 March 2007 was audited under NZ FRS. The adjustments to comply with NZ IFRS have not been audited.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and its net income are provided in note 18.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of generation assets and derivative financial instruments which are stated at fair value.

#### Estimates

The preparation of interim financial statements in conformity with NZ IAS 34 *Interim Financial Reporting* requires the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

#### Functional and presentational currency

The functional and reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand.

### 2.2 Principles of Consolidation

#### Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but are considered as an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****2.3 Segment Reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**2.4 Trade Receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in the income statement.

**2.5 Financial Assets**

The Group classifies all of its investments as financial assets at fair value through the income statement, held to maturity financial assets or at cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

*Financial assets at fair value through the income statement*

Financial assets at fair value through the income statement are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*Held to maturity financial assets*

Held to maturity financial assets are stated at amortised cost less impairment losses.

*Investments in subsidiaries*

Investments in subsidiaries are recorded at cost less any impairment write-downs.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Advances to New Zealand based subsidiaries are interest free while advances to overseas based incur interest at a market rate.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within fair value movements of financial instruments, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.4.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****2.6 Property, Plant and Equipment**

Generation assets are shown at fair value, based on three-yearly valuations by independent external valuers, less subsequent depreciation. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets.

The cost of assets constructed by the Group, including capital work in progress, includes the cost of all materials used in construction, direct labour specifically associated, resource management consent costs, and an appropriate proportion of variable and fixed overheads. Financing costs on uncompleted capital work in progress are capitalised at the specific project finance interest rate, where these meet certain time and monetary materiality limits. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of generation assets are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity. All other decreases are charged to the income statement.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight-line method at rates calculated to allocate each asset's cost over its estimated useful life. Depreciation is charged on a straight line basis as follows:

Freehold buildings	2%	Generation assets	0.5%-5%
Metering equipment	5%	Plant and equipment	10%-33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other fixed and investment asset charges/(credits), in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

**2.7 Emission Rights**

The Group receives tradeable emission rights from specific energy production levels of certain renewable generation facilities. The future revenue arising from the sale of these emission rights is a key matter in deciding whether to proceed with construction of the generation facility and is considered to be part of the value of the generation assets recorded in the balance sheet. Proceeds received on the sale of emission rights are recorded as deferred income in the balance sheet until the committed energy production level pertaining to the emission right sold has been generated.

Emission rights produced are recognised in the balance sheet if the right has been verified, it is probable that expected future economic benefits will flow to the Group, and the rights can be measured reliably. Emission rights are initially measured at cost. After initial recognition, the emission rights are carried at fair value with any changes taken to the income statement. Fair value is determined by reference to an active market. If the emission rights cannot be revalued because there is no active market, the emission rights are carried at cost less any subsequent accumulated impairment losses.

**2.8 Intangible Assets***Customer base assets*

Costs incurred in acquiring customers from other electricity supply companies and telecommunications companies are recorded as a customer base intangible asset. The customer bases are amortised on a straight line basis over the period of expected benefit. This period has been assessed as 20 years for electricity customer bases and 5 years for telecommunication customer bases. The carrying value of the customer bases is reviewed annually by the Directors and adjusted where it is considered necessary.

*Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over three years on a straight line basis.

Costs associated with developing or maintaining computer programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs for more than one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****2.9 Revenue Recognition**

Revenue comprises the fair value of consideration received or receivable for the sale of electricity, telecommunications and related services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, rebates and discounts and after eliminating sales within the Group.

Customer consumption of electricity is measured and billed by calendar month for half hourly metered customers and in line with meter reading schedules for non half hourly metered customers. Accordingly revenues from electricity sales include an estimated accrual for units sold but not billed at balance date for non half hourly metered customers.

Customer consumption of telecommunications services is measured and billed according to monthly billing cycles. Accordingly revenues from telecommunications services provided include an estimated accrual for services provided but not billed at balance date.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

**2.10 Employee Entitlements**

Employee entitlements to salaries and wages, non monetary benefits, annual leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date.

*Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

*Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

**2.11 Foreign Currencies**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in New Zealand dollars, which is the parent's functional and presentation currency.

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate on the date of the transaction. Monetary assets and liabilities arising from foreign currency transactions are translated at closing rates at balance date. Gains or losses from currency translation on these items are included in the income statement.

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at balance date
- income and expenses for each income statement are translated at average exchange rates
- all resulting exchange rate differences are recognised as a separate component of equity.

On consolidation, foreign exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve. When a foreign operation is partially disposed of or sold, such foreign exchange differences are recognised in the income statement as part of the gain or loss on sale.

**2.12 Generation Development**

The Group incurs costs in the exploration, evaluation, consenting and construction of generation assets. Costs incurred are expensed in the income statement unless such costs are highly likely to be recouped through successful development and generation of electricity from a particular project. Where costs meet this criteria and are capitalised they will ultimately be amortised over the estimated useful life of a project once it is completed. The Directors review the status of capitalised development expenditure on a regular basis and in the event that a project is abandoned, or if the Directors consider the expenditure to be impaired, a write off or provision is made in the year in which that assessment is made.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****2.13 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**2.14 Insurance**

The Group has property, plant and equipment which is predominately concentrated at power station locations that has the potential to sustain major losses through damage to plant with resultant consequential costs.

To minimise the financial impact of such exposures, the major portion of the risk is insured by taking out appropriate insurance policies with appropriate counterparties. Any uninsured loss is recognised in the income statement at the time the loss is incurred.

**2.15 Impairment of Non-financial Assets**

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each balance date.

**2.16 Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**2.17 Cash Flow Statement**

The following are the definitions used in the cash flow statement:

- cash is considered to be cash on hand and deposits held at call with banks, net of bank overdrafts
- operating activities include all activities that are not investing or financing activities
- investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments
- financing activities are those activities, which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

**2.18 Goods and Services Tax (GST)**

The income statement and cash flow statement have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated exclusive of GST, with the exception of billed receivables and payables which include GST invoiced.

**2.19 Income Tax**

The income tax expense comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the income tax is recognised directly in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The following temporary differences are not provided for: the initial recognition of assets or liabilities in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by balance date and are expected to apply when the related deferred tax liability (asset) is settled (realised).

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**2.20 Earnings Per Share**

Earnings per share is calculated by dividing the profit after tax attributable to the shareholders by the weighted average number of ordinary shares on issue during the quarter. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potential dilutive ordinary shares.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****2.21 Derivative Financial Instruments and Hedging Activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered in to and are periodically remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Group designates certain derivatives as one of the following:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge)
- hedges of highly probable forecast transactions (cash flow hedges)
- hedges of net investments in foreign operations.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 6. Movements on the hedging reserve in shareholders' equity are shown in the statement of recognised income and expense. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*Fair Value Hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*Cash Flow Hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in shareholders' equity are transferred from shareholders' equity and included in the measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity and is recognised in accordance with the above policy when the transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the income statement.

*Net Investment Hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

*Derivatives that do not qualify for hedge accounting*

Certain derivatives do not qualify for hedge accounting. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

**2.22 Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**2.23 Trade Payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.24 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**2.25 Dividend Distribution**

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Board.

**3. Application of NZ IFRS 1**

This is the first year TrustPower has prepared financial statements in accordance with NZ IFRS. These financial statements have been prepared as described in note 2.1. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements. The Group's NZ IFRS adoption date was 1 April 2006.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)**

In preparing these consolidated interim financial statements in accordance with NZ IFRS 1 the Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of NZ IFRS 1.

Optional exemptions applied:

*(a) Business combinations exemption*

Business combinations that took place prior to the 1 April 2006 transition date have not been restated.

*(b) Deemed historical cost exemption*

Net book value at 1 April 2006 has been taken to be deemed historical cost for certain generation assets.

Mandatory exemptions applied:

*(c) Hedge accounting exemption*

The Group has applied hedge accounting from 1 April 2006 only if the hedge relationship meets all the hedge accounting criteria under NZ IAS 39.

*(d) Estimates exception*

Estimates under NZ IFRS at 1 April 2006 are consistent with estimates made for the same date under previous GAAP.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and its net income are provided in note 18.

**4. Seasonality**

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 nine months ended 31 December 2006, the volume of customer sales represented 79% of the annual level of retail electricity sales in the year ended 31 March 2007.

**5. Segment Information***Primary Reporting Format - Business Segments*

At 31 December 2007, the Group is organised into two main business segments:

- development, ownership and operation of electricity generation facilities from renewable energy sources ("Generation")
- retail sale of electricity to customers ("Retail")

As the Generation segment derives substantially all of its revenue from internal transfers, it is not a separable reporting segment. Accordingly, there is only one reportable segment in accordance with the requirements of NZ IAS 14 *Segment Reporting* being Retail.

*Secondary Reporting Format - Geographical Segments*

The Group's two business segments operate predominantly in New Zealand.

**6. 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 not to hedge account for these instruments.

*Exchange Rate Risk*

The Group has entered into a number of 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 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)**

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.

**7. Derivative Financial Instruments**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
<b>CURRENT</b>			
Interest rate derivative assets	3,665	1,251	1,776
Electricity price derivative assets	839	1,173	864
Exchange rate derivative assets	-	3,102	13
	4,504	5,526	2,653
Electricity price derivative liabilities	521	4,175	1,297
Exchange rate derivative liabilities	10,811	1,227	2,876
	11,332	5,402	4,173
<b>NON-CURRENT</b>			
Electricity price derivative assets	634	673	670
	634	673	670
Electricity price derivative liabilities	6,292	7,370	7,456
	6,292	7,370	7,456

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.

**8. Commitments**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
<i>Capital Commitments</i>	167,340	336,875	200,662

The Group has announced that it is expanding the Tararua wind farm, progressing with the Deep Stream hydro development and constructing a wind farm near Snowtown in South Australia. Contractual agreements for the supply of the significant components of these expansions have been entered into and the total cost of the projects is expected to be \$412,285,000. At balance date \$244,945,000 has been spent on the developments.

*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.

TrustPower has a contract with Pioneer Generation Limited to purchase all of the output from its various generation sites.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)****9. Finance Income and Costs**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Amortisation of debt issue costs	922	683	976
Interest paid on unsecured bank loans	16,638	4,324	6,999
Interest paid on unsecured subordinated bonds	16,855	19,006	25,226
Other interest costs and fees	-	-	1,013
Interest capitalised in construction of property, plant and equipment	(4,175)	(2,545)	(5,274)
<b>TOTAL INTEREST PAID</b>	<b>30,240</b>	<b>21,468</b>	<b>28,940</b>
Interest received on cash at bank	750	1,196	1,584
<b>TOTAL INTEREST RECEIVED</b>	<b>750</b>	<b>1,196</b>	<b>1,584</b>

**10. Dividends on Ordinary Shares**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Dividends (forfeited)/reinstated	-	(11)	(11)
Final dividend prior period	44,130	37,770	37,770
Interim dividend current period	47,309	40,960	40,960
Supplementary dividend paid	341	3,758	3,879
Foreign investor tax credit	[341]	[3,758]	[3,879]
	91,439	78,719	78,719

**11. Share Capital**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Authorised and issued ordinary share capital at beginning of the period	174,658	173,504	173,504
Issue of share capital pursuant to the employee share option scheme	1,337	1,154	1,154
	175,995	174,658	174,658
	<b>000'S OF SHARES</b>	<b>000'S OF SHARES</b>	<b>000'S OF SHARES</b>
Authorised and issued ordinary shares at beginning of the period	315,075	314,752	314,752
Issue of shares pursuant to the employee share option scheme	327	323	323
	315,402	315,075	315,075

**12. Income Tax Expense**

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Profit before income tax	110,568	121,335	142,997
Tax on profit @ 33%	36,487	40,041	47,189
Tax effect of permanent differences	(206)	443	423
Tax effect of change in corporate tax rate on deferred tax liability	(4,546)	-	-
Income tax over provided in prior period	(97)	(6,744)	(6,743)
	31,638	33,740	40,869
<i>Represented by:</i>			
Current tax	27,864	24,293	34,398
Deferred tax	3,774	9,447	6,471
	31,638	33,740	40,869

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

## 13. Deferred Tax Liability

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Balance at beginning of period	188,977	168,657	168,657
Current year changes in temporary differences affecting tax expense	3,774	9,447	6,471
Current year changes in temporary differences affecting reserves	473	(29,623)	13,849
<i>Effect of announced change in corporate tax rate on:</i>			
Income tax expense	(4,547)	-	-
Revaluation reserve	(12,841)	-	-
Cash flow hedge reserve	206	-	-
	176,042	148,481	188,977
<i>Consisting of temporary differences on:</i>			
Revaluations	127,310	102,693	140,151
Other property, plant and equipment movements	37,838	37,205	39,381
Employee benefits	(933)	(1,235)	(1,272)
Provisions	(653)	(555)	(496)
Customer base assets	11,048	12,734	13,095
Financial instruments	(503)	(2,169)	(1,791)
Other	1,935	(192)	(91)
	176,042	148,481	188,977

## 14. Property, Plant and Equipment

	UNAUDITED 9 MONTHS DECEMBER 2007 \$000'S	UNAUDITED 9 MONTHS DECEMBER 2006 \$000'S	UNAUDITED 12 MONTHS MARCH 2007 \$000'S
Assets acquired at cost	46,086	78,706	212,054
Net book value of assets disposed	2,449	870	1,721
Gain/(loss) on disposal	(350)	(706)	(1,527)

## 15. Subsequent Events

There have been no material events subsequent to 31 December 2007.

## 16. Interest Bearing Borrowings

During the nine month period ended 31 December 2007, interest bearing borrowings of \$175,092,000 were drawn down and repayments of \$122,557,000 were made.

## 17. Contingent Gains and Losses

There are no contingent gains or losses for the group as at 31 December 2007 (31 December 2006: nil, 31 March 2007: nil)

## 18. Explanation of Transition to New Zealand Equivalents to International Financial Reporting Standards

As described in Note 2.1, this is the first year consolidated interim financial statements have been prepared in accordance with NZ IFRS. The accounting policies set out in Note 2 have been applied in preparing the consolidated interim financial statements for the nine months ended 31 December 2007, the comparative information presented in these interim financial statements for the nine months ended 31 December 2006 and for the year ended 31 March 2007 and in the preparation of the opening NZ IFRS balance sheet at 1 April 2006 (the Group's date of transition). In preparing its opening NZ IFRS balance sheet, comparative information for the nine months ended 31 December 2006 and for the year ended 31 March 2007, the Group has adjusted amounts reported previously in accordance with New Zealand Financial Reporting Standards (NZ FRS). An explanation of how the transition from NZ FRS has affected the Group's equity and income statement is set out in the following tables and notes that accompany the tables.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

	PREVIOUS NZ FRS \$000'S	EFFECT OF TRANSITION TO NZ IFRS \$000'S	NZ IFRS \$000'S
<b>BALANCE SHEET AT THE DATE OF TRANSITION TO NZ IFRS: 1 APRIL 2006</b>			
SHAREHOLDERS' EQUITY			
Share capital	173,504	-	173,504
Revaluation reserve	A 475,541	(234,441)	241,100
Retained earnings	A,B,C 247,423	137,658	385,081
Cash flow hedge reserve	B -	47,552	47,552
Other reserves	E -	216	216
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	896,468	(49,015)	847,453
ASSETS			
Accounts receivable and prepayments	C 110,697	700	111,397
Derivative financial instruments	B -	70,686	70,686
Property, plant and equipment	D 1,262,910	(2,466)	1,260,444
Intangible assets	D 39,022	2,466	41,488
Other assets	22,835	-	22,835
TOTAL ASSETS	1,435,464	71,386	1,506,850
LIABILITIES			
Derivative financial instruments	B -	240	240
Deferred tax liability	A 48,280	120,377	168,657
Other liabilities	E 490,716	(216)	490,500
TOTAL LIABILITIES	538,996	120,401	659,397
NET ASSETS	896,468	(49,015)	847,453

	PREVIOUS NZ FRS \$000'S	EFFECT OF TRANSITION TO NZ IFRS \$000'S	NZ IFRS \$000'S
<b>BALANCE SHEET AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS NZ FRS: 31 MARCH 2007</b>			
SHAREHOLDERS' EQUITY			
Share capital	174,658	-	174,658
Revaluation reserve	A 930,950	(271,934)	659,016
Retained earnings	A,B,C 266,179	142,416	408,595
Cash flow hedge reserve	B -	(7,485)	(7,485)
Other reserves	E -	279	279
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	1,371,787	(136,724)	1,235,063
ASSETS			
Accounts receivable and prepayments	C 62,577	700	63,277
Derivative financial instruments	B -	3,323	3,323
Property, plant and equipment	D 1,905,363	(2,867)	1,902,496
Intangible assets	D 38,453	4,096	42,549
Other assets	53,670	-	53,670
TOTAL ASSETS	2,060,063	5,252	2,065,315
LIABILITIES			
Derivative financial instruments	B -	11,629	11,629
Deferred tax liability	A 58,352	130,626	188,978
Other liabilities	E 629,924	(279)	629,645
TOTAL LIABILITIES	688,276	141,976	830,252
NET ASSETS	1,371,787	(136,724)	1,235,063

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

		PREVIOUS NZ FRS \$000'S	EFFECT OF TRANSITION TO NZ IFRS \$000'S	NZ IFRS \$000'S
<b>BALANCE SHEET AT THE END OF THE COMPARATIVE PERIOD REPORTED UNDER PREVIOUS NZ FRS: 31 DECEMBER 2006</b>				
SHAREHOLDERS' EQUITY				
Share capital		174,658	-	174,658
Revaluation reserve	A	475,478	(234,769)	240,709
Retained earnings	A,B,C	251,188	142,832	394,020
Cash flow hedge reserve	B	-	(5,436)	(5,436)
Other reserves	E	-	279	279
<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>		<b>901,324</b>	<b>(97,094)</b>	<b>804,230</b>
ASSETS				
Accounts receivable and prepayments	C	58,251	700	58,951
Derivative financial instruments	B	-	6,199	6,199
Property, plant and equipment	D	1,329,242	(2,699)	1,326,543
Intangible assets	D	36,724	2,699	39,423
Other assets		26,464	-	26,464
<b>TOTAL ASSETS</b>		<b>1,450,681</b>	<b>6,899</b>	<b>1,457,580</b>
LIABILITIES				
Derivative financial instruments	B	-	12,772	12,772
Deferred tax liability	A	56,981	91,500	148,481
Other liabilities	E	492,376	(279)	492,097
<b>TOTAL LIABILITIES</b>		<b>549,357</b>	<b>103,993</b>	<b>653,350</b>
<b>NET ASSETS</b>		<b>901,324</b>	<b>(97,094)</b>	<b>804,230</b>

		PREVIOUS NZ FRS \$000'S	EFFECT OF TRANSITION TO NZ IFRS \$000'S	NZ IFRS \$000'S
<b>INCOME STATEMENT RECONCILIATION FOR THE YEAR ENDED 31 MARCH 2007</b>				
EBITDAF		196,431	-	196,431
(Gain)/Loss on movement of financial instruments	B	-	(1,975)	(1,975)
Amortisation of intangible assets	D	3,063	1,164	4,227
Depreciation	D	24,990	(1,164)	23,826
Net finance costs		27,356	-	27,356
<b>PROFIT BEFORE INCOME TAX</b>		<b>141,022</b>	<b>1,975</b>	<b>142,997</b>
Income tax expense	A	43,652	(2,783)	40,869
<b>PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>97,370</b>	<b>4,758</b>	<b>102,128</b>
<b>INCOME STATEMENT RECONCILIATION FOR THE COMPARATIVE PERIOD ENDED 31 DECEMBER 2006</b>				
EBITDAF		161,021	-	161,021
(Gain)/Loss on movement of financial instruments	B	-	(1,648)	(1,648)
Amortisation of intangible assets	D	2,298	908	3,206
Depreciation	D	18,764	(908)	17,856
Net finance costs		20,272	-	20,272
<b>PROFIT BEFORE INCOME TAX</b>		<b>119,687</b>	<b>1,648</b>	<b>121,335</b>
Income tax expense	A	37,266	(3,526)	33,740
<b>PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS</b>		<b>82,421</b>	<b>5,174</b>	<b>87,595</b>

*A Deferred Tax Liability*

Under NZ IFRS TrustPower is required to recognise a deferred tax liability in respect of all differences between the Group book values and the taxation authority book values with the exception of differences in relation to non depreciating assets. This "balance sheet" approach effectively creates an additional deferred tax liability on the revaluation amounts and other historic base differences of the generation assets. NZ IFRS uses a "profit and loss account" approach to deferred tax recognition where a partial recognition of these differences is made through assessing historic timing differences that have occurred.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

*B Derivative Financial Instruments*

Under NZ IFRS derivative financial instrument contracts need to be valued and recognised "on balance sheet". Resulting movements in the fair value of the financial instruments will be reported in the income statement each reporting period unless the Group can prove that a financial instrument qualifies for hedge accounting where it will be recorded as a movement in equity in the case of a cash flow hedge. NZ IFRS allows for note disclosure of quantities and values of financial instruments rather than recognition on the face of the primary financial statements.

As the financial instrument contracts of the Group are transacted to protect the Group's risk position and not for speculative purposes, the majority of instruments qualify for hedge accounting.

*C Provision for impairment of receivables*

Under NZ IFRS provisions may only be recognised where it can be proved that an actual loss event has occurred. The effect of this is a reduction in the provision for impairment of receivables recognised under NZ IFRS compared with that recognised under NZ FRS.

*D Intangible Assets*

Under NZ IFRS computer software is considered an intangible asset, where as previously it was considered part of property, plant and equipment under NZ FRS. Consequently, depreciation relating to computer software is now considered to be amortisation and computer software is included in intangible assets.

*E Employee Share Options*

Under NZ IFRS the fair value of share options granted to staff is recognised in equity. Under NZ FRS the fair value was recognised as a liability.

