



THE POWER TO MAKE THINGS HAPPEN



TrustPower Limited

Unaudited Financial Results

for the Six Months Ended

30 September 2010

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

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

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

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

depreciation on buildings as noted above.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

expectations of wind resource and other key project criteria are validated.

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

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

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



Bruce Harker
Chairman

CONSOLIDATED INCOME STATEMENT

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

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

The accompanying notes form part of these interim financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

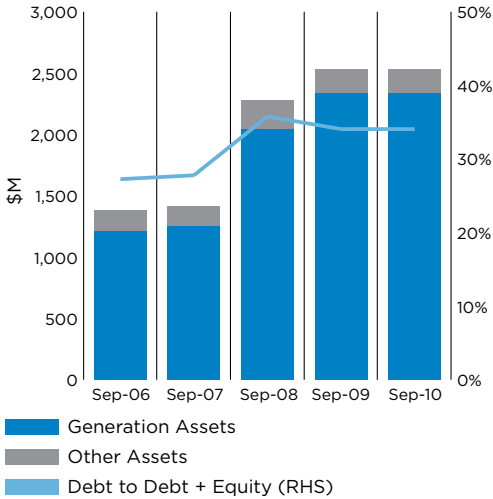
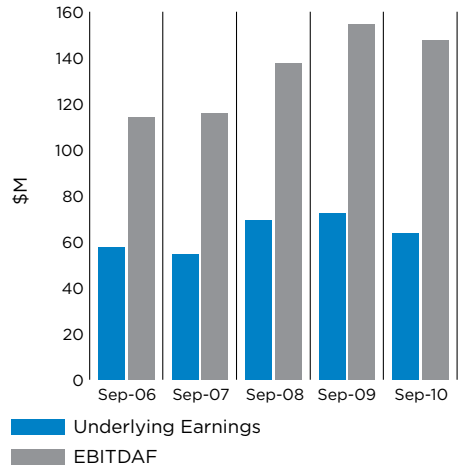
As at 30 September 2010	Note	Unaudited Sep 2010 \$000	Unaudited Sep 2009 \$000	Audited Mar 2010 \$000
Equity				
<i>Capital and reserves attributable to shareholders of the Company</i>				
Share capital	10	173,895	175,169	176,751
Revaluation reserve	7	878,589	862,668	867,493
Retained earnings		362,126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

The accompanying notes form part of these interim financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 Months Sep 2010 \$000	Unaudited 6 Months Sep 2009 \$000	Audited 12 Months Mar 2010 \$000
For the period ended 30 September 2010			
Receipts from customers	439,322	390,815	758,427
Payments to suppliers and employees	(304,824)	(264,125)	(493,004)
Taxation paid	(26,089)	(16,640)	(31,314)
Net Cash Flow from Operating Activities	108,409	110,050	234,109
Sale of property, plant & equipment	297	49	243
Subsidiary purchased	-	-	1
Interest received	720	280	559
Capitalised interest in construction of property, plant and equipment	(277)	-	-
Net movement in bond deposits on trust	300	200	400
Purchase of property, plant and equipment	(25,149)	(11,489)	(33,886)
Sale/(purchase) of other investments	8	-	(1,674)
Purchase of intangible assets	(947)	(1,183)	(7,886)
Net Cash Flow from Investing Activities	(25,048)	(12,143)	(42,243)
Bank loan proceeds	95,995	114,346	79,700
Net bond movements	-	-	140,000
Bond subscriptions received not yet allotted	9,176	-	-
Issue of shares	-	415	1,707
Purchase of own shares	(2,855)	-	-
Bond brokerage costs	(74)	-	(2,630)
Bank loan repayments	(86,556)	(105,900)	(227,149)
Interest paid	(30,558)	(28,619)	(57,759)
Dividends paid	(60,014)	(85,114)	(144,949)
Net Cash Flow from Financing Activities	(74,886)	(104,872)	(211,080)
Net (Decrease) / Increase in Cash, Cash Equivalents and Bank Overdrafts	8,475	(6,965)	(19,214)
Cash, cash equivalents and bank overdrafts at beginning of the period	9,492	27,416	27,416
Exchange gains/(losses) on cash	76	179	1,290
Cash, Cash Equivalents and Bank Overdrafts at End of the Period	18,043	20,630	9,492
RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES WITH PROFIT AFTER TAX ATTRIBUTABLE TO THE SHAREHOLDERS			
Profit after tax attributable to the shareholders of the Company	59,710	82,417	119,413
Interest paid	30,558	28,619	57,759
Interest received	(720)	(280)	(559)
Amortisation of debt issue costs	673	268	1,076
Non-cash transfer from cash flow hedge reserve to interest expense	(145)	-	(194)
Fixed, intangible and investment asset charges	28,817	25,680	61,684
Movements in financial instruments taken to the income statement	(3,171)	(14,138)	(12,509)
Option expense	(30)	10	160
Increase/(decrease) in deferred tax liability excluding transfers to reserves	6,210	7,187	12,098
(Increase)/decrease in working capital	(13,493)	(19,713)	(4,819)
Net Cash Flow from Operating Activities	108,409	110,050	234,109

The accompanying notes form part of these interim financial statements

Gearing**Financial Performance****6 Months
Sep 2010**6 Months
Sep 200912 Months
Mar 2010**Operating Statistics**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

NOTE 1

GENERAL INFORMATION

Reporting Entity

The principal activities of TrustPower Limited (the Company or Parent) and its subsidiaries (together the Group) are the development, ownership and operation of electricity generation facilities from renewable energy sources and the retail sale of electricity to its customers. All significant operations take place within New Zealand and Australia. The consolidated entity is designated as a profit-oriented entity for financial reporting purposes.

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

These interim financial statements relate to the six months ended 30 September 2010 and have been approved for issue by the Board of Directors on 4 November 2010.

NOTE 2

ACCOUNTING POLICIES

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

These unaudited interim financial statements have been prepared in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* as well as International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the previous annual report. Except as described below, the accounting policies and methods of computation are consistent with those used in the most recent annual report which can be obtained from TrustPower's registered office or www.trustpower.co.nz.

The following new standards are mandatory for the first time for the financial year beginning 1 April 2010.

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

NOTE 3

UNDERLYING EARNINGS

Underlying earnings after tax is presented to allow stakeholders to make an assessment and comparison of underlying earnings after removing the non-cash fair value movements in financial instruments, impairment charges that management consider to be one-off and tax rate and rule changes.

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

NOTE 4

SEGMENT INFORMATION

Primary Reporting Format - Business Segments

As at 30 September 2010, the Group is organised into two main business segments:

- development, ownership and operation of electricity generation facilities from renewable energy sources including the trading of energy with Retail and external parties ("Generation")
- purchase of energy from Generation and retail sale of electricity to customers ("Retail")

The remaining activities of the Group are included in Other. This primarily relates to property services and some unallocated head office functions.

The Board has further segregated generation into New Zealand and Australian operations. Generation New Zealand includes the metering business which does not meet the criteria to be disclosed as a separate operating segment. Retail operates only in New Zealand and includes telecommunications operations which do not meet the criteria to be disclosed as a separate operating segment.

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

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

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

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

NOTE 4 CONTINUED

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

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

Total segment revenue	192,016	35,970	686,394	2,261	916,641
Inter-segment revenue	(155,177)	-	-	(2,177)	(157,354)
Revenue from external customers	36,839	35,970	686,394	84	759,287

Adjusted EBITDAF	174,031	27,624	74,913	(2,051)	274,517
Amortisation of intangible assets	-	-	3,808	1,849	5,657
Depreciation	34,168	14,329	-	861	49,358
Capital expenditure	9,022	4,729	-	18,788	32,539
Asset impairment	-	(42)	-	6,162	6,120

Inter-segment transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. The Board does not distinguish between revenue from internal or external customers when measuring the performance of segments. All revenue is reported to the Board on a basis consistent with that used in the Income Statement.

The Board assesses the performance of segments based on a measure of adjusted EBITDAF. This measure excludes the effects of non operational expenditure or gains such as loss/gain on disposal or impairments of property, plant and equipment, fair value changes in foreign currency financial assets/liabilities and costs of major business acquisitions.

Interest income and expenditure and taxation costs are not allocated to segments as this type of activity is driven by the central treasury function which manages them at a Group level.

The Board does not segregate assets and liabilities in assessing Group performance.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

A reconciliation of adjusted EBITDAF to profit before income tax is as follows:

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

NOTE 5

FINANCE INCOME AND COSTS

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

NOTE 6

INCOME TAX EXPENSE

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

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

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

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

NOTE 7

REVALUATION RESERVE

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

NOTE 8

CASH FLOW HEDGE RESERVE

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

NOTE 9

OTHER RESERVES

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

NOTE 10

SHARE CAPITAL

	Unaudited 6 Months Sep 2010 \$000	Unaudited 6 Months Sep 2009 \$000	Audited 12 Months Mar 2010 \$000
Authorised and issued ordinary share capital at beginning of the period	176,751	174,754	174,754
Own shares repurchased	(2,856)	-	-
Transfer from employee share option reserve	-	-	290
Issue of share capital pursuant to the employee share option scheme	-	415	1,707
	173,895	175,169	176,751
	000's of Shares	000's of Shares	000's of Shares
Authorised and issued ordinary shares at beginning of the period	315,516	315,236	315,236
Own shares repurchased	(399)	-	-
Issue of shares pursuant to the employee share option scheme	-	70	280
	315,117	315,306	315,516

NOTE 11

DIVIDENDS ON ORDINARY SHARES

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

NOTE 12

DERIVATIVE FINANCIAL INSTRUMENTS

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

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

NOTE 13

DEFERRED INCOME TAX

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

NOTE 14

PROPERTY, PLANT AND EQUIPMENT

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

NOTE 15

COMMITMENTS

	Unaudited 6 Months Sep 2010 \$000	Unaudited 6 Months Sep 2009 \$000	Audited 12 Months Mar 2010 \$000
<i>Capital Commitments</i>	66,212	-	2,824

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

Electricity Purchase Commitments

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

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

TrustPower has a contract with Ngawha Generation Limited to purchase all of the output from its Ngawha power station. This commitment cannot be quantified.

NOTE 16

SEASONAL IMPACT ON REVENUE

The retail sale of electricity is subject to seasonal fluctuations, with peak demand in the second quarter, and to a lesser extent the first quarter, of each financial year. This is due to higher demand for electricity in colder weather. For the six months ended 30 September 2009, the volume of customer sales was 16% higher than for the six months ended 31 March 2010.

NOTE 17

INTEREST BEARING BORROWINGS

During the six month period ended 30 September 2010, interest bearing borrowings of \$95,995,000 (six month period ended 30 September 2009: \$114,346,000 and interest expense of \$3,115,000) were drawn down and repayments of \$86,556,000 (six month period ended 30 September 2009: \$105,900,000, year ended 31 March 2010: \$227,149,000) were made.

NOTE 18

CONTINGENT ASSETS AND LIABILITIES

Inland Revenue is currently disputing the tax treatment adopted by the Group in relation to feasibility expenditure in the 2006, 2007 and 2008 financial years. The Group believes the tax treatment adopted is correct and is defending its position. Should Inland Revenue be completely successful in its claim, the resulting liability would give rise to an additional tax payment of \$6,779,000 and interest expense of \$3,115,000. Further the Group would need to revise its policy for claiming tax deductions for feasibility expenditure in the 2009 and future years. This would give rise to a further estimated tax payment of \$4,542,000 and interest expense of \$328,000 in respect of the 2009, 2010 and 2011 years.

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

NOTE 19

RELATED PARTY TRANSACTIONS

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

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

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

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

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

Except as noted above, no transactions took place with related parties during the year. All transactions with related parties take place on an arms length basis.

No related party debts were forgiven or written off during the period. Except as noted above there are no amounts outstanding at 30 September 2010 (30 September 2009: nil, 31 March 2010: nil).

NOTE 20

FINANCIAL RISK MANAGEMENT

TrustPower's activities expose it to a variety of financial risks: electricity price risk, interest rate risk, exchange rate risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out under policies approved by the Board.

Electricity Price Risk

The Group is required to purchase a percentage of its electricity sold off the electricity spot market. This leaves the Group exposed to fluctuations in the spot price of electricity. The Group has entered into a number of electricity hedge contracts to reduce the risk from price fluctuations on the electricity spot market. These hedge contracts establish the price at which future specified quantities of electricity are purchased. Any resulting differential to be paid or received is recognised as a component of energy costs through the term of the contract. The Group has elected to apply cash flow hedge accounting to those instruments it deems material and which qualify as cash flow hedges while immaterial contracts will not be hedge accounted.

Interest Rate Risk

The Group's bank borrowings are all on floating interest rates. The Group has various interest rate financial instruments to manage exposure to fluctuations in interest rates. Any resulting differential to be paid or received on the instruments is recognised as a component of interest paid. The Group has elected to hedge account for only a limited number of these instruments.

Exchange Rate Risk

The Group has from time to time entered into forward exchange contracts to reduce the risk from price fluctuations of foreign currency costs associated with the construction of generation assets. Any resulting differential to be paid or received is recognised as a component of the cost of the project. The Group has also entered into forward foreign exchange contracts to reduce the risk from price fluctuations of foreign exchange income associated with the sale of emission rights. The Group has elected to apply cash flow hedge accounting to these instruments.

Credit Risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Where a potential customer does not have a suitable credit history a bond is required before the customer is accepted. Derivative counterparties and cash transactions are limited to high credit quality financial institutions and other large electricity market participants. The Group has policies that limit the amount of credit exposure to any counterparty.

Liquidity Risk

The Group's ability to readily attract cost effective funding is largely driven by its credit standing.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through, and adequate amount of, committed credit facilities and the spreading of debt maturities.

Liquidity risk is monitored by continuously forecasting actual cash flows and matching the profiles of financial assets and liabilities.

Capital Risk Management Objectives

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Estimation of fair values

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and liabilities are calculated using market-quoted rates based on discounted cash flow analysis.
- The fair value of derivative financial instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve or available forward price data for the duration of the instruments.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument, the two key types of variables used by the valuation techniques are:

- forward price curve (for the relevant underlying interest rates, foreign exchange rates or commodity prices); and
- discount rates.

The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in respect of these variables that could be used in estimating the fair value of these derivatives. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques.

NOTE 21

SUBSEQUENT EVENTS

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

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

