

Interim Financial Statements

For the six months ended 30 September 2016

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 September 2016

	NOTE	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2016 \$000	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2015 \$000
Revenue and other income		247,088	243,918
Pass-through and recoverable costs		60,834	57,764
Network operational expenditure		19,993	17,009
System operations and network support		6,575	6,359
Business support		19,092	19,872
Operating expenses		106,494	101,004
Earnings before finance costs, loss on disposal, taxation, depreciation, amortisation and financial instruments (EBITDAF)		140,594	142,914
Net loss on disposal of fixed assets		3,016	8,901
Depreciation and amortisation		37,654	38,006
Earnings before finance costs and taxation (EBIT)		99,924	96,007
Finance costs		39,345	40,565
(Gains)/losses on financial instruments	4	(24,862)	8,578
Profit before taxation		85,441	46,864
Income tax expense		15,408	3,303
Profit for the period after tax		70,033	43,561
Other comprehensive income			
Items that may be reclassified subsequently to profit/loss:			
Cash flow hedges amortised		339	339
Income tax expense on cash flow hedges		(95)	(95)
Total other comprehensive income		244	244
Total comprehensive income for the period, net of tax		70,277	43,805

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 September 2016

	ATTRIBUTABLE TO OWNERS			TOTAL \$000
	SHARE CAPITAL \$000	ACCUMULATED DEFICITS \$000	HEDGE RESERVE \$000	
Balance as at 31 March 2015	698,165	(159,163)	(4,605)	534,397
Profit for the period	-	43,561	-	43,561
Cash flow hedges amortised	-	-	339	339
Income tax expense on amortisation of cash flow hedges	-	-	(95)	(95)
Total comprehensive income, net of tax	-	43,561	244	43,805
Transactions with owners				
Dividends (6.94 cents per share)	-	(25,673)	-	(25,673)
Balance as at 30 September 2015	698,165	(141,275)	(4,361)	552,529
Balance as at 31 March 2016	698,165	(153,431)	(4,116)	540,618
Profit for the period	-	70,033	-	70,033
Cash flow hedges amortised	-	-	339	339
Income tax expense on amortisation of cash flow hedges	-	-	(95)	(95)
Total comprehensive income, net of tax	-	70,033	244	70,277
Transactions with owners				
Dividends (6.42 cents per share)	-	(23,749)	-	(23,749)
Balance as at 30 September 2016	698,165	(107,147)	(3,872)	587,146

Condensed Consolidated Interim Statement of Financial Position

As at 30 September 2016

	NOTES	UNAUDITED AS AT 30 SEPTEMBER 2016 \$000	UNAUDITED AS AT 30 SEPTEMBER 2015 \$000	AUDITED AS AT 31 MARCH 2016 \$000
Current assets				
Cash and cash equivalents		583	919	632
Trade and other receivables		43,484	43,524	36,690
Finance lease receivable		484	447	465
Other financial assets	8	5	-	-
Other current assets		323	95	321
		44,879	44,985	38,108
Non-current assets				
Property, plant and equipment	5	2,017,511	1,939,860	1,977,750
Finance lease receivable		8,761	9,245	9,008
Other financial assets	8	126,003	152,705	131,856
Intangible assets	6	16,413	19,324	16,599
		2,168,688	2,121,134	2,135,213
TOTAL ASSETS		2,213,567	2,166,119	2,173,321
Current liabilities				
Trade and other payables		41,333	41,806	40,965
Employee benefits		4,343	3,978	4,961
Other financial liabilities	8	22,787	9,220	17,081
Borrowings	7	187,623	93,130	149,354
		256,086	148,134	212,361
Non-current liabilities				
Employee benefits		1,537	1,715	1,818
Other financial liabilities	8	79,356	76,648	82,156
Borrowings	7	1,055,979	1,186,068	1,118,409
Deferred tax liability		233,464	201,025	217,959
		1,370,336	1,465,456	1,420,342
Equity				
Issued capital	10	698,165	698,165	698,165
Accumulated deficits		(107,147)	(141,275)	(153,431)
Hedge reserves		(3,872)	(4,361)	(4,116)
		587,146	552,529	540,618
TOTAL EQUITY AND LIABILITIES		2,213,567	2,166,119	2,173,321



John Loughlin
Director
24 November 2016



Paul Callow
Director
24 November 2016

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 September 2016

	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2016 \$000	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2015 \$000
Cash flows from operating activities		
Cash receipts from customers	261,918	263,989
Cash paid to suppliers and employees	(123,978)	(111,606)
	137,940	152,383
GST paid	(9,004)	(12,061)
Interest paid	(39,013)	(39,533)
	(48,017)	(51,594)
Net cash provided by operating activities	89,923	100,789
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	37	88
Purchase of property, plant and equipment, and intangibles	(75,951)	(68,975)
Net cash used in investing activities	(75,914)	(68,887)
Cash flows from financing activities		
Proceeds from borrowings	132,200	192,900
Proceeds from finance leases	228	210
Loan establishment costs	(237)	(377)
Repayment of borrowings	(122,500)	(198,400)
Dividend paid	(23,749)	(25,673)
Net cash used in financing activities	(14,058)	(31,340)
Net increase in cash and cash equivalents	(49)	562
Cash and cash equivalents at the beginning of the period	632	357
Cash and cash equivalents at the end of the period	583	919
Comprises the following:		
Cash and cash equivalents	583	919
	583	919

Cash and cash equivalents comprise cash on hand, cash in banks and investments in working capital facilities.

Transactions recorded net in the Financial Statements

The GST paid component of operating activities reflects the net GST paid and received with Inland Revenue. The GST component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial reporting purposes. The gross cash flows are presented inclusive of GST.

Reconciliation of Profit to Net Cash Flows from Operating Activities

For the six months ended 30 September 2016

	NOTE	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2016 \$000	UNAUDITED SIX MONTHS TO 30 SEPTEMBER 2015 \$000
Profit after taxation		70,033	43,561
Add/(less) non-cash items			
Depreciation and amortisation		37,654	38,006
Loss on disposal of assets		3,053	8,989
Non-cash component of finance costs		335	393
Other losses/(gains) on financial instruments	4	(24,862)	8,578
Non-cash items in relation to investing/financing activities		(2,062)	464
Non-cash customer contributions		(11,859)	(7,549)
Increase in deferred tax liability		15,409	3,304
Other items			
GST on property, plant and equipment purchases		9,548	8,104
Movements in working capital			
<i>(Increase)/decrease in assets</i>			
Trade and other receivables		(6,792)	(6,263)
Other current assets		(2)	(6)
<i>Increase/(decrease) in liabilities</i>			
Trade and other payables		367	3,763
Employee entitlements		(899)	(554)
Net cash provided by operating activities		89,923	100,789

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 September 2016

1. Basis of accounting

Basis of preparation

Powerco Ltd (the Company or Powerco) and its subsidiaries Powerco Transmission Services Ltd (PTS), Powerline Ltd (Basepower) and The Gas Hub Ltd form the Powerco Group (the Group). Powerco is a limited liability company incorporated in New Zealand with debt listed on the NZDX and is required to prepare interim financial statements under section 10.4 of the NZSX/NZDX Listing Rules. The address of its registered office is Level 2, New Plymouth District Council Civic Centre, 84 Liardet St, New Plymouth 4310, New Zealand. The Consolidated Interim Financial Statements have been prepared in accordance with, and comply with, NZ IAS 34: Interim Financial Reporting, IAS 34: Interim Financial Reporting and NZ GAAP. For the purposes of financial reporting, Powerco is a profit-oriented entity. The consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2016.

Significant accounting policies

The Group financial statements incorporate the financial statements of Powerco Ltd and its subsidiaries which have been consolidated using the acquisition method. The accounting policies adopted and methods of computation are consistent with those followed in the preparation of the Powerco Group financial statements for the year ended 31 March 2016.

2. Segmental reporting

For reporting to the Chief Executive and the Board of Directors, the Group is currently organised into two operating divisions:

- i) Electricity – regulated electricity line distribution
- ii) Gas – regulated gas line distribution

All other unregulated revenues and costs are included in the unallocated segment.

For the six months ended 30 September 2016

	REGULATED BUSINESSES		UNALLOCATED SEGMENT \$000	TOTAL \$000
	ELECTRICITY \$000	GAS \$000		
External revenue	198,289	29,434	19,365	247,088
Pass-through and recoverable costs	59,832	1,002	-	60,834
Network operational expenditure	16,730	2,776	487	19,993
System operations and network support	4,204	2,349	22	6,575
Business support	15,911	3,115	66	19,092
Depreciation and amortisation and net loss on disposal of fixed assets	33,486	6,257	927	40,670
Segment result	68,126	13,935	17,863	99,924
Finance costs				39,345
Gains on financial instruments				(24,862)
Profit before tax				85,441
Income tax expense				15,408
Net profit for the period				70,033
Other information				
Capital additions	74,096	5,290	898	80,284

For the six months ended 30 September 2015

	REGULATED BUSINESSES		UNALLOCATED SEGMENT \$000	TOTAL \$000
	ELECTRICITY \$000	GAS \$000		
External revenue	197,284	30,404	16,230	243,918
Pass-through and recoverable costs	56,662	1,102	-	57,764
Network operational expenditure	13,709	2,908	392	17,009
System operations and network support	4,555	1,761	43	6,359
Business support	14,629	5,209	34	19,872
Depreciation and amortisation and net loss on disposal of fixed assets	39,295	6,454	1,158	46,907
Segment result	68,434	12,970	14,603	96,007
Finance costs				40,565
Gains on financial instruments				8,578
Profit before tax				46,864
Income tax expense				3,303
Net profit for the period				43,561
Other information				
Capital additions	61,203	6,241	1,060	68,506

Revenue in both the electricity and gas segments includes regulated line revenue.

Revenue included in the unallocated segment category includes gas metering revenue, customer contributions, transmission revenue, third party damages and other miscellaneous revenue received.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segmental profit represents the profit earned by each segment without allocation of customer contributions, other revenue, other gains, finance costs and income tax expense.

3. Seasonality of interim operations

Due to climatic conditions and based on historical data, operating revenue recognised in the six months ending 30 September each financial year tends to be slightly higher than that for the six months ending 31 March.

4. (Gains)/losses on financial instruments

The change in value of financial assets and liabilities held for trading is recognised in the profit and loss and are categorised as other (gains)/losses.

5. Property, plant and equipment

	NETWORK SYSTEMS \$000	WORK IN PROGRESS \$000	LAND AND BUILDINGS \$000	PLANT AND EQUIPMENT \$000	TOTAL \$000
At 31 March 2015					
Cost	2,617,620	53,099	15,236	33,718	2,719,673
Accumulated depreciation	763,462	-	4,814	30,977	799,253
Net book value	1,854,158	53,099	10,422	2,741	1,920,420
Movements in the six months ended 30 September 2015					
Opening net book value	1,854,158	53,099	10,422	2,741	1,920,420
Additions	-	63,909	-	-	63,909
Transfers	57,434	(57,507)	-	73	-
Disposals	(8,987)	-	-	-	(8,987)
Depreciation expense	(34,313)	-	(260)	(909)	(35,482)
Closing net book value	1,868,292	59,501	10,162	1,905	1,939,860
At 30 September 2015					
Cost	2,666,067	59,501	15,236	33,791	2,774,595
Accumulated depreciation	797,775	-	5,074	31,886	834,735
Net book value	1,868,292	59,501	10,162	1,905	1,939,860
At 31 March 2016					
Cost	2,735,659	43,229	16,091	40,780	2,835,759
Accumulated depreciation	820,016	-	5,356	32,637	858,009
Net book value	1,915,643	43,229	10,735	8,143	1,977,750
Movements in the six months ended 30 September 2016					
Opening net book value	1,915,643	43,229	10,735	8,143	1,977,750
Additions	-	77,045	-	727	77,773
Transfers	58,873	(61,184)	69	2,242	-
Disposals	(3,034)	-	(12)	(3)	(3,049)
Depreciation expense	(33,901)	-	(263)	(798)	(34,962)
Closing net book value	1,937,581	59,090	10,529	10,311	2,017,511
At 30 September 2016					
Cost	2,786,257	59,090	16,114	43,073	2,904,534
Accumulated depreciation	848,676	-	5,585	32,762	887,023
Net book value	1,937,581	59,090	10,529	10,311	2,017,511

6. Intangible assets

	SOFTWARE \$000	EASEMENTS \$000	TOTAL \$000
At 31 March 2015			
Cost	36,496	4,449	40,945
Accumulated depreciation	23,694	-	23,694
Net book value	12,802	4,449	17,251
Movements in the six months ended 30 September 2015			
Opening net book value	12,802	4,449	17,251
Additions	3,687	910	4,597
Amortisation expense	(2,524)	-	(2,524)
Closing net book value	13,965	5,359	19,324
At 30 September 2015			
Cost	40,183	5,359	45,542
Accumulated depreciation	26,218	-	26,218
Net book value	13,965	5,359	19,324
At 31 March 2016			
Cost	41,356	3,941	45,297
Accumulated depreciation	28,698	-	28,698
Net book value	12,658	3,941	16,599
Movements in the six months ended 30 September 2016			
Opening net book value	12,658	3,941	16,599
Additions	2,488	18	2,506
Amortisation expense	(2,692)	-	(2,692)
Closing net book value	12,454	3,959	16,413
At 30 September 2016			
Cost	43,844	3,959	47,803
Accumulated depreciation	31,390	-	31,390
Net book value	12,454	3,959	16,413

7. Borrowings

The Group operates a \$2 million overdraft facility. As at 30 September 2016, there were no drawings against this facility. The guaranteed bonds, wholesale bonds, US dollar private placement notes, NZ dollar private placement notes, revolving cash facilities and working capital facility are all secured against the assets of the Company through the Security Trust Deed.

On 25 August 2016, the Company issued a \$100 million wholesale bond, for three and a half years at BKBM + 1.30%. This is to refinance the upcoming US dollar private placement notes maturity of \$109 million on 25 November 2016. The cash flow statement shows \$132.2 million as proceeds from borrowings and \$122.5 million as repayment of borrowings, reflecting the movements within the working capital facility.

8. Other financial assets and liabilities

The fair value of derivatives is disclosed in the financial statements as follows:

	UNAUDITED 30 SEPTEMBER 2016 \$000	UNAUDITED 30 SEPTEMBER 2015 \$000	AUDITED 31 MARCH 2016 \$000
Other current financial assets			
Interest rate swaps	-	-	-
Foreign exchange contracts	5	-	-
	5	-	-
Other non-current financial assets			
US cross currency interest rate swap	85,947	135,595	102,703
Interest rate swaps	40,056	17,110	29,153
	126,003	152,705	131,856
Other current financial liabilities			
US cross currency interest rate swap	(19,513)	(5,823)	(12,879)
Interest rate swaps	(3,264)	(3,397)	(4,203)
Foreign exchange contracts	(10)	-	-
	(22,787)	(9,220)	(17,081)
Other non-current financial liabilities			
US cross currency interest rate swap	-	(2,937)	-
Interest rate swaps	(79,356)	(73,711)	(82,156)
Foreign exchange contracts	-	-	-
	(79,356)	(76,648)	(82,156)
	23,865	66,837	32,619

Fair value of assets and liabilities

Powerco enters into derivative transactions under International Swaps and Derivatives Association (ISDA) Master Agreements and Schedules. The various asset and liability valuation positions of these instruments are not offset against each other in the Statement of Financial Position. In the event of an early termination of the ISDA agreements, these assets and liabilities are able to be offset. Refer to the table above for the asset and liability of these instruments.

The Group holds the following instruments:

NOTIONAL PRINCIPAL	UNAUDITED 30 SEPTEMBER 2016 \$000	UNAUDITED 30 SEPTEMBER 2015 \$000	AUDITED 31 MARCH 2016 \$000
US cross currency swaps	548,059	638,861	548,059
Interest rate swaps (pay floating)	285,000	285,000	285,000
Interest rate swaps (pay fixed)	1,295,000	1,525,000	1,375,000
Foreign exchange contracts	1,070	-	-
	2,129,129	2,448,861	2,208,059

FAIR VALUE	UNAUDITED 30 SEPTEMBER 2016 \$000	UNAUDITED 30 SEPTEMBER 2015 \$000	AUDITED 31 MARCH 2016 \$000
US cross currency swaps	66,434	126,836	89,824
Interest rate swaps (pay floating)	40,056	17,110	29,153
Interest rate swaps (pay fixed)	(82,620)	(77,109)	(86,358)
Foreign exchange contracts	(5)	-	-
	23,865	66,837	32,619
MOVEMENT OF DERIVATIVES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS	UNAUDITED FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016 \$000	UNAUDITED FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015 \$000	AUDITED FOR THE YEAR ENDED 31 MARCH 2016 \$000
US cross currency swaps	(23,391)	106,973	61,252
Interest rate swaps (pay floating)	10,903	1,734	13,777
Interest rate swaps (pay fixed)	3,738	(16,536)	(25,785)
Foreign exchange contracts	(5)	(140)	30
	(8,755)	92,031	49,274

Fair values

Carrying value approximates fair value for the following assets and liabilities:

Cash and cash equivalents	Trade and other receivables
Other current assets	Other current liabilities
Trade and other payables	Bank overdraft
Finance lease receivable	Commercial bank debt and working capital advances

Derivatives are the only items carried at fair value. For the following financial liabilities, fair value does not equate to carrying value:

	UNAUDITED 30 SEPTEMBER 2016		UNAUDITED 30 SEPTEMBER 2015		AUDITED 31 MARCH 2016	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial liabilities at amortised cost						
Guaranteed bonds	49,910	51,626	49,791	52,770	49,860	52,264
Wholesale bonds	350,926	363,004	250,711	255,446	250,767	260,136
US dollar private placement notes	590,902	571,897	761,248	607,250	624,754	602,715
NZD private placement notes	136,096	166,852	136,063	128,542	136,075	159,475
	1,127,834	1,153,379	1,197,814	1,044,008	1,061,455	1,074,590

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

- For floating rate debt, carrying value approximates fair value due to continuing interest rate reset
- The fair value of financial derivatives and fixed rate debt are determined by reference to the market quoted rates input into discounted cash flow valuation models

The valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives at the reporting date. The risk of non-performance by each party is also taken into account.

Fair value measurements recognised in the Statement of Financial Position

All financial instruments that are measured subsequent to initial recognition at fair value on a recurring basis can be grouped into levels 1 to 3, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

NZD interest rate swap contracts, foreign exchange contracts and USD cross currency interest rate swaps are all categorised as level 2.

9. Related parties

	UNAUDITED FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016 \$000	UNAUDITED FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015 \$000
Transactions between Powerco Ltd and PNZHL		
Dividends paid to Powerco New Zealand Holdings Ltd (PNZHL)	23,749	25,673
Tax losses transferred to Group from PNZHL	44,438	45,463

PNZHL tax loss transfers to the Powerco Group are for nil consideration. Powerco Ltd performs the accounting function of PNZHL for nil consideration.

10. Share capital

Total number of ordinary shares authorised, issued and fully paid at 30 September 2016 is 369,929,053. There has been no movement in the number of shares in the period.

Each ordinary share in the Company confers on the holder:

- (a) The right to one vote on a poll at a meeting of the Company on any resolution
- (b) The right to an equal share in the distributions approved by the Board of Directors
- (c) The right to an equal share in distribution of the surplus assets of the Company

The shares have no par value.

11. Contingent liabilities and commitments

Contingent assets and liabilities

As at 30 September 2016, the Group had no contingent assets or liabilities.

Commitments

	UNAUDITED 30 SEPTEMBER 2016 \$000	UNAUDITED 30 SEPTEMBER 2015 \$000	AUDITED 31 MARCH 2016 \$000
Commitments for future capital expenditure resulting from contracts entered into	3,797	3,431	4,842
Commitments for future operational expenditure resulting from contracts entered into	9,604	5,826	10,282
Commitments resulting from Electricity Field Service Agreement (EFSA) contract entered into	110,000	150,000	130,000

The Group and Downer Utilities Alliance New Zealand Ltd have entered into an EFSA for capital and operational service for both the Eastern and Western regions. There is a separate EFSA for each region with a service commencement date of 30 June 2014 and an end date of 30 June 2019. The targeted annual expenditure is \$20 million per year for each agreement (\$40 million in total).

12. Subsequent events

There have been no significant subsequent events since 30 September 2016 requiring adjustment to these financial statements and disclosures.