POWERCO LIMITED

FINANCIALS

For the year ending 31 March 2014

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2014

	NOTES	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Revenue	1	411,170	397,994	409,390	396,211
Other income	1	4,310	3,433	4,454	4,353
Total income		**415,480**	**401,427**	**413,844**	**400,564**
Operating expenses		(136,447)	(128,241)	(136,424)	(128,971)
Employee benefit expenses		(32,447)	(28,915)	(32,447)	(28,915)
Indirect expenses		(19,445)	(20,185)	(19,389)	(20,290)
		(188,339)	**(177,341)**	**(188,260)**	**(178,176)**
Earnings before finance costs, loss on disposal, taxation, depreciation, amortisation, and financial instruments		**227,141**	**224,086**	**225,584**	**222,388**
Other gains/(losses) on financial instruments	1	19,138	(1,166)	19,138	(1,166)
Net loss on disposal of fixed assets		(13,509)	(9,033)	(13,509)	(9,198)
Depreciation and amortisation		(72,418)	(70,732)	(72,217)	(70,369)
Earnings before finance costs and taxation		**160,352**	**143,155**	**158,996**	**141,655**
Finance costs	3	(72,071)	(76,192)	(72,071)	(76,192)
Profit before taxation		**88,281**	**66,963**	**86,925**	**65,463**
Income tax benefit/(expense)	4	3,550	(4,887)	3,616	(4,829)
Profit for the period after tax		**91,831**	**62,076**	**90,541**	**60,634**
Other comprehensive income					
Items that may be reclassified subsequently in profit/loss:					
Cash flow hedges amortised		677	-	677	-
Loss recognised on cash flow hedges		-	(16,469)	-	(16,469)
Cash flow hedges transferred to profit		-	8,998	-	8,998
Income tax (expense)/benefit on cash flow hedges		(189)	2,092	(189)	2,092
Total other comprehensive income/(loss)		**488**	**(5,379)**	**488**	**(5,379)**
Total comprehensive income for the period, net of tax		**92,319**	**56,697**	**91,029**	**55,255**

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

	NOTES	ATTRIBUTABLE TO OWNERS SHARE CAPITAL NZ$000	ACCUMULATED DEFICITS NZ$000	HEDGE RESERVE NZ$000	TOTAL NZ$000
GROUP					
Balance as at 31 March 2012		**698,165**	**(224,262)**	**(201)**	**473,702**
Profit for the period		-	62,076	-	62,076
Cash flow hedges:					
Gain taken to equity	7	-	-	(16,469)	(16,469)
Transferred to profit	7	-	-	8,998	8,998
Income tax expense on cash flow hedges	4	-	-	2,092	2,092
Other comprehensive income		-	-	(5,379)	(5,379)
Total comprehensive income, net of tax		**-**	**62,076**	**(5,379)**	**56,697**
Transactions with owners:					
Dividends	8	-	(52,493)	-	(52,493)
Balance as at 31 March 2013		**698,165**	**(214,679)**	**(5,581)**	**477,906**
Profit for the period		-	91,831	-	91,831
Cash flow hedges amortised		-	-	677	677
Income tax expense on amortisation of cash flow hedges	4	-	-	(189)	(189)
Total comprehensive income, net of tax		**-**	**91,831**	**488**	**92,319**
Transactions with owners:					
Dividends	8	-	(55,008)	-	(55,008)
Balance as at 31 March 2014		**698,165**	**(177,856)**	**(5,092)**	**515,217**

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

	NOTES	SHARE CAPITAL NZ$000	ACCUMULATED DEFICITS NZ$000	HEDGE RESERVE NZ$000	TOTAL NZ$000
		ATTRIBUTABLE TO OWNERS			
PARENT					
Balance as at 31 March 2012		**698,165**	**(222,045)**	**(201)**	**475,920**
Profit for the period		-	60,634	-	60,634
Cash flow hedges:					
Gain taken to equity	7	-	-	(16,469)	(16,469)
Transferred to profit	7	-	-	8,998	8,998
Income tax expense on cash flow hedges	4	-	-	2,092	2,092
Other comprehensive income		-	-	(5,379)	(5,379)
Total comprehensive income, net of tax		**-**	**60,634**	**(5,379)**	**55,255**
Transactions with owners:					
Effect of amalgamations	15	-	(923)	-	(923)
Dividends	8	-	(52,493)	-	(52,493)
Balance as at 31 March 2013		**698,165**	**(214,826)**	**(5,580)**	**477,759**
Profit for the period		-	90,541	-	90,541
Cash flow hedges amortised		-	-	677	677
Income tax expense on amortisation of cash flow hedges	4	-	-	(189)	(189)
Total comprehensive income, net of tax		**-**	**90,541**	**488**	**91,029**
Transactions with owners:					
Dividends	8	-	(55,008)	-	(55,008)
Balance as at 31 March 2014		**698,165**	**(179,293)**	**(5,092)**	**513,780**

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

	NOTES	GROUP AS AT 31 MARCH 2014 NZ$000	GROUP AS AT 31 MARCH 2013 NZ$000	PARENT AS AT 31 MARCH 2014 NZ$000	PARENT AS AT 31 MARCH 2013 NZ$000
Equity					
Issued capital	7	698,165	698,165	698,165	698,165
Reserves	7	(182,948)	(220,259)	(184,385)	(220,406)
		515,217	477,906	513,780	477,759
Non-current liabilities					
Employee entitlements	10	1,030	604	1,030	604
Other financial liabilities	18	148,288	145,029	148,288	145,029
Borrowings	9	986,946	946,542	986,946	946,542
Deferred tax liability	4	177,426	180,787	176,058	179,485
		1,313,690	1,272,962	1,312,322	1,271,660
Current liabilities					
Bank overdraft	9	292	-	292	-
Trade and other payables	11	34,491	26,474	34,459	26,391
Employee entitlements	10	3,998	3,231	3,998	3,231
Other financial liabilities	18	58	8	58	8
Borrowings	9	72,629	132,161	72,769	132,161
		111,468	161,873	111,436	161,790
TOTAL EQUITY AND LIABILITIES		**1,940,375**	**1,912,742**	**1,937,538**	**1,911,210**
Non-current assets					
Property, plant and equipment	13	1,876,442	1,839,717	1,873,375	1,836,386
Finance lease receivable	17	9,902	10,298	-	-
Other financial assets	18	4,288	15,672	4,288	15,672
Intangible assets	14	14,481	14,707	14,481	14,707
Investment in subsidiaries	15	-	-	9,712	9,712
		1,905,113	1,880,394	1,901,856	1,876,477
Current assets					
Cash and cash equivalents	12	58	428	58	428
Trade and other receivables	16	34,766	31,469	34,555	31,228
Finance lease receivable	17	396	366	-	-
Inventories		40	50	40	50
Other financial assets	18	2	35	2	35
Inter-company accounts and inter-company loan		-	-	1,027	2,992
		35,262	32,348	35,682	34,733
TOTAL ASSETS		**1,940,375**	**1,912,742**	**1,937,538**	**1,911,210**

John Loughlin
Director
22 May 2014

Murray Bain
Director
22 May 2014

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

	NOTES	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		459,113	441,905	457,295	438,697
Cash paid to suppliers and employees		(199,709)	(202,197)	(200,582)	(202,269)
		259,404	239,708	256,713	236,428
Dividends received		12	10	12	10
Interest received		4	-	4	-
GST paid		(20,281)	(23,037)	(19,118)	(22,624)
Interest paid		(71,572)	(75,714)	(71,572)	(74,887)
		(91,837)	(98,741)	(90,674)	(97,501)
Net cash provided by operating activities		**167,567**	**140,967**	**166,039**	**138,927**
CASH FLOWS FROM INVESTING ACTIVITIES					
Loan repayment to parent and subsidiaries		-	-	1,966	2,133
Proceeds from sale of property, plant and equipment		114	1,832	114	33
Purchase of property, plant and equipment		(125,601)	(104,771)	(125,673)	(102,727)
Net cash used in investing activities		**(125,487)**	**(102,939)**	**(123,593)**	**(100,561)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		111,900	146,946	111,900	146,946
Proceeds from finance leases		366	338	-	-
Loan establishment costs		-	(1,244)	-	(1,244)
Repayment of borrowings		(100,000)	(130,000)	(100,000)	(130,000)
Dividend paid		(55,008)	(52,493)	(55,008)	(52,493)
Net cash used in financing activities		**(42,742)**	**(36,453)**	**(43,108)**	**(36,791)**
Net (decrease)/increase in cash and cash equivalents		**(662)**	**1,575**	**(662)**	**1,575**
Cash and cash equivalents at the beginning of the period		428	(1,147)	428	(1,147)
Cash and cash equivalents at the end of the period		**(234)**	**428**	**(234)**	**428**
Comprises the following:					
Cash and cash equivalents	12	58	428	58	428
Bank overdraft	9	(292)	-	(292)	-
		(234)	**428**	**(234)**	**428**

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

For the year ended 31 March 2014

	NOTES	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Profit after taxation		**91,831**	**62,076**	**90,541**	**60,634**
ADD/(LESS) NON-CASH ITEMS					
Depreciation and amortisation		72,418	70,732	72,217	70,369
Loss on disposal of assets		13,623	10,865	13,623	9,231
Non-cash component of finance costs		1,018	1,840	1,018	1,840
Other (gains)/losses on financial instruments	1	(19,138)	1,166	(19,138)	1,166
Non-cash items in relation to investing/financing activities		5,061	(6,794)	5,071	(5,267)
(Decrease)/increase in deferred tax liability		(3,173)	4,887	(3,238)	4,829
MOVEMENTS IN WORKING CAPITAL					
(Increase)/decrease in assets					
Trade and other receivables		(3,296)	(648)	(3,155)	(594)
Inventories		10	-	10	-
Other current assets		-	926	-	926
Increase/(decrease) in liabilities					
Trade and other payables		8,018	(3,730)	7,896	(3,854)
Employee entitlements		1,194	573	1,194	573
Other current liabilities		-	(926)	-	(926)
Net cash provided by operating activities		**167,567**	**140,967**	**166,039**	**138,927**

These financial statements should be read in conjunction with the Statement of Accounting Policies on pages 7 to 12 and the notes to the financial statements on pages 13 to 42.

STATEMENT OF ACCOUNTING POLICIES FOR THE GROUP FINANCIAL STATEMENTS

For the year ended 31 March 2014

General information

Powerco Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand. The addresses of its registered office and principal place of business are disclosed in the directory of the annual report. The principal activities of the Company and its subsidiaries are described in Note 15 in the notes to the financial statements.

These financial statements have been prepared to comply with the provisions of Section 44 of the Energy Companies Act 1992, the Companies Act 1993 and the Financial Reporting Act 1993. Powerco Limited is a profit-oriented entity. The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements of the Parent are for Powerco Limited as a separate legal entity. The consolidated financial statements for the Group are for the economic entity comprising Powerco Limited and its subsidiaries (the Group). These financial statements were authorised for issue by the Board of Directors on 22 May 2014.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain financial instruments. Financial derivatives are carried at fair value. Borrowings that previously had effective fair value hedges in place are carried at amortised cost adjusted for the fair value of interest rate risk covered by the previous effective hedge.

The financial statements are prepared in New Zealand dollars, rounded to the nearest thousand.

The principal accounting policies adopted are set out below.

Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made judgements to ensure that amounts are appropriately recognised in the financial statements.

Items where the key assumptions concerning the future and other key sources of estimation uncertainty at 31 March 2014, which have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below:

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In this financial year it was deemed that no change to the estimated useful lives was needed. If the estimated useful lives of network system assets was 10% higher/lower, operating profit for the year would have increased/decreased by $6.50 million.

The carrying value of property, plant and equipment is disclosed in Note 13 Property, Plant and Equipment.

Impairment of network assets

Determining whether the network assets are impaired requires an estimation of the value in use of the cash-generating units to which the networks have been allocated. The value in use calculation requires the estimation of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The impairment test was conducted and no impairment was found. An increase in the discount rate applied of 0.5% would result in no impairment to network assets. No reasonably possible change in any of the other assumptions would give rise to an impairment.

The total carrying value of network assets is disclosed in Note 13 Property, Plant and Equipment.

Significant accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (listed in Note 15), which have been consolidated using the acquisition method.

Accounting policies of subsidiaries are consistent with the policies of the Group.

Subsidiaries are all those entities (including special-purpose entities) from which the Group has exposure or rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries that form part of the Group are consolidated from the date on which control is transferred to the Company. They cease to be consolidated from the date that control ceases.

The results of subsidiaries acquired or disposed of during the period are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are recorded at cost less any impairment in the Parent company's financial statements.

b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

The cost of the acquisition is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss, as incurred.

Where applicable, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with NZ IFRS. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NZ IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with NZ IAS 12 *Income Taxes* and NZ IAS 19 *Employee Benefits* respectively; and
- Assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are recognised and measured at fair value less costs to sell.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Under a business combination where entities under common control are amalgamated, the carrying values of the assets and liabilities of the entities are combined, with any net asset change on amalgamation recognised in equity.

c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss component of the Statement of Comprehensive Income in the period in which they are incurred. Total capitalised borrowing costs are disclosed in Note 3.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in banks and investments in overnight money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Unclaimed monies held on behalf of bondholders have not been included in cash and deposits.

e) Derivative financial instruments

Financial derivatives are initially recognised in the Statement of Financial Position at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value on each reporting date, though the method of recognising the resulting gains and losses is dependent on whether hedge accounting is applied. When derivative contracts are entered into, the Group designates them as either:

- Hedges of the fair value of recognised assets or liabilities (fair value hedge); or
- Hedges of forecast transactions or firm commitments (cash flow hedge) which hedge exposures to variability in cash flows; or
- Other derivative financial instruments not meeting hedge accounting criteria.

The fair values of financial derivatives are determined by using market-quoted rates as inputs into valuation models for interest and currency swaps, forwards and options. The introduction of NZ IFRS 13 *Fair Value Measurement* also requires the risk of non-performance as an input. Changes in fair value of derivatives are recognised:

- For fair value hedges, the movements are recorded in the profit or loss component of the Statement of Comprehensive Income alongside any changes in the fair value of the hedged items;
- The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other (losses)/gains expenses line; and
- All other movements in the fair value of derivative financial instruments are recorded in the profit or loss component of the Statement of Comprehensive Income.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other losses on financial instruments.

Amounts recognised in the hedge reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognised in the hedge reserve is reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedge reserve at that time remains in equity and is recorded in the profit or loss at the same time as the underlying instrument impacts the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedge reserve is recognised immediately in profit or loss.

Fair value hedges

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated or no longer qualifies for hedge accounting. The adjustments to the carrying amount of the hedged item arising from the hedged risk are amortised to the profit or loss component of the Statement of Comprehensive Income.

f) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

g) Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long-service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

h) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost less impairment.

Other financial assets are classified into one of four categories: financial assets at fair value through profit or loss; held to maturity investments; available for sale financial assets; or loans and receivables. At balance date, the Group had the following classes of financial assets:

Financial assets at fair value through profit or loss

Other financial assets relate to derivatives held at period end. All derivative assets are measured at fair value through profit or loss, except for derivatives that are designated as being effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these assets recorded within other comprehensive income in the Statement of Comprehensive Income. Refer to (e) for the accounting policy on derivative financial instruments.

Loans and receivables

Cash and cash equivalents, trade and other receivables (excluding prepayments), other current assets (unclaimed monies investment and bank account) and inter-company accounts/loans are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, less impairment. Trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for trade receivables includes the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period of 30 days, as well as observable changes in national, local or industry economic conditions that correlate with default on receivables.

Impairment

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

i) Financial liabilities

Financial liabilities are recognised when the entity becomes party to the contractual provisions of the instrument.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expire.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

All derivative liabilities are measured at fair value through profit or loss, except for derivatives that are designated as being effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these liabilities recorded within other comprehensive income in the Statement of Comprehensive Income. Refer to (e) for the accounting policy on derivative financial instruments.

Other financial liabilities

Trade and other payables, other current liabilities that are financial instruments (unclaimed monies) borrowings and inter-company accounts/loans are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis. Refer to (e) for further information on the recording of borrowings in a hedge relationship.

j) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in the profit or loss component of the Statement of Comprehensive Income in the period in which they arise.

Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which they operate (the functional currency), which is New Zealand dollars. The consolidated financial statements are presented in New Zealand dollars, which is the Group's functional currency and the Group's presentation currency.

k) Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest group of assets for which there are separately identified cash flows.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss component of the Statement of Comprehensive Income, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss component of the Statement of Comprehensive Income, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) Intangible assets

Intangible assets are composed of computer software, easements and customer contracts. Customer contracts and computer software have finite lives while easements have an indefinite life. Easements are deemed to have an indefinite life as the right to access the land for the purpose of installation and maintenance of network assets does not have a maturity date and can not be traded.

Intangible assets acquired separately (purchased) are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on both a straight line basis and diminishing value basis over their useful lives. The estimated useful lives, residual value and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, the intangible customer contracts that were acquired in a business combination are reported at cost less any accumulated amortisation and impairment losses on the same basis as intangibles assets acquired separately.

Amortisation

Amortisation of intangibles is calculated on a diminishing value basis for computer software and a straight-line basis for customer contracts, over their useful lives.

Amortisation rates based on remaining useful life, for major classes of asset are:

Computer software	4 to 35 years
Customer contracts	10 to 20 years

Easements are not amortised.

m) Inventory

Inventories, being consumables, are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined on a first-in, first-out basis.

n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease payable.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments, where the lessors effectively retain substantially all the risks and rewards of ownership of the leased items, are included in profit or loss in equal instalments over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

o) Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost in the Statement of Financial Position. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Work in progress is carried at cost in the Statement of Financial Position and is not depreciated. A transfer out of work in progress to the relevant asset class takes place when an asset is commissioned or is ready for its intended use.

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss component of the Statement of Comprehensive Income.

Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis for network systems and on diminishing value for all other assets, to write off the cost of the assets (other than land) over the useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis.

Depreciation rates based on remaining useful life, for major classes of asset are:

Land	Not depreciated
Buildings	50 years
Plant and equipment	5 to 10 years
Network systems	10 to 70 years

p) Revenue recognition

Revenue is recognised at the fair value of sales of goods and services and customer contributions, net of Goods and Services Tax (GST), rebates and discounts. Sales of goods and services includes items such as electricity and gas line revenue, gas metering revenue and transmission line revenue.

Revenue is recognised as follows:

i. Rendering of services

Revenue from services is recognised in the accounting period in which the services are rendered, based upon usage or volume throughput during that period.

ii. Contributions from customers and asset transfers

The Group receives contributions from customers and grants towards the costs of reticulating new subdivisions and contributions received in constructing uneconomic lines. The timing of the recognition of revenue arising from the transfer of property, plant and equipment depends on the separately identifiable services included in the agreement. The fair value received is allocated between the services, and the recognition criteria of NZ IAS 18 *Revenue* is then applied to each service individually.

Where the revenue relates to the transfer of the asset, the revenue is recognised when the risks and rewards are transferred to the Group. When the revenue relates to the underlying contract obtained in the transfer, the revenue is recognised on a systematic basis over the life of the contract.

q) Segment reporting

NZ IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive (Chief Executive Operating Decision Maker) in order to allocate resources to the segment and to assess its performance.

Where expenses, assets and liabilities have been unable to be split between the electricity and gas segments, these have been included within the unallocated segment.

r) Share capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

s) Statement of Cash Flows

The Statement of Cash Flows is prepared inclusive of GST. The GST component of cash flows arising from investing and financing that is recovered from, or paid to, the Inland Revenue is classified as operating cash flow.

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, cash in banks, and investments in money market instruments, net of outstanding bank overdrafts.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

t) Taxation

The amount recognised for current tax is based on the net profit for the period as adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax base of the assets and liabilities and their carrying amounts in the Statement of Financial Position.

The following temporary differences are not provided for: goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and the temporary differences relating to investments in subsidiaries where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or benefit in the profit or loss component of the Statement of Comprehensive Income, except when it relates to items credited or debited in other comprehensive income or directly in equity, in which case the deferred tax or current tax is also recognised in other comprehensive income or directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

u) Term debt

All loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost. Borrowing costs are recognised as an expense when incurred, except to the extent that they are capitalised in accordance with (c) above.

All interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method, which allocates the cost through the expected life of the borrowing. Amortised cost is calculated taking account of issue costs, and any discounts or premiums on draw-down.

After initial recognition for those interest-bearing loans and borrowings where hedge accounting is applied, the loan balance is adjusted for the change in the hedged risk only. The Group policy is to hedge the interest/foreign currency risk associated with term debt with financial instruments on matched terms.

Borrowings are classified as current liabilities (either advances and deposits, or the current portion of term debt) unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

v) Trade and other payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. These are initially recognised at fair value. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost. Given the nature of these liabilities, amortised cost approximates their notional principal.

Changes in accounting policies

Accounting policies have been consistently applied.

Standards, Amendments and Interpretations effective in the current period

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 31 March 2014. Management have not yet assessed the impact of these standards.

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
Offsetting Financial Assets and Financial Liabilities (Amendments to NZ IAS 32)	1 January 2014	31 March 2015
Investment Entities (Amendments to NZ IFRS 10, NZ IFRS 12 and NZ IAS 27)	1 January 2014	31 March 2015
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to NZ IAS 36)	1 January 2014	31 March 2015
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to NZ IAS 39)	1 January 2014	31 March 2015
Levies NZ IFRIC 21	1 January 2014	31 March 2015
Financial Instruments NZ IFRS 9	1 January 2017	31 March 2018

Adoption of new and revised Standards and Interpretations

Management has reviewed the Standards and Interpretations that became mandatory in the current year, and has determined that there is no material effect on the results and position of the Group.The only exception is IFRS 13 Fair Value Measurement, which determined that we take into account the risk of non-performance when valuing derivative instruments. The total effect of non-performance risk on the derivative instruments for the year ended 31 March 2014 was $6.1 million.

NOTES TO AND FORMING PART OF THE GROUP FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. Revenue And Other Income

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Revenue from the rendering of services	398,436	382,601	396,656	380,818
Customer contributions	12,734	15,393	12,734	15,393
Total revenue	**411,170**	**397,994**	**409,390**	**396,211**
Interest on bank deposits	4	-	4	-
Interest on inter-company loans	-	-	168	827
Dividends received	12	10	12	10
Other income	4,294	3,423	4,270	3,516
Total other income	**4,310**	**3,433**	**4,454**	**4,353**
(i) Movement of derivatives held at fair value through profit or loss	(14,691)	-	(14,691)	-
(ii) Foreign exchange movement on debt held at amortised cost	21,961	-	21,961	-
(iii) Amortisation of debt previously held at fair value	12,545	-	12,545	-
(iv) Amortisation of fair value movement on derivatives previously taken to reserves	(677)	-	(677)	-
(v) Gain on the change in fair value of financial assets and liabilities classified as held for trading	-	1,390	-	1,390
(vi) Hedge ineffectiveness on fair value hedges – unrealised	-	(2,556)	-	(2,556)
Total other gains/(losses) on financial instruments	**19,138**	**(1,166)**	**19,138**	**(1,166)**

2. De-designation of hedge accounting

In this financial year, the Group made the decision to stop hedge accounting and de-designate its existing hedge relationships. This decision was made for the purpose of reducing complexity and aiding transperancy. The change is effective from 1 April 2013. All movements of derivatives held at fair value and foreign exchange movements on debt are now recorded as other gains/losses on financial instruments in the Statement of Comprehensive Income. Further information regarding the movement during the year is provided in Note 1(i) and (ii).

There are two balances previously hedge accounted which are being amortised,as follows:

- Debt balance resulting from the increase in the fair value of debt which is being amortised to profit or loss over its remaining life. At the end of the period there was a balance of $41.8 million remaining to be amortised over the next 14 years using the effective interest method in line with the debt settlement periods as disclosed in Note 9. Further information regarding the movement during the year is provided in Note 1 (iii).
- Hedge reserve which contained the fair value movement on derivatives taken to reserves. This is being amortised to profit or loss over the remaining lives of the underlying exposures. At the end of the period there was a balance of $5.1 million remaining to be amortised over the next 14 years. Further information regarding the movement during the year is provided in Note 1 (iv).

3. Finance costs

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Interest on bank overdrafts	602	915	602	915
Interest on senior debt	70,867	71,175	70,867	71,175
Other finance costs	3,617	4,102	3,617	4,102
Interest capitalisation	(3,015)	-	(3,015)	-
Total finance costs	**72,071**	**76,192**	**72,071**	**76,192**

Capitalised interest is charged to projects expected to have costs exceeding $0.5m whose construction is expected to be greater than six months. Interest is calculated monthy and the current interest rate used is 6.73% per annum.

4. Taxation

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
INCOME TAX RECOGNISED IN PROFIT OR LOSS				
Tax expense comprises:				
Deferred tax expense on temporary differences	(4,264)	6,743	(4,367)	6,547
Adjustments recognised in current period in relation to the deferred tax of prior years	714	(1,856)	751	(1,718)
Total tax (benefit)/expense	**(3,550)**	**4,887**	**(3,616)**	**4,829**

The total charge for the period can be reconciled to the accounting profit as follows:

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Profit before tax:				
Operating profit before taxation	88,281	66,963	86,925	65,463
Tax at the New Zealand income tax rate of 28 per cent	24,719	18,750	24,339	18,330
Tax effect of losses transferred from Powerco New Zealand Holdings Limited	(11,131)	(12,013)	(10,854)	(11,825)
Tax effect of revenue items that are not deductible in determining taxable profit	1,728	6	1,728	42
Tax effect of changing spreading methods for certain financial arrrangements	(19,580)	-	(19,580)	-
	(4,264)	6,743	(4,367)	6,547
Adjustments recognised in current period in relation to the deferred tax of prior years	714	(1,856)	751	(1,718)
Total tax (benefit)/expense	**(3,550)**	**4,887**	**(3,616)**	**4,829**

Deferred tax – temporary differences

	OPENING BALANCE NZ$000	CHARGED TO PROFIT OR LOSS NZ$000	CHARGED TO OTHER COMPREHENSIVE INCOME NZ$000	CLOSING BALANCE NZ$000
GROUP – 2014				
Gross deferred tax liabilities				
Property, plant and equipment	200,941	8,742	-	209,683
Derivatives	(22,225)	(20,282)	189	(42,318)
Borrowings	-	7,802	-	7,802
Other	2,071	188	-	2,259
	180,787	**(3,550)**	**189**	**177,426**

	OPENING BALANCE NZ$000	CHARGED TO PROFIT OR LOSS NZ$000	CHARGED TO OTHER COMPREHENSIVE INCOME NZ$000	CLOSING BALANCE NZ$000
GROUP – 2013				
Gross deferred tax liabilities				
Property, plant and equipment	196,404	4,537	-	200,941
Derivatives	(20,688)	555	(2,092)	(22,225)
Other	2,276	(205)	-	2,071
	177,992	**4,887**	**(2,092)**	**180,787**

Deferred tax – temporary differences

	OPENING BALANCE NZ$000	CHARGED TO PROFIT OR LOSS NZ$000	EFFECT OF AMALGAMATIONS NZ$000	CHARGED TO OTHER COMPREHENSIVE INCOME NZ$000	CLOSING BALANCE NZ$000
PARENT – 2014					
Gross deferred tax liabilities					
Property, plant and equipment	202,626	8,571	-	-	211,197
Derivatives	(22,225)	(20,282)	-	189	(42,318)
Borrowings	-	7,802	-	-	7,802
Other	(916)	293	-	-	(623)
	179,485	**(3,616)**	**-**	**189**	**176,058**

	OPENING BALANCE NZ$000	CHARGED TO PROFIT OR LOSS NZ$000	EFFECT OF AMALGAMATIONS NZ$000	CHARGED TO OTHER COMPREHENSIVE INCOME NZ$000	CLOSING BALANCE NZ$000
PARENT – 2013					
Gross deferred tax liabilities					
Property, plant and equipment	199,063	4,339	(776)	-	202,626
Derivatives	(20,688)	555	-	(2,092)	(22,225)
Borrowings	-	-	-	-	-
Other	(1,467)	(65)	616	-	(916)
	176,908	**4,829**	**(160)**	**(2,092)**	**179,485**

The Company is part of the Powerco New Zealand Holdings Limited (PNZHL) tax group.

Spreading method changes for certain financial arrangements

During the year to 31 March 2014, the Group ceased to hedge account and as a result the Group has elected to change the spreading methods applied for taxation purposes in respect of certain financial arrangements effective from 1 April 2013. The changes resulted in an impact to tax expense in the year of $19.6 million.

5. Imputations credit account

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Imputation credits available for use in subsequent financial reporting periods	**2**	**2**	**2**	**2**

6. Share capital

Total number of ordinary shares authorised, issued and fully paid at 31 March 2014 is 369,929,053 (31 March 2013: 369,929,053).

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; and

(c) the right to an equal share in distribution of the surplus assets of the Company.

The shares have no par value.

	GROUP & PARENT	
	NUMBER OF SHARES 000	SHARE CAPITAL NZ$000
Balance at 31 March 2012	**369,929**	**698,165**
Movement during the year	-	-
Balance at 31 March 2013	**369,929**	**698,165**
Movement during the year	-	-
Balance at 31 March 2014	**369,929**	**698,165**

7. Reserves

Hedge reserve

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit or loss component of the Statement of Comprehensive Income when the hedged transaction impacts profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy. As at 31 March 2014, no swaps were effective cash flow hedges (as at 31 March 2013 portions of the 2011 cross currency interest rates swaps were effective cash flow hedges). The remaining hedge reserve balance is being amortised based on the maturity dates of the previously effective cash flow hedges, the last of which will mature in Janurary 2028.

8. Dividends

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Dividends paid on ordinary shares	55,008	52,493	55,008	52,493
Cents per share	14.9	14.2	14.9	14.2

9. Borrowings

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Non-current liabilities at amortised cost				
Guaranteed bonds (a)	101,344	102,636	101,344	102,636
Wholesale bonds (b)	99,748	99,695	99,748	99,695
US dollar private placement notes (c)	576,309	674,902	576,309	674,902
Commercial bank debt (d)	209,545	69,309	209,545	69,309
	986,946	**946,542**	**986,946**	**946,542**
Current liabilities at amortised cost				
Guaranteed bonds (a)	47	97,738	47	97,738
Wholesale bonds (b)	1,222	1,222	1,222	1,222
US dollar private placement notes (c)	70,857	4,672	70,857	4,672
Commercial bank debt (d)	503	28,529	503	28,529
	72,629	**132,161**	**72,629**	**132,161**
Bank overdraft	**292**	**-**	**292**	**-**

The Company operates a $2 million overdraft facility with Westpac New Zealand Limited. As at 31 March 2014, the Company had drawings of $292,000. The interest rate on the overdraft facility at 31 March 2014 was 8.70% (31 March 2013: zero drawings, at an interest rate of 8.45%).

a) Guaranteed bonds

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Guaranteed bonds	100,000	200,000	100,000	200,000
Fair value adjustment to be amortised	1,948	-	1,948	-
Adjustment for the fair value of the interest rate risk	-	3,546	-	3,546
Deferred funding cost	(604)	(875)	(604)	(875)
Accrued interest	47	(2,297)	47	(2,297)
Carrying value of guaranteed bonds	**101,391**	**200,374**	**101,391**	**200,374**
Current portion	47	97,738	47	97,738
Non-current portion	101,344	102,636	101,344	102,636
Total	**101,391**	**200,374**	**101,391**	**200,374**

$250 million of guaranteed bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco Limited. The scheduled payments by the Company of interest and principal are guaranteed on an unsecured basis by US-based Syncora Guarantee Inc (Syncora), a specialist financial guaranty organisation. The first tranche of $100 million bonds matured and were repaid on 29 March 2011 (7 year bonds). The second tranche of $100 million matured and were repaid on 02 April 2013 (9 year bonds). The remaining $50 million tranche will mature 29 June 2015 (11 year bonds). The interest rates on the bonds are fixed until maturity and the bonds are now secured obligations of the Company.

– 11 year guaranteed bonds 6.53%

A further $180 million of guaranteed bonds were issued on 28 September 2005, as secured unsubordinated obligations of the Company. The scheduled payments of interest and principal payable by the Company were again guaranteed on an unsecured basis by Syncora. The first $130 million tranche was repaid, at maturity, on 28 September 2012 (7 year bonds). The remaining $50 million tranche will mature 28 September 2017 (12 year bonds). The interest rates on the bonds are fixed until maturity.

- 12 year guaranteed bonds 6.74%

Under a trust document relating to the guaranteed bonds, the Company has covenanted to ensure that, if Syncora defaults on its obligations under the Financial Guaranty, the Company will procure a sufficient number of its subsidiaries to guarantee its obligations under the guaranteed bonds by signing a subsidiary guarantee so that at all times the total tangible assets of the Company and all guaranteeing subsidiaries exceeds 85% of the total tangible assets of the Group. As at 31 March 2014 no default by Syncora had occurred.

The guaranteed bonds are secured against the network assets of the Company through the Security Trust Deed.

b) Wholesale bonds

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
7 year fixed rate wholesale bonds	65,000	65,000	65,000	65,000
Deferred funding cost	(164)	(198)	(164)	(198)
7 year floating rate wholesale bonds	35,000	35,000	35,000	35,000
Deferred funding cost	(88)	(107)	(88)	(107)
Accrued interest	1,222	1,222	1,222	1,222
Carrying value of wholesale bonds	**100,970**	**100,917**	**100,970**	**100,917**
Current portion	1,222	1,222	1,222	1,222
Non-current portion	99,748	99,695	99,748	99,695
Total	**100,970**	**100,917**	**100,970**	**100,917**

$100 million of wholesale bonds were issued on 20 December 2011 to institutional investors, as secured debt obligations of Powerco Limited. The bonds consist of a $65 million 7 year fixed rate tranche, and a $35 million 7 year floating rate tranche. Both tranches mature on 20 December 2018. The interest rate on the fixed tranche is 6.31%, paid on a semi-annual basis, while the floating rate bonds pay interest quarterly at the 90 day bank bill rate plus a margin.

The wholesale bonds are secured against the network assets of the Company through the Security Trust Deed.

c) US dollar private placements

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
US private placement issue	733,026	733,026	733,026	733,026
Fair value adjustment to be amortised	(87,993)	-	(87,993)	-
Adjustment for the fair value of the interest rate risk	-	(55,050)	-	(55,050)
Deferred funding cost	(2,616)	(3,074)	(2,616)	(3,074)
Accrued interest	4,749	4,672	4,749	4,672
Carrying value of the US dollar private placement	**647,166**	**679,574**	**647,166**	**679,574**
Current portion	70,857	4,672	70,857	4,672
Non-current portion	576,309	674,902	576,309	674,902
Total	**647,166**	**679,574**	**647,166**	**679,574**

A US dollar private placement note issue took place on 25 November 2003 to private US investors. The US dollar private placement notes are debt obligations of the Company. The coupon payments are semi-annual and the notes mature on 25 November 2014 (11 year), 25 November 2015 (12 year), and 25 November 2016 (13 year). The notes are secured against the network assets of the Company through the Security Trust Deed.

The interest rates on the notes are fixed until maturity.

- 11 year US dollar private placement notes 5.47%
- 12 year US dollar private placement notes 5.57%
- 13 year US dollar private placement notes 5.67%

A second US dollar private placement note issue took place on 7 June 2011 to private US investors. The US dollar private placement notes are debt obligations of the Company. The coupon payments are semi-annual and the notes mature on 7 June 2020 (9 year), 7 June 2023 (12 year), and 7 June 2026 (15 year). The notes are secured against the network assets of the Company through the Security Trust Deed.

The interest rates on the notes are fixed until maturity.

- 9 year US dollar private placement notes 4.36%
- 12 year US dollar private placement notes 4.56%
- 15 year US dollar private placement notes 4.86%

A third US dollar private placement issue took place on 23 January 2013 to private US investors. The US dollar private placement notes are debt obligations of the Company. The coupon payments are semi-annual and the notes mature on 23 January 2025 (12 year) and 23 January 2028 (15 year). The notes are secured against the network assets of the Company through the Security Trust Deed.

The interest rates on the notes are fixed until maturity.

- 12 year US dollar private placement notes 3.40%
- 15 year US dollar private placement notes 3.60%

d) Commercial bank debt

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Revolving Cash Facility 1	105,000	15,000	105,000	15,000
Deferred funding costs	(401)	(584)	(401)	(584)
Revolving Cash Facility 2	55,000	55,000	55,000	55,000
Deferred funding costs	(54)	(105)	(54)	(105)
Working Capital Facility	50,000	28,100	50,000	28,100
Accrued interest	503	429	503	429
	210,048	**97,838**	**210,048**	**97,838**
Current portion	503	28,529	503	28,529
Non-current portion	209,545	69,309	209,545	69,309
Total	**210,048**	**97,838**	**210,048**	**97,838**

The Company holds a Revolving Cash Advance facility, provided jointly and in equal proportion by ANZ National Bank and Westpac New Zealand Limited. The facility is in two tranches. Tranche B, for $100 million, was entered in December 2010 and matures in December 2015. Tranche A, for $100 million, was extended on 13 April 2012 and will mature on 1 April 2017. At balance date, tranche B was drawn to $5 million (2013: $0 million), and tranche A was drawn to $100 million (2013: $15 million).

The Company holds a $55 million bank facility with Bank of Tokyo-Mistubishi UFJ, Limited. The facility was signed on 13 April 2012 and will mature 13 April 2015.

At balance date, this facility was drawn to $55 million.

During the period the Company entered into a Working Capital Facility with Westpac New Zealand Limited, with a facility size of $50 million. The facility is based on a revolving credit arrangement and, as such, does not have set repayment dates. The facility is due to mature on 7 March 2017. This facility replaced the Working Capital Facility held with Commonwealth Bank of Australia for up to $30 million.

All facilities have the benefit of the Security Trust Deed.

e) Covenants

The Company has covenanted with all counterparties to ensure certain financial criteria are met throughout the term of the debt agreements. These covenants include minimum Interest Coverage Ratios, miniumum Net Worth and maximum Gearing or Leverage ratios. Covenants also include various comparisons of the Guaranteeing Group earnings and assets under the Security Trust Deed to earnings and assets of the Group (Also refer to Note 18a). There have been no breaches to date.

10. Employee entitlements

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Employee entitlements:				
Non-current portion	1,030	604	1,030	604
Current portion	3,998	3,231	3,998	3,231
	5,028	**3,835**	**5,028**	**3,835**

The provision for employee entitlements relates to employee benefits such as accrued wages, bonuses, redundancy, accrued holiday pay and long service leave. The provision is affected by a number of estimates, including the expected employment period of employees, the future earnings of the employees and the timing of employees utilising the benefits. The majority of the provision is expected to be realised within the next two years.

11. Trade and other payables

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Trade payables and accruals	33,841	26,629	33,836	26,565
GST payable/(receivable)	650	(155)	623	(174)
	34,491	**26,474**	**34,459**	**26,391**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates their fair value. On average, the creditors are paid on the 20th of the following month, unless a different term of credit is specified on the invoice.

12. Cash and cash equivalents

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Cash and cash equivalents	**58**	**428**	**58**	**428**

13. Property plant and equipment

	LAND AND BUILDINGS NZ$000	PLANT AND EQUIPMENT NZ$000	NETWORK SYSTEMS NZ$000	WORK IN PROGRESS NZ$000	TOTAL NZ$000
GROUP					
Gross carrying value					
Balance at 31 March 2012	13,950	30,190	2,335,994	50,624	2,430,758
Additions	-	1,642	791	99,826	102,259
Transfers	2,257	-	104,664	(106,921)	-
Disposals	(2)	-	(15,787)	-	(15,789)
Balance at 31 March 2013	16,205	31,832	2,425,662	43,529	2,517,228
Additions	54	-	783	119,755	120,592
Reclassification	(2,505)	-	-	-	(2,505)
Transfers	1,459	1,288	111,390	(114,137)	
Disposals	-	(15)	(21,619)	-	(21,634)
Balance at 31 March 2014	15,213	33,105	2,516,216	49,147	2,613,681
Accumulated depreciation					
Balance at 31 March 2012	3,430	26,259	586,298	-	615,987
Disposals	-	-	(5,270)	-	(5,270)
Depreciation expense	331	1,792	64,671	-	66,794
Balance at 31 March 2013	3,761	28,051	645,699	-	677,510
Disposals	-	(9)	(8,313)	-	(8,322)
Depreciation expense	536	1,931	65,583	-	68,050
Balance at 31 March 2014	4,297	29,973	702,969	-	737,239
Net book value at 31 March 2013	**12,444**	**3,781**	**1,779,963**	**43,529**	**1,839,717**
Net book value at 31 March 2014	**10,916**	**3,132**	**1,813,247**	**49,147**	**1,876,442**

There are no restrictions in titles relating to property, plant and equipment or items pledged as security for liabilities.

The annual review of property, plant and equipment showed that there was no impairment during the current financial year or at balance date. Refer to the accounting policies under critical accounting estimates and judgement "Useful lives of property, plant and equipment" for more information.

	LAND AND BUILDINGS NZ$000	PLANT AND EQUIPMENT NZ$000	NETWORK SYSTEMS NZ$000	WORK IN PROGRESS NZ$000	TOTAL NZ$000
PARENT					
Gross carrying value					
Balance at 31 March 2012	13,951	30,190	2,331,215	46,334	2,421,690
Additions	-	1,642	94	99,262	100,998
Transfers	2,257	-	101,553	(103,810)	-
Disposals	(2)	-	(14,494)	-	(14,496)
Effect of amalgamation of Independent Transmission Services Limited	-	-	2,877	1,952	4,830
Balance at 31 March 2013	16,206	31,832	2,421,245	43,738	2,513,021
Additions	54	-	783	119,818	120,655
Reclassification	(2,505)	-	-	-	(2,505)
Transfers	1,459	1,288	111,390	(114,137)	
Disposals	-	(15)	(21,619)	-	(21,634)
Balance at 31 March 2014	15,214	33,105	2,511,800	49,419	2,609,538
Accumulated depreciation					
Balance at 31 March 2012	3,430	26,259	585,633	-	615,322
Disposals	-	-	(5,263)	-	(5,263)
Depreciation expense	331	1,792	64,308	-	66,431
Effect of amalgamation of Independent Transmission Services Limited	-	-	146	-	146
Balance at 31 March 2013	3,761	28,051	644,824	-	676,636
Disposals	-	(9)	(8,313)	-	(8,322)
Depreciation expense	536	1,931	65,382	-	67,849
Balance at 31 March 2014	4,297	29,973	701,893	-	736,164
Net book value at 31 March 2013	**12,445**	**3,781**	**1,776,421**	**43,738**	**1,836,386**
Net book value at 31 March 2014	**10,917**	**3,132**	**1,809,907**	**49,419**	**1,873,375**

Capitalised borrowing costs

Borrowing costs of $3.0m were capitalised during the period (2013: nil). See Note 3 for further information.

14. Other intangible assets

	SOFTWARE NZ$000	EASEMENTS NZ$000	TOTAL NZ$000
GROUP			
Gross carrying value			
Balance at 31 March 2012	23,405	1,574	24,979
Additions	5,444	657	6,101
Effect of amalgamation of Independent Transmission Services Limited	-	(341)	(341)
Balance at 31 March 2013	28,849	1,890	30,739
Additions	1,947	-	1,947
Reclassification	-	2,505	2,505
Disposals	-	(310)	(310)
Balance at 31 March 2014	30,796	4,085	34,881
Accumulated amortisation			
Balance at 31 March 2012	12,094	-	12,094
Amortisation expense	3,938	-	3,938
Balance at 31 March 2013	16,032	-	16,032
Amortisation expense	4,368	-	4,368
Balance at 31 March 2014	20,400	-	20,400
Net book value at 31 March 2013	**12,817**	**1,890**	**14,707**
Net book value at 31 March 2014	**10,396**	**4,085**	**14,481**

	SOFTWARE NZ$000	EASEMENTS NZ$000	TOTAL NZ$000
PARENT			
Gross carrying value			
Balance at 31 March 2012	23,406	-	23,406
Additions	5,443	-	5,443
Effect of amalgamation of Independent Transmission Services Limited	-	1,890	1,890
Balance at 31 March 2013	28,849	1,890	30,739
Additions	1,947	-	1,947
Reclassification	-	2,505	2,505
Disposals	-	(310)	(310)
Balance at 31 March 2014	30,796	4,085	34,881
Accumulated amortisation			
Balance at 31 March 2012	12,094	-	12,094
Amortisation expense	3,938	-	3,938
Balance at 31 March 2013	16,032	-	16,032
Amortisation expense	4,368	-	4,368
Balance at 31 March 2014	20,400	-	20,400
Net book value at 31 March 2013	**12,817**	**1,890**	**14,707**
Net book value at 31 March 2014	**10,396**	**4,085**	**14,481**

Impairment

No impairment has been recognised in the current period.

15. Investment in subsidiaries

Powerco Limited's principal activity is electricity and gas distribution and Powerco Limited has the following subsidiaries:

SUBSIDIARY COMPANIES	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION AND RESIDENCE	BALANCE DATE	OWNERSHIP INTEREST AND VOTING RIGHTS 31 MARCH 2014	31 MARCH 2013
Powerco Transmission Services Limited (PTS)	Design and construction of electrical transmission assets	New Zealand	31 March	100	100
Powerline Limited (Basepower)	Sells remote area power and energy storage solutions	New Zealand	31 March	100	100
The Gas Hub Limited	To promote the benefits of using gas	New Zealand	31 March	100	100

The Parent entity of the Group is Powerco Limited and the immediate Parent of the Group as at 31 March 2014 is Powerco NZ Holdings Limited. Prime Infrastructure Networks (New Zealand) Limited sold its 42% shareholding of Powerco NZ Holdings Limited to PINZ Holding Company Pty Limited (27%) and AMP Capital Investors Limited (15%) on 30 November 2013.

The remaining shareholders are QIC Infrastructure Management Pty Limited (28%) and QPC Investments No 1 Pty Limited (30%). The amount of dividends paid from Powerco Limited to Powerco NZ Holdings Limited is not restricted, as long as certain covenants are satisfied, as detailed in the Security Trust Deed.

Powerco Limited's investment in the subsidiaries were reviewed for indicators of impairment at 31 March 2014, which resulted in no impairment being recognised for the year to 31 March 2014 (2013: Nil).

Summary of the effect of amalgamation of Independent Transmission Services Limited and Powerco Holdings Limited

	PARENT 31 MARCH 2013 NZ$000
Assets and liabilities amalgamated:	
Assets	9,126
Liabilities	(120)
	9,006
Carrying amount of shares in amalgamated subsidiaries	(21,905)
Carrying amount of intercompany loans	11,976
Balance recognised in the Statement of Changes in Equity	**(923)**

Independent Transmission Services (ITS) and Powerco Holdings Limited (PHL) were both 100% owned subsidiaries of the Parent company. They were amalgamated with the Parent company on 31 March 2013. Under the amalgamation the Parent took control of the assets and assumed responsiblity for the liabilities. ITS and PHL have been removed from the New Zealand Companies Register.

The assets and liabilities have been brought into the Parent's financial statements at their carrying values and there was no cash effect. The balance on amalgamation has been recognised in the Statement of Changes in Equity of the Parent company. The comparatives of the Parent have not been adjusted. There is no effect on the Group's financial statements.

16. Trade and other receivables

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Trade receivables	1,853	1,396	1,642	1,154
Unbilled sales	31,699	29,290	31,699	29,290
Related party receivable	-	-	-	1
Debtors	33,552	30,686	33,341	30,445
Provision for doubtful debts	(300)	(500)	(300)	(500)
Prepayments	1,514	1,283	1,514	1,283
Trade and other receivables	**34,766**	**31,469**	**34,555**	**31,228**

Debtor ageing

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Not past due	32,190	29,349	31,980	29,108
Past due 0 to 30 days	116	122	116	122
Past due 30 to 60 days	81	26	81	26
Past due 60 to 90 days	97	48	97	48
Past due 90 to 120 days	77	42	77	42
Past due 120+ days	991	1,099	990	1,099
	33,552	**30,686**	**33,341**	**30,445**

Movement in allowance for doubtful/impaired trade receivables

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Balance at the beginning of the period	(500)	(500)	(500)	(500)
Adjustment to provision for doubtful debts	200	-	200	-
Impairment losses recognised on receivables	205	(298)	205	(298)
Amounts written off as uncollectable	(205)	298	(205)	298
Closing balance	**(300)**	**(500)**	**(300)**	**(500)**

The average credit or settlement terms are generally up to 30 days depending on the specific contract terms. These terms and other provisions, including recovery of overdue amounts, are stated in the retailer contract and are specified on tax invoices for non-retailer debtors. Retailer contracts provide for a interest rate in the event of payment default of 3% over the bank base rate.

At period end there were no overdue accounts being charged interest. Overdue accounts relate to third party damages and customer initiated contract work, for which no collateral is held.

The Group enters contractual arrangements only with creditworthy retailers, and conducts active credit evaluations on these retailers to minimise credit risk.

Related party receivables are unsecured, payable on demand, and currently no interest is payable.

A review of the debtors' aged trial balance, primarily third party damages, occurs monthly to ensure no debtor is impaired and that the doubtful debts provision is sufficient. At period end, the trade receivable balance was not considered impaired.

17. Finance lease

Lessor obligations

Powerco Transmission Services Limited entered into a lease with NZ Windfarms Limited. The term of the lease is 20 years. The interest rate inherent in the lease is fixed at the contract date for the entire lease term. The effective interest rate on the finance lease receivable is 10.15% per annum.

Finance Lease Receivable

	MINIMUM FUTURE LEASE PAYMENTS		PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS	
	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000
Amount receivable under finance lease				
Not later than one year	1,364	1,337	396	366
Later than one year and not later than five years	5,688	5,600	1,943	1,794
Later than five years	14,354	15,805	7,959	8,504
Minimum future lease payments	21,406	22,742	10,298	10,664
Unguaranteed residual value	-	-	-	-
Gross finance lease receivable	21,406	22,742	10,298	10,664
Less unearned finance income	(11,108)	(12,078)	-	-
	10,298	**10,664**	**10,298**	**10,664**
Classified as:				
Current			396	366
Non-current			9,902	10,298
			10,298	**10,664**

18. Other financial assets and liabilities

a) The Company enters into New Zealand dollar floating to fixed interest rate swap agreements to reduce the impact of changes in floating interest rates on its borrowings and thus reduce variability in cash flows. Fixed to floating instruments are entered into in order to hedge the changes in fair value of fixed rate New Zealand dollar debt. The Company also utilises cross currency interest swaps to hedge against the variations in interest costs and fair value of the US dollar private placement debt.

Derivative instruments are initially recognised at fair value on the contract date and subsequently measured at their fair value on each balance date. For the financial year ended 31 March 2014 derivative instruments are undertaken as economic hedges of exposures, but the Company chooses not to apply hedge accounting. Changes in the fair value of derivative instruments are recognised immediately in the profit or loss component of the Statement of Comprehensive Income.

In the financial year ended 31 March 2013 Powerco applied hedge accounting to some of the derivative instruments. The method of recognising the resulting gain or loss depended on whether the derivative was designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designated certain derivatives as either (i) hedges of highly probable cash flow hedges, or (ii) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).

The effective portion of changes in the fair value of derivatives that were designated and qualified as cash flow hedges were recognised in equity. The gain or loss relating to the ineffective portion was recognised immediately in the profit or loss component of the Statement of Comprehensive Income. Changes in the fair value of derivatives that were designated and qualified as fair value hedges were recorded in the profit or loss, together with any changes in the fair value of the hedged risk.

The fair value of financial derivatives and fixed rate debt is determined by independent valuation sources.

All derivative instruments are carried in the Statement of Financial Position at their fair values. Movements in the hedge reserve are shown in other comprehensive income.

Further information regarding the de-designation of hedge accounting is contained in Note 2.

The Group holds the following financial instruments: (see notes below)

	PARENT & GROUP NOTIONAL PRINCIPAL		PARENT & GROUP FAIR VALUE	
	31 MARCH 2014 NZ$000	31 MARCH 2013 NZ$000	31 MARCH 2014 NZ$000	31 MARCH 2013 NZ$000
Derivatives not in a hedge relationship				
1 – US cross currency swaps	733,026	-	(116,111)	-
2 – Interest rate swaps (pay floating)	50,000	-	1,462	-
3 – Interest rate swaps (pay fixed)	793,000	675,000	(29,352)	(71,615)
4 – Foreign exchange contracts	899	433	(56)	(8)
	1,576,925	**675,433**	**(144,056)**	**(71,623)**

1. US cross currency interest rate swaps
   The Company receives a US dollar fixed interest rate and pays New Zealand dollar floating interest rates. These hedge movements in currency and interest rates that would affect interest payments and final repayment at maturity. These were entered into at terms to match the underlying obligations.
2. Interest rate swaps (pay floating)
   The Company receives a New Zealand fixed interest rate and pays New Zealand dollar floating interest rates. These were entered into on terms matched to the underlying obligation.
3. Interest rate swaps (pay fixed)
   To convert New Zealand dollar floating interest rate exposures to New Zealand dollar fixed debt. The swaps are used to modify the interest rate profile in accordance with the Treasury Policy and are on matched terms.
4. Foreign exchange contracts
   The Company enters forward exchange contracts to fix the New Zealand dollar amount payable on foreign currency purchases.

	PARENT & GROUP NOTIONAL PRINCIPAL		PARENT & GROUP FAIR VALUE	
	31 MARCH 2014 NZ$000	31 MARCH 2013 NZ$000	31 MARCH 2014 NZ$000	31 MARCH 2013 NZ$000
Derivatives in a hedge relationship				
1 – Interest rate swaps (fair value hedge)	-	150,000	-	3,546
2 – US cross currency swaps (fair value hedge)	-	294,266	-	(62,326)
3 – US cross currency swaps (combination fair value & cash flow hedge)	-	438,760	-	1,073
	-	**883,026**	**-**	**(57,707)**

1. Interest rate swaps
   The Company receives a New Zealand fixed interest rate and pays New Zealand dollar floating interest rates. These qualified for hedge accounting as fair value hedges and were entered into on terms matched to the underlying obligation.
2. US cross currency interest rate swaps
   The Company receives a US dollar fixed interest rate and pays New Zealand dollar floating interest rates. These hedge the movements in currency and interest rates that would affect interest payments and final repayment at maturity. These were entered into at terms to match the underlying obligations.
3. US cross currency interest rate swaps
   The Company receives a US dollar fixed interest rate and pays New Zealand dollar floating interest rates. For hedge accounting purposes this was split into a fair value and a cash flow hedge relationship. The fair value hedge hedges the changes in the fair value of the debt due to movements in US interest rates. The cash flow hedge hedges the changes in the value of the currency, basis swap and credit margins. The cross currency swap hedges interest payments and the final repayments at maturity. These were entered into at terms to match the underlying obligations.

All cash flow hedges above are on matched terms. The Company may refloat fixed rate debt, to effect a floating rate obligation, then re-hedge as per the parameters in the Treasury Policy. This has had the effect that some fixed rate hedges are applied against floating rate hedges. In line with NZ IAS39, these were not able to be designated as effective hedges for accounting purposes and thus movements in the mark to market value of these is recognised in the profit or loss. They are all implemented on matched terms.

The Company's New Zealand dollar and foreign currency fixed rate debt is converted to floating New Zealand dollar debt through the use of derivatives, with these exactly matching the term and nominal value of the debt. At the point of issue, the nominal value of the bonds was equivalent to the fair value, and the fair value of the derivative was zero. The marking to market of the derivatives allows for the changes due to movements in interest rates or currency rates. This valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives as at the reporting date. This method assumes a constant credit rating of all parties to the contract.

Powerco's listed bonds are able to be traded on the NZDX and an active secondary market exists.

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

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Other current financial assets				
Interest rate swap	-	35	-	35
Foreign exchange contracts	2	-	2	-
	2	35	2	35
Other non-current financial assets				
US cross currency interest rate swap	-	12,161	-	12,161
Interest rate swap	4,288	3,511	4,288	3,511
	4,288	15,672	4,288	15,672
Other current financial liabilities				
Interest rate swap	-	-	-	-
Foreign exchange contracts	(58)	(8)	(58)	(8)
	(58)	(8)	(58)	(8)
Other non-current financial liabilities				
US cross currency interest rate swap	(116,111)	(73,414)	(116,111)	(73,414)
Interest rate swap	(32,177)	(71,615)	(32,177)	(71,615)
	(148,288)	(145,029)	(148,288)	(145,029)
Fair value of assets and liabilities	**(144,056)**	**(129,330)**	**(144,056)**	**(129,330)**

b) Currency swaps

i) Under currency swap contracts, the Company agrees to exchange specified principal and interest foreign currency amounts at an agreed future date and at a specified exchange rate (fixed for floating). Such contracts enable the Company to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the currency swaps outstanding at reporting date.

Outstanding contracts as at 31 March 2014

	GROUP AND PARENT			
	AVERAGE INTEREST RATE	AVERAGE US EXCHANGE RATE	CONTRACT VALUE NZ$000	TOTAL HEDGE FAIR VALUE NZ$000
Less than one year	BKBM + 89 points	0.5947	94,165	(27,771)
One to two years	BKBM + 88 points	0.5947	90,802	(24,166)
Two to five years	BKBM + 88 points	0.5947	109,299	(26,147)
Over five years	BKBM + 200 points	0.7977	438,760	(38,027)
			733,026	**(116,111)**

Outstanding contracts as at 31 March 2013

	GROUP AND PARENT	GROUP AND PARENT				
	AVERAGE INTEREST RATE %	AVERAGE US EXCHANGE RATE	CONTRACT VALUE NZ$000	CASHFLOW HEDGE VALUE NZ$000	FAIR VALUE HEDGE VALUE NZ$000	TOTAL HEDGE FAIR VALUE NZ$000
One to two years	BKBM + 89 points	0.5947	94,165	-	(22,978)	(22,978)
Two to five years	BKBM + 88 points	0.5947	200,101	-	(39,348)	(39,348)
Over five years	BKBM + 200 points	0.7977	438,760	(28,426)	29,499	1,073
			733,026	**(28,426)**	**(32,827)**	**(61,253)**

ii) The Company enters into forward exchange contracts for the purposes of hedging capital expenditures in foreign currencies. The following table details the contracts outstanding as at reporting date. All contracts are less than one year in duration.

Outstanding contracts as at 31 March 2014

	GROUP AND PARENT		
	AVERAGE CONTRACT RATE	CONTRACT VALUE NZ$000	FAIR VALUE NZ$000
AUD contracts less than one year	0.9396	303	2
USD contracts less than one year	0.7754	596	(58)
		899	**(56)**

Outstanding contracts as at 31 March 2013

	GROUP AND PARENT		
	AVERAGE CONTRACT RATE	CONTRACT VALUE NZ$000	FAIR VALUE NZ$000
USD contracts less than one year	0.8080	433	(8)
		433	**(8)**

19. Financial Instruments

a) Capital risk management

The Company manages its levels of debt and equity to ensure an efficient capital structure while maintaining certain internal financial ratios. Powerco's Treasury Policy specifies a long term target for total debt divided by total capital. This is managed both by reviewing debt levels and altering distributions, which influence the balance of equity. Total capital includes the non-current and current assets of the Group, which is equivalent to the equity and liabilities of the Group, amounting to NZ$1.94 billion (refer to the Statement of Financial Position for futher detail). The Company also complies with financial covenants agreed with lenders as part of financing agreements. These include a capital structure covenant comparing debt to debt plus equity, and a minimum net worth covenant. Throughout the year, all external covenants had been complied with.

b) Risk management

The Company engages in business in New Zealand and has currency exposures to US dollars. In the normal course of events the Company is exposed to loss through:

1) Market risk;
2) Credit risk; and
3) Liquidity risk.

The Company's risk programme recognises the unpredictability of financial markets and seeks to minimise the potential adverse effects of market movements. The Company uses derivative financial instruments for this purpose, but does not engage in holding instruments for trading or speculation purposes.

Management of this risk is performed in accordance with the policies approved by the Board of Directors. These cover both detailed policies and specific areas such as foreign exchange risk, interest rate risk, credit risk and liquidity risk, as well as the use of derivatives and dealings with counter parties.

1) Market risk

i) Foreign exchange exposures

The Company operates in New Zealand and has foreign exchange exposures arising from US dollar denominated debt and the purchase of capital equipment in foreign currencies. This exposes the Company to potential gains and losses arising from currency movements. The Company policy relating to US dollar denominated debt is to eliminate the exchange rate exposure by use of matching hedges taken out at the time the loans are drawn down.

ii) Interest rate exposures

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The Company's short-term borrowings are on a floating interest rate basis.

Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its borrowings. As at 31 March 2014, Powerco had interest rate swap agreements with registered banks. Powerco's Treasury Policy specifies parameters regarding the levels of interest rate hedging, which are monitored by the Board on a monthly basis.

2) Credit risk

Financial instruments with the potential to subject the Company to credit risk principally consist of bank balances and accounts receivable. There are no significant concentrations of credit risk. These accounts are subject to policies that are used to manage the exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. Cash deposits are made only with registered banks. The maximum credit risk is the carrying value.

3) Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. This risk is managed by maintaining sufficient cash and deposits, together with access to committed credit facilities. The Company adheres to a Treasury Policy, approved by the Board of Directors, which specifies certain levels of liquidity that must be maintained for short term requirements and further stipulations regarding the timing of refinancing upcoming debt maturities. Liquidity levels are forecast and monitored on a continuous basis.

c) Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year. The interest rate swaps settle on a quarterly basis, with the Company settling the difference between fixed and floating interest rate on a net basis.

The following tables detail the notional principal amounts and remaining terms of hedge accounted interest rate swap contracts for the comparative period when the Group used hedge accounting.

	GROUP AND PARENT 31 MARCH 2014			GROUP AND PARENT 31 MARCH 2013		
	AVERAGE CONTRACTED FIXED INTEREST RATE	NOTIONAL PRINCIPAL AMOUNT NZ$000	FAIR VALUE NZ$000	AVERAGE CONTRACTED FIXED INTEREST RATE	NOTIONAL PRINCIPAL AMOUNT NZ$000	FAIR VALUE NZ$000
Fair value swaps						
Less than one year	-	-	-	6.39%	100,000	35
One to two years	-	-	-	-	-	-
Two to five years	-	-	-	6.53%	50,000	3,511
Over five years	-	-	-	-	-	-
Total fair value interest rate swaps		**-**	**-**		**150,000**	**3,546**

d) US cross currency interest rate swap contracts

The Company has entered into cross currency swaps to hedge the exchange rate and interest rate risks arising from the US private placement notes.

	AVERAGE EXCHANGE RATE		FOREIGN CURRENCY		CONTRACT VALUE		FAIR VALUE	
	2014	2013	2014 DR / (CR) 000'S	2013 DR / (CR) 000'S	2014 DR / (CR) NZ$000	2013 DR / (CR) NZ$000	2014 DR / (CR) NZ$000	2013 DR / (CR) NZ$000
Less than one year	0.5947	-	56,000	-	(94,165)	-	(27,771)	-
One to two years	0.5947	0.5947	54,000	56,000	(90,802)	(94,165)	(24,166)	(22,978)
Two to five years	0.5947	0.5947	65,000	119,000	(109,299)	(200,101)	(26,147)	(39,348)
Over five years	0.7977	0.7977	350,000	350,000	(438,760)	(438,760)	(38,027)	1,073
			525,000	**525,000**	**(733,026)**	**(733,026)**	**(116,111)**	**(61,253)**

e) Hedge movements recognised in the profit or loss component of the Statement of Comprehensive Income

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Loss arising on derivatives in a designated fair value hedge relationship	-	(14,682)	-	(14,682)
Gain arising on an adjustment for hedge items in a designated fair value hedge accounting relationship	-	12,126	-	12,126
Net effect on (loss) for the period	**-**	**(2,556)**	**-**	**(2,556)**

No items have been reclassified as measured at cost or amortised cost during the period.

f) Foreign currency sensitivity analysis

The Company's foreign currency borrowings are 100% hedged against movements in the NZD/USD exchange rate. Any movements in the value of borrowings, or the interest payable due to a movement in the exchange rate, is offset by an equal and opposite movement in the value and cash flows applicable to the hedge. The Company holds a small number of forward exchange contracts to hedge capital expenditure purchases in currencies other than New Zealand dollars. The table below details the sensitivity to changes in the exchange rate.

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Net profit before tax +100bp	(772)	(5)	(772)	(5)
Net profit before tax -100bp	790	5	790	5
Total equity +100bp	(772)	(5)	(772)	(5)
Total equity -100bp	790	5	790	5

g) Interest rate sensitivity analysis

The following table details the Company's sensitivity to a 100bp increase and decrease in the New Zealand interest rates across the entire curve, with all other variables held constant as at the reporting date. 100bp is Powerco's and the industry-accepted sensitivity rate used when analysing volatility through interest rate movements, and represents management's assessment of the possible change in interest rates. This analysis includes cash flows on floating rate debt, and the cash flows and valuation movements on interest rate derivatives.

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Net profit before tax +100bp	23,283	22,037	23,283	22,037
Net profit before tax -100bp	(24,327)	(23,800)	(24,327)	(23,800)
Total equity +100bp	23,283	26,314	23,283	26,314
Total equity -100bp	(24,327)	(28,392)	(24,327)	(28,392)

h) Liquidity profile of financial instruments

These tables are based on the undiscounted contractual maturities of financial instruments, including interest payments and the future contractual settlements for derivatives. For non-derivative floating rate liabilities, the forecast cash flow is based on the floating rate applicable at the end of the reporting period. For the floating rate portion of derivative instruments, the forecast cash flow is based on the floating rate applicable at the end of the reporting period.

The following table details the exposure to liquidity risk at 31 March 2014.

	WEIGHTED AVERAGE EFFECTIVE RATE %	LESS THAN 6 MONTHS DR / (CR) NZ$000	6 – 12 MONTHS DR / (CR) NZ$000	1-2 YEARS DR / (CR) NZ$000	2-5 YEARS DR / (CR) NZ$000	5+ YEARS DR / (CR) NZ$000	TOTAL CONTRACTUAL CASH FLOWS DR / (CR) NZ$000	CARRYING AMOUNT (ASSETS)/ LIABILITIES DR / (CR) NZ$000
GROUP – 2014								
Non-derivative financial liabilities								
Trade and other payables		34,491	-	-	-	-	34,491	34,491
Current secured borrowings	5.48%	8,581	66,317	-	-	-	74,898	72,629
Non-current secured borrowings	4.86%	16,990	23,082	214,248	459,942	500,790	1,215,052	986,946
		60,062	**89,399**	**214,248**	**459,942**	**500,790**	**1,324,441**	**1,094,066**
Derivative (assets)/liabilities								
Net settled interest rate swaps		9,026	8,791	17,440	32,085	5,173	72,513	
Gross settled interest rate swaps:								
– (inflow)		(14,272)	(78,823)	(87,260)	(131,069)	(500,790)	(812,215)	
– outflow		16,284	110,346	120,368	179,988	641,722	1,068,709	
Gross settled foreign exchange contracts:								
– (inflow)		(268)	(570)	-	-	-	(838)	
– outflow		297	602	-	-	-	899	
Net value of derivative transactions		**11,067**	**40,346**	**50,548**	**81,004**	**146,105**	**329,070**	**144,056**
PARENT – 2014								
Non-derivative financial liabilities								
Trade and other payables		34,459	-	-	-	-	34,459	34,459
Current secured borrowings	5.48%	8,581	66,317	-	-	-	74,898	122,629
Non-current secured borrowings	4.86%	16,990	23,082	214,248	459,942	500,790	1,215,052	936,946
		60,031	**89,399**	**214,248**	**459,942**	**500,790**	**1,324,409**	**1,094,034**
Derivative (assets)/liabilities								
Net settled interest rate swaps		9,026	8,791	17,440	32,085	5,173	72,513	
Gross settled interest rate swaps:								
– (inflow)		(14,272)	(78,823)	(87,260)	(131,069)	(500,790)	(812,215)	
– outflow		16,284	110,346	120,368	179,988	641,722	1,068,709	
Gross settled foreign exchange contracts:								
– (inflow)		(268)	-	-	-	-	(838)	
– outflow		297	-	-	-	-	899	
Net value of derivative transactions		**11,067**	**40,314**	**50,548**	**81,004**	**146,105**	**329,070**	**144,056**

The following table details the exposure to liquidity risk at 31 March 2013:

	WEIGHTED AVERAGE EFFECTIVE RATE %	LESS THAN 6 MONTHS DR / (CR) NZ$000	6 – 12 MONTHS DR / (CR) NZ$000	1-2 YEARS DR / (CR) NZ$000	2-5 YEARS DR / (CR) NZ$000	5+ YEARS DR / (CR) NZ$000	TOTAL CONTRACTUAL CASH FLOWS DR / (CR) NZ$000	CARRYING AMOUNT (ASSETS)/ LIABILITIES DR / (CR) NZ$000
GROUP – 2013								
Non-derivative financial liabilities								
Trade and other payables		26,474	-	-	-	-	26,474	26,474
Current secured borrowings	5.72%	106,035	28,571	-	-	-	134,606	132,161
Non-current secured borrowings	4.98%	17,541	22,955	112,804	411,357	643,742	1,208,399	946,542
		150,050	**51,526**	**112,804**	**411,357**	**643,742**	**1,369,479**	**1,105,177**
Derivative (assets)/liabilities								
Net settled interest rate swaps		7,505	9,939	19,877	44,731	17,200	99,252	
Gross settled interest rate swaps:								
– (inflow)		(14,790)	(14,790)	(96,474)	(208,326)	(536,890)	(871,270)	
– outflow		15,405	15,366	124,066	270,323	650,458	1,075,618	
Gross settled foreign exchange contracts:								
– (inflow)		(418)	-	-	-	-	(418)	
– outflow		433	-	-	-	-	433	
Net value of derivative transactions		**8,135**	**10,515**	**47,469**	**106,728**	**130,768**	**303,615**	**129,330**
PARENT – 2013								
Non-derivative financial liabilities								
Trade and other payables		26,391	-	-	-	-	26,391	26,391
Current secured borrowings	5.72%	106,035	28,571	-	-	-	134,606	132,161
Non-current secured borrowings	4.98%	17,541	22,955	112,804	411,357	643,742	1,208,399	946,542
		149,966	**51,526**	**112,804**	**411,357**	**643,742**	**1,369,396**	**1,105,094**
Derivative (assets)/liabilities								
Net settled interest rate swaps		7,505	9,939	19,877	44,731	17,200	99,252	
Gross settled interest rate swaps:								
– (inflow)		(14,790)	(14,790)	(96,474)	(208,326)	(536,890)	(871,270)	
– outflow		15,405	15,366	124,066	270,323	650,458	1,075,618	
Gross settled foreign exchange contracts:								
– (inflow)		(418)	-	-	-	-	(418)	
– outflow		433	-	-	-	-	433	
Net value of derivative transactions		**8,135**	**10,515**	**47,469**	**106,728**	**130,768**	**303,615**	**129,330**

i) Fair values

The carrying value of cash and cash equivalents, trade and other receivables, other current assets, other current liabilities, trade and other payables and bank overdraft is equivalent to the fair value of these assets and liabilities.

The present value of finance lease receivable balances is estimated to be $10.298 million using a 10.2% discount rate. The present value is estimated to be the same as the carrying value due to the discount interest rate approximating the market rate.

The following tables detail the fair value of financial assets and liabilities:

	31 MARCH 2014 CARRYING AMOUNT NZ$000	31 MARCH 2014 FAIR VALUE NZ$000	31 MARCH 2013 CARRYING AMOUNT NZ$000	31 MARCH 2013 FAIR VALUE NZ$000
GROUP				
Financial assets				
Interest rate swaps	4,288	4,288	3,546	3,546
US cross currency interest rate swap	-	-	12,161	12,161
Foreign exchange contracts	2	2	-	-
	4,290	**4,290**	**23,767**	**15,707**
Financial liabilities				
Guaranteed bonds	101,391	102,122	200,374	202,870
Wholesale bonds	100,970	101,648	100,917	104,545
US dollar private placement notes	647,166	607,299	679,574	679,574
Commercial bank debt and working capital advance	210,048	210,048	97,838	97,838
US cross currency interest rate swap	116,111	116,111	73,414	73,414
Interest rate swaps	32,177	32,177	71,615	71,615
Foreign exchange contracts	58	58	8	8
	1,207,921	**1,169,463**	**1,223,740**	**1,229,864**
PARENT				
Financial assets				
Interest rate swaps	4,288	4,288	3,546	3,546
US cross currency interest rate swap	-	-	12,161	12,161
Foreign exchange contracts	2	2	-	-
	4,290	**4,290**	**15,707**	**15,707**
Financial liabilities				
Guaranteed bonds	101,391	102,122	200,374	202,870
Wholesale bonds	100,970	101,648	100,917	104,545
US dollar private placement notes	647,166	607,299	679,574	679,574
Commercial bank debt and working capital advance	210,048	210,048	97,838	97,838
US cross currency interest rate swap	116,111	116,111	73,414	73,414
Interest rate swaps	32,177	32,177	71,615	71,615
Foreign exchange contracts	58	58	8	8
	1,207,921	**1,169,463**	**1,223,740**	**1,229,864**

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. The market rates used at the reporting date are as follows:

The following market interest rates were used for valuation purposes:

	31 MARCH 2014	31 MARCH 2013
Reporting date rates		
NZ 1 year swap rate	3.61%	2.67%
NZ 2 year swap rate	4.07%	2.85%
NZ 3 year swap rate	4.37%	3.03%
NZ 4 year swap rate	4.54%	3.21%
NZ 5 year swap rate	4.65%	3.37%
NZ 7 year swap rate	4.88%	3.66%
NZ 10 year swap rate	5.05%	3.96%
NZD/USD rate	0.8675	0.8372
US 1 year swap rate	0.56%	0.73%
US 2 year swap rate	0.55%	0.42%
US 3 year swap rate	0.99%	0.54%
US 4 year swap rate	1.43%	0.72%
US 5 year swap rate	1.80%	0.95%
US 7 year swap rate	2.36%	1.44%
US 10 year swap rate	2.84%	2.01%
US 30 year swap rate	3.54%	2.98%

The above rates are from Bloomberg.

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

1) Level1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
2) 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 (i.e prices) or indirectly (i.e. derived from prices); and
3) 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).

	GROUP AND PARENT 31 MARCH 2014 LEVEL 1 NZ$000	LEVEL 2 NZ$000	LEVEL 3 NZ$000	TOTAL NZ$000
Financial assets – derivative financial assets				
NZD interest rate swap contracts	-	4,288	-	4,288
Foreign exchange contracts	-	2	-	2
	-	**4,290**	**-**	**4,290**
Financial liabilities – derivative financial liabilities				
Foreign exchange contracts	-	58		58
USD cross currency interest rate swaps	-	116,111	-	116,111
NZD interest rate swap contracts	-	32,177	-	32,177
	-	**148,346**	**-**	**148,346**

	GROUP AND PARENT 31 MARCH 2013 LEVEL 1 NZ$000	LEVEL 2 NZ$000	LEVEL 3 NZ$000	TOTAL NZ$000
Financial assets – derivative financial assets				
NZD interest rate swap contracts	-	3,546	-	3,546
NZD interest rate swap contracts	-	12,161	-	12,161
	-	**15,707**	**-**	**15,707**
Financial liabilities – derivative financial liabilities				
Foreign exchange contracts	-	8	-	8
USD cross currency interest rate swaps	-	73,414	-	73,414
NZD interest rate swap contracts	-	71,615	-	71,615
	-	**145,037**	**-**	**145,037**

20. Auditor's remuneration

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Amounts paid or payable to the auditors for:				
Audit of financial statements				
Audit and review of financial statements	250	250	250	250
Other services				
Regulatory audit work	128	149	128	149
Trustee reporting	5	5	5	5
	383	**404**	**383**	**404**

Regulatory audit work consists of the audit of regulatory disclosure statements and the default price path statement.

21. Operating leases

Lessee obligations

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Lease payments under operating leases recognised as an expense in the period	**1,655**	**1,520**	**1,655**	**1,520**
Operating lease obligations payable after balance date on non-cancellable leases are as follows:				
Within one year	1,615	963	1,615	963
One to five years	3,175	2,115	3,175	2,115
More than five years	640	892	640	892
	5,430	**3,970**	**5,430**	**3,970**

Operating lease payments represent amounts payable by the Group for certain office property leases, substation and radio communication licences and vehicle leases. Property leases are negotiated for terms of one to five years, with rights of renewal on most leases. Substation and radio communication licence terms range from one to thirty-three years, with rights of renewal on most licences. Vehicle leases are for a term of three years.

Lessor obligations

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Lease payments under operating leases recognised as revenue in the period	**581**	**588**	**581**	**588**
Operating lease obligations receivable after balance date on non-cancellable leases are as follows:				
Within one year	166	548	166	548
One to five years	78	2,110	78	2,110
More than five years	48	730	48	730
	292	**3,388**	**292**	**3,388**

The Group rents out a number of office properties and depots. Property leases are negotiated for terms of one to five years, with rights of renewal on most leases.

22. Cash flow statement disclosures

Transactions recorded net in the Financial Statements

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

23. Segmental Reporting

For reporting to the chief operating decision maker, the Group is currently organised into three operating divisions:

1) Electricity – electricity line distribution;
2) Gas – gas line distribution; and
3) Transmission – design and construction of electrical transmission assets.

All other revenues and costs (including head office costs) are included in all other segments.

For the year ended 31 March 2014

	ELECTRICITY NZ$000	GAS NZ$000	TRANSMISSION NZ$000	ALL OTHER SEGMENTS NZ$000	ELIMINATIONS NZ$000	TOTAL NZ$000
External income	360,657	51,202	1,781	1,841	-	415,481
Inter-segmental income	-	-	-	318	(318)	-
Total income	**360,657**	**51,202**	**1,781**	**2,159**	**(318)**	**415,481**
RESULT						
Segment result	**150,145**	**26,445**	**1,506**	**(36,882)**	**-**	**141,214**
Other gains						19,138
Finance costs						(72,071)
Profit before tax						**88,281**
Income tax expense						3,550
Net profit for the period						**91,831**
OTHER INFORMATION						
Capital additions	103,556	10,052	1,506	7,490	(64)	122,540
Depreciation and amortisation	52,200	12,669	890	6,675	(16)	72,418

For the year ended 31 March 2013

	ELECTRICITY NZ$000	GAS NZ$000	TRANSMISSION NZ$000	ALL OTHER SEGMENTS NZ$000	ELIMINATIONS NZ$000	TOTAL NZ$000
External income	347,261	50,674	1,782	1,710	-	401,427
Inter-segmental income	-	-	996	196	(1,192)	-
Total income	**347,261**	**50,674**	**2,778**	**1,906**	**(1,192)**	**401,427**
RESULT						
Segment result	**152,088**	**27,084**	**1,562**	**(36,413)**	**-**	**144,321**
Other losses						(1,166)
Finance costs						(76,192)
Profit before tax						**66,963**
Income tax expense						(4,887)
Net profit for the period						**62,076**
OTHER INFORMATION						
Capital additions	89,857	8,701	1,900	7,883	19	108,360
Depreciation and amortisation	52,490	11,979	363	5,900	-	70,732

Revenue included in all other segments category above relates to the third party damages and other miscellaneous revenue received. Inter-segment income relates to staff costs on charged to the Transmission segment, interest on inter-company loans and inter-company sales of remote area power supply units. The staff costs are on charged at no mark up. The interest rate on inter-company loans is at market rates. Inter-company sales include a mark up.

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 central administration cost, directors' salaries, other revenue, other losses, finance costs and income tax expense.

In addition to the depreciation and amortisation reported above, there were customer contributions of $12.7 million (2013: $15.4 million) of which $12.3 million was reported in the Electricity segment (2013: $14.5 million) and $0.4 million in the Gas segment (2013: $0.9 million), loss on disposal of $13.5 million (2013: $9.0 million) of which $13.2 million loss was reported in the Electricity segment (2013: $9.1 million), $0.2 million loss was reported in the Gas segment (2013: $0.1 million) and a $0.1 million loss in the Transmission segment (2013: $0.2 million gain).

Of the total segment revenues, $233.2 million (2013: $232.4 million) came from major customers. The table below outlines the major customers and the segments to which the revenues have been recorded.

	SEGMENT	REVENUE YEAR TO 31 MARCH 2014 NZ$000	REVENUE YEAR TO 31 MARCH 2013 NZ$000
Customer one	Electricity and gas	114,191	114,132
Customer two	Electricity and gas	62,798	60,952
Customer three	Electricity and gas	56,219	57,285
Total major customers		**233,208**	**232,369**

Customer three commenced retailing of gas in the year to 31 March 2014.

Geographical segments

The Group's operations are located in New Zealand (country of domicile).

24. Transactions with related parties

	YEAR TO 31 MARCH 2014 NZ$000	YEAR TO 31 MARCH 2013 NZ$000
i) Transactions between Powerco Limited and subsidiaries		
Powerco Transmission Services Limited		
– intercompany loan from Parent	1,092	2,990
– staff resources supplied by Parent	-	16
Basepower Limited		
– intercompany loan (to)/from Parent	(65)	2
– trade receivables owed by Parent	-	12
– capital purchases by Parent	318	196
ii) Transactions between Powerco Limited and Powerco New Zealand Holdings Limited (PNZHL)		
– dividends paid to PNZHL	55,008	52,493
– tax losses transferred to Group from PNZHL	39,753	42,900

The inter-company loans are secured over Powerco Limited's investment in each of the subsidiaries. The loan to PTS incurs interest calculated at 7.84% and the interest is capitalised to the loan principal each month. Receivable and payable amounts between the Parent and subsidiaries are offset upon consolidation. No expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

PNZHL tax loss transfers to the Powerco Group are for for nil consideration due to being members of a consolidated tax group. Powerco Limited perform the accounting function of PNZHL for nil consideration.

Compensation of key management personnel

	GROUP YEAR TO 31 MARCH 2014 NZ$000	GROUP YEAR TO 31 MARCH 2013 NZ$000	PARENT YEAR TO 31 MARCH 2014 NZ$000	PARENT YEAR TO 31 MARCH 2013 NZ$000
Short-term benefits	3,851	3,223	3,851	3,223
Long-term benefits	458	-	458	-

The remuneration of directors and key executives is determined by the Human Resources and Remuneration Committee, having regard to the performance of the Company, individuals and market trends.

25. Contingent liabilities and commitments

Contingencies

Contingent liabilities

Contracts – Powerco Limited has a contract with Tenix Alliance New Zealand Limited (Tenix), which provides electricity field services. There is a condition in the contract that states that a payment is made to Tenix if a range of key performance indicators are achieved and a payment is made to Powerco if performance does not meet the agreed levels. The amount of the payment is determined by a predetermined calculation in the contract on an annual basis. At this time, any payment for future periods to or from Powerco cannot be quantified, this contractural arrangement ends on 30 June 2014.

Commitments

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:				
Not longer than one year	4,039	11,366	4,039	11,366
Longer than one year and not longer than five years	1,703	4,074	1,703	4,074
Longer than five years	-	-	-	-
	5,742	**15,440**	**5,742**	**15,440**

	GROUP 31 MARCH 2014 NZ$000	GROUP 31 MARCH 2013 NZ$000	PARENT 31 MARCH 2014 NZ$000	PARENT 31 MARCH 2013 NZ$000
Other expenditure commitments resulting from contracts entered into:				
Not longer than one year	12,216	16,075	12,196	16,055
Longer than one year and not longer than five years	5,104	10,450	5,104	10,450
Longer than five years	-	-	-	-
	17,320	**26,525**	**17,300**	**26,505**

26. Subsequent events

Subsequent to balance date Powerco Limited awarded contracts for maintenance and minor capital works services over its Electricity Networks to Tenix Alliance New Zealand Limited. These contracts come in to effect on 1 July 2014. The value of these contracts will range between $40-$48 million per annum for a duration of five years and Powerco Limited has the right of renewal for a further three years. There is no impact on these Financial Statements as a result of entering into these arrangements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF POWERCO LIMITED

Report on the Financial Statements

We have audited the financial statements of Powerco Limited and group on pages 1 to 42, which comprise the consolidated and separate statements of financial position of Powerco Limited as at 31 March 2014, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor and the provision of other services including the audit of regulatory disclosure statements and trustee reporting, we have no relationship with or interests in Powerco Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 1 to 42:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Powerco Limited and group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Deloitte.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Powerco Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
22 May 2014
Wellington, New Zealand