Powerco Ltd

Financial Statements

For the year ended 31 March 2017

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Key messages regarding these Financial Statements

How we manage our borrowings and interest rates

Powerco Ltd is a leading New Zealand electricity and gas infrastructure company providing distribution services to more than 442,000 customers across the central and lower North Island.

Our networks have long design lives and our operating environment, through being regulated, is relatively steady.

Our profitability is regulated so the management of risks is very important. Although we do not 'hedge account' for accounting purposes, in practice we very carefully manage currency and interest rate risk. All hedges entered are on 'matched terms'.

Current accounting practice requires us to value financial assets and liabilities based on a fair value basis, which does not reflect the risk mitigation and true economic and financial value to the business on a going concern basis. While current accounting practice does have its merits, it fails to recognise that in most situations these borrowings and hedges will remain in place until maturity.

Reflecting our regulatory environment

The regulatory environment is a key driver for our business. The regulated gas and electricity business are shown as separate segments, with all unregulated activities included in the other segment. Expense categories in the segment note also mirror the regulatory categories.

Regulatory frameworks require various reporting of financial and non-financial performance separate to these statutory financial statements. In all cases the financial reporting is reconciled to these financial statements and to the extent necessary these accounting policies and financial results fully reflect the requirements and implications of the regulatory regime on the company.

Electricity and Gas asset management plans are included on Powerco's website. These plans provide an insight into our future operational and capital expenditure requirements.

Statutory Information

Substantial Security Holders

The Company's register of substantial security holders, prepared in accordance with section 25 of the Securities Markets Act 1988 recorded the following information as at the date of this Annual Report:

Name	Type of Voting Securities	Number of Voting Securities
Powerco NZ Holdings Ltd	Ordinary Shares	369,929,053

As at the date of this Annual Report, the total number of issued voting securities was 369,929,053 ordinary shares.

Equity Security Holder Information

As at 25 May 2017:

Name	Ordinary Shares	Percentage of Issued Ordinary Shares
Powerco NZ Holdings Ltd	369,929,053	100%

Directors' Equity Securities

The Directors of Powerco Ltd held no relevant interests in Equity Securities in the Company as at 30 April 2017.

Quoted Security Holder Spread

As at 30 April 2017:

Size of Holding	Number of Holders	Holding Quantity
Ordinary Shares		
Over 100,000	1	369,929,053
Total	**1**	**369,929,053**
Guaranteed Bonds (issued 28 September 2005) 6.74%		
5,000 up to 100,000	114	3,642,000
100,000 and over	44	46,358,000
Total	**158**	**50,000,000**

Credit Rating

As at the date of this Annual Report, the Company has the following credit ratings:

RATING AGENCY	SHORT TERM	LONG TERM
Standard & Poor's	A-2	BBB (stable)

NZX Waivers

The Company has relied on a waiver granted on 27 September 2005 from Listing Rule 5.2.3, in relation to the bonds issued in September 2005. The effect of this waiver is that the Company is not required to have at least 500 members of the public holding those bonds.

Enforcement Action by NZX

No enforcement action has been taken by NZX during the 12 months ended 31 March 2017 under Listing Rule 5.4.2.

Gender composition

The gender composition of Powerco Ltd's directors and officers is reported in the table below. The officers category consists of the Executive Management Team.

	As at 31 March 2017		As at 31 March 2016	
	Male	Female	Male	Female
Directors	6	0	6	0
Alternate Directors	1	1	2	0
Officers	5	3	6	2

Companies Act 1993

In accordance with section 211(3) of the Companies Act 1993 (the Act), Powerco NZ Holdings Ltd, as the Company's sole shareholder, has resolved that the Company's annual report for the year ended 31 March 2017 need not comply with sections 211(1)(a), 211(1)(e) to (j) and 211(2) of the Act and accordingly this Annual Report does not state the particulars required by those sections.

This Annual Report is dated 25 May 2017 and is signed on behalf of the Board by:

John Loughlin Director

Paul Callow Director

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	NOTES	2017 $000	2016 $000
Revenue and other income	3	466,715	457,240
Pass-through and recoverable costs		(122,043)	(115,271)
Network operational expenditure		(38,613)	(35,421)
System operations and network support		(13,789)	(14,960)
Business support		(38,091)	(38,315)
Operating expenses		(212,536)	(203,967)
Earnings before finance costs, loss on disposal, taxation, depreciation, amortisation and financial instruments (EBITDAF)		**254,179**	**253,273**
Net loss on disposal of fixed assets		(9,300)	(13,481)
Depreciation and amortisation		(76,450)	(76,898)
Earnings before finance costs, taxation (EBIT) and financial instruments		**168,429**	**162,894**
Finance costs	4	(78,830)	(80,155)
(Loss)/gain on financial instruments	5	(6,099)	1,844
Profit before taxation		**83,500**	**84,583**
Income tax expense	6	(24,990)	(20,143)
Profit for the period after tax		**58,510**	**64,440**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges amortised		677	679
Income tax expense on cash flow hedges		(190)	(190)
Total other comprehensive income		**487**	**489**
Total comprehensive income for the period, net of tax		**58,997**	**64,929**

These financial statements should be read in conjunction with the notes to the financial statements on pages 7 to 29.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	ATTRIBUTABLE TO OWNERS			
	SHARE CAPITAL $000	RETAINED EARNINGS $000	HEDGE RESERVE $000	TOTAL $000
Balance as at 31 March 2015	**698,165**	**(159,163)**	**(4,605)**	**534,397**
Profit for the period	-	64,440	-	64,440
Cash flow hedges amortised	-	-	679	679
Income tax expense on amortisation of cash flow hedges	-	-	(190)	(190)
Total comprehensive income, net of tax	**-**	**64,440**	**489**	**64,929**
Transactions with owners				
Dividends (15.87 cents per share)	-	(58,708)	-	(58,708)
Balance as at 31 March 2016	**698,165**	**(153,431)**	**(4,116)**	**540,618**
Profit for the period	-	58,510	-	58,510
Cash flow hedges amortised	-	-	677	677
Income tax expense on amortisation of cash flow hedges	-	-	(190)	(190)
Total comprehensive income, net of tax	**-**	**58,510**	**487**	**58,997**
Transactions with owners				
Dividends (15.82 cents per share)	-	(58,523)	-	(58,523)
Balance as at 31 March 2017	**698,165**	**(153,444)**	**(3,629)**	**541,092**

These financial statements should be read in conjunction with the notes to the financial statements on pages 7 to 29.

Consolidated Statement of Financial Position

As at 31 March 2017

	NOTES	2017 $000	2016 $000
Current assets			
Cash and cash equivalents		400	632
Trade and other receivables	12	38,503	36,690
Finance lease receivable	14	503	465
Other financial assets	10	6	-
Other current assets		383	321
		39,795	38,108
Non-current assets			
Property, plant and equipment	7	2,064,332	1,977,750
Finance lease receivable	14	8,504	9,008
Other financial assets	10	94,234	131,856
Intangible assets	8	14,971	16,599
		2,182,041	2,135,213
TOTAL ASSETS		**2,221,836**	**2,173,321**
Current liabilities			
Trade and other payables	13	45,069	40,965
Employee benefits	16	4,723	4,961
Other financial liabilities	10	1,451	17,081
Borrowings	9	58,192	149,354
		109,435	212,361
Non-current liabilities			
Employee benefits	16	1,892	1,818
Other financial liabilities	10	62,395	82,156
Borrowings	9	1,263,882	1,118,409
Deferred tax liability	6	243,140	217,959
		1,571,309	1,420,342
Equity			
Share capital	19	698,165	698,165
Retained earnings		(153,444)	(153,431)
Hedge reserve	20	(3,629)	(4,116)
		541,092	540,618
TOTAL EQUITY AND LIABILITIES		**2,221,836**	**2,173,321**

John Loughlin
Director
25 May 2017

Paul Callow
Director
25 May 2017

These financial statements should be read in conjunction with the notes to the financial statements on pages 7 to 29.

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	2017 $000	2016 $000
Cash flows from operating activities		
Cash receipts from customers	508,656	506,870
Cash paid to suppliers and employees	(231,649)	(223,654)
	277,007	283,216
GST paid	(19,677)	(22,794)
Interest paid	(77,992)	(79,033)
	(97,669)	(101,827)
Net cash provided by operating activities	**179,338**	**181,389**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	102	164
Purchase of property, plant and equipment	(171,892)	(150,574)
Net cash used in investing activities	**(171,790)**	**(150,410)**
Cash flows from financing activities		
Proceeds from borrowings	290,400	477,418
Proceeds from finance leases	465	429
Loan establishment costs	(725)	(423)
Repayment of borrowings	(239,399)	(449,420)
Dividend paid	(58,523)	(58,708)
Net cash used in financing activities	**(7,782)**	**(30,704)**
Net (decrease)/increase in cash and cash equivalents	**(234)**	**275**
Cash and cash equivalents at the beginning of the period	634	357
Cash and cash equivalents at the end of the period	**400**	**632**
Comprises the following:		
Cash and cash equivalents	**400**	**632**

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

Transactions recorded net in the Financial Statements

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

These financial statements should be read in conjunction with the notes to the financial statements on pages 7 to 29.

Reconciliation of Profit to Net Cash Flows from Operating Activities

As at 31 March 2017

	NOTE	2017 $000	2016 $000
Profit after taxation		**58,510**	**64,440**
Add/(less) non-cash items			
Depreciation and amortisation		76,450	76,898
Loss on disposal of assets		9,402	13,644
Non-cash component of finance costs		697	740
Other losses/(gains) on financial instruments	5	6,099	(1,844)
Non-cash items in relation to investing/financing activities		2,539	2,629
Non-cash customer contributions		(22,154)	(16,415)
Increase in deferred tax liability		24,990	20,144
Other items			
GST on property, plant and equipment purchases		20,739	17,358
Movements in working capital			
(Increase)/decrease in assets			
Trade and other receivables		(1,813)	571
Other current assets		(59)	(231)
Increase/(decrease) in liabilities			
Trade and other payables		4,103	2,922
Employee entitlements		(165)	533
Net cash provided by operating activities		**179,338**	**181,389**

These financial statements should be read in conjunction with the notes to the financial statements on pages 7 to 29.

Notes to the Financial Statements

For the year ended 31 March 2017

1. Basis of accounting

General information

Powerco Ltd (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.

These financial statements have been prepared to comply with the Companies Act 1993, Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). They also comply with IFRS.

These consolidated financial statements are for the economic entity comprising Powerco Ltd and its subsidiaries (the Group). Powerco Ltd is a profit-oriented entity whose principal activities are electricity and gas distribution. The Group includes three subsidiary companies, as follows:

Subsidiary	Principal activity
Powerco Transmission Services (PTS)	Design and construction of electrical transmission assets
Powerline Ltd (trading as Base Power)	Sells remote area power and energy storage solutions
The Gas Hub Ltd	To promote the benefits of using gas

All of the subsidiaries are based and incorporated in New Zealand, have a balance date of 31 March and are 100% owned by Powerco Ltd.

The immediate parent of the Group is Powerco NZ Holdings Ltd (PNZHL). The shareholders of PNZHL are QIC Infrastructure Management Pty Ltd (33%), QS Infrastructure Pty Ltd (25%), PINZ Holding Company Pty Ltd (27%) and AMP Capital Investors Ltd (15%).

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, which is the Group's presentation currency and the parent's functional currency. Numbers are rounded to the nearest thousand.

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.

Discussed below are items where the key assumptions concerning the future, and/or other key sources of estimation, may create uncertainty at 31 March and have significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

(a) 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 were 10% higher/lower, earnings before finance costs and taxation for the year would have increased/decreased by $8.0 million.

(b) Classification of expenditure between operating expenditure and capital expenditure

Judgements on whether to expense or capitalise expenditures are determined by Powerco's capitalisation standards and NZ IAS 16 Property, Plant and Equipment. In summary, expenditure may be capitalised when:

i) It creates a new asset; or

ii) It increases the service performance or potential of an existing asset beyond the original performance or service performance.

All other expenditure must be expensed in the period concerned.

Significant accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of Powerco Ltd and its subsidiaries, 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.

b) Business combinations

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.

Other accounting policies

All other accounting policies are included with the applicable note.

Changes in accounting policies

Accounting policies have been consistently applied.

2. Segmental reporting

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

i) Electricity – regulated electricity line distribution

ii) Gas – regulated gas line distribution

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

For the year ended 31 March 2017

	Regulated businesses Electricity $000	Gas $000	Unallocated segment $000	Total $000
External revenue	**379,248**	**52,026**	**35,441**	**466,715**
Pass-through and recoverable costs	(119,866)	(2,175)	(2)	(122,043)
Network operational expenditure	(32,314)	(5,472)	(827)	(38,613)
System operations and network support	(9,267)	(4,154)	(368)	(13,789)
Business support	(31,944)	(5,838)	(309)	(38,091)
Depreciation and amortisation and net loss on disposal of fixed assets	(71,532)	(14,144)	(74)	(85,750)
Segment result	**114,325**	**20,243**	**33,861**	**168,429**
Finance costs				(78,830)
Losses on financial instruments				(6,099)
Profit before tax				**83,500**
Income tax expense				(24,990)
Net profit for the period				**58,510**
Other information				
Capital additions	(155,639)	(13,123)	(2,072)	(170,834)

For the year ended 31 March 2016

	Regulated businesses Electricity $000	Gas $000	Unallocated segment $000	Total $000
External revenue	**374,926**	**51,855**	**30,459**	**457,240**
Pass-through and recoverable costs	(113,129)	(2,137)	(5)	(115,271)
Network operational expenditure	(29,268)	(5,343)	(810)	(35,421)
System operations and network support	(10,784)	(4,137)	(39)	(14,960)
Business support	(29,313)	(6,577)	(2,425)	(38,315)
Depreciation and amortisation and net loss on disposal of fixed assets	(75,299)	(14,863)	(217)	(90,379)
Segment result	**117,133**	**18,798**	**26,963**	**162,894**
Finance costs				(80,155)
Gains on financial instruments				1,844
Profit before tax				**84,583**
Income tax expense				(20,143)
Net profit for the period				**64,440**
Other information				
Capital additions	(131,736)	(13,716)	(1,767)	(147,219)

Revenue in both the Electricity and Gas segments includes regulated line revenue.

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

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

Of the total segment revenues, $243.5 million (2016: $236.6 million) came from major customers. The table below outlines the major customers and the segments they have been recorded in.

	Segment	2017 $000	2016 $000
Customer one	Electricity/Gas	111,173	106,434
Customer two	Electricity/Gas	73,294	64,638
Customer three	Electricity/Gas	59,067	65,557
		243,534	**236,629**

Policy

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive and the Board of Directors in order to allocate resources to the segment and to assess its performance.

Where revenue, expenses and capital additions cannot be split between the operating segments, they have been included within the unallocated segment.

3. Revenue and other income

	2017 $000	2016 $000
Line revenue	306,782	310,238
Pass-through and recoverable cost revenue	122,043	115,271
Customer contributions	26,201	20,363
Gas metering revenue	5,022	4,798
Total Revenue	**460,048**	**450,670**
Other income	6,667	6,570
Total revenue and other income	**466,715**	**457,240**

Policy

Line revenue, pass-through and recoverable cost revenue, customer contributions and gas metering revenue are recognised at the fair value of the sales of goods or services provided. Revenue is recorded net of Goods and Services Tax (GST), rebates and discounts. Pass-through and recoverable costs include transmission costs, statutory levies and utility rates.

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

The Group received contributions from customers towards the costs of reticulating new subdivisions, constructing uneconomic lines and relocating existing 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.

4. Finance costs

	2017 $000	2016 $000
Interest on working capital	1,713	938
Interest on senior debt and related derivatives	76,943	78,711
Deferred funding costs and financial instrument fees	2,310	2,575
Interest attributed to funding of capital projects	(2,136)	(2,069)
	78,830	**80,155**

Policy for interest attributed to funding of capital projects

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that 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.

Interest is attributed to projects expected to have costs exceeding $0.5 million, in which the construction period is expected to be greater than six months. Interest was calculated at 5.23% per annum (2016: 6.57%).

5. Gains on financial instruments

	2017 $000	2016 $000
Movement of derivatives held at fair value through profit or loss	(19,234)	49,275
Foreign exchange movement on debt held at amortised cost	8,769	(54,828)
Amortisation of debt previously held at fair value (i)	5,043	8,076
Amortisation of fair value movement on derivatives previously taken to reserves (ii)	(677)	(679)
Other (losses)/gains on financial instruments	**(6,099)**	**1,844**

The movement of derivatives held at fair value through profit or loss includes a gain of $10.2 million attributable to the change in the credit risk of the liabilities (2016: loss of $6.9 million).

De-designation of hedge accounting

In the financial year ended 31 March 2013, 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 transparency. 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 hedge reserve is provided in note 20.

There are two balances resulting from when the Group hedge accounted which are being amortised, as follows:

(i) 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 $17.0 million remaining to be amortised over the next 11 years using the effective interest method in line with the debt settlement periods as disclosed in note 9 (2016: $22.0 million remaining to be amortised over 12 years).

(ii) 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 $3.6 million remaining to be amortised over the next 11 years (2016: $4.1 million to be amortised over 12 years).

6. Taxation

	2017 $000	2016 $000
Tax expense comprises:		
Deferred tax expense on temporary differences	24,915	20,102
Adjustments recognised in current period in relation to the deferred tax of prior years	75	41
Total tax expense	**24,990**	**20,143**

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

	2017 $000	2016 $000
Profit before taxation	83,500	84,583
Tax at the New Zealand income tax rate of 28 per cent	23,380	23,683
Tax effect of losses transferred from Powerco New Zealand Holdings Ltd	(8,155)	(11,044)
Tax effect of revenue items that are not deductible in determining taxable profit	9,690	7,463
	24,915	20,102
Adjustments recognised in current period in relation to the deferred tax of prior years	75	41
Total tax expense	**24,990**	**20,143**

For the year ended 31 March 2017

Deferred tax liabilities	Opening Balance $000	Charged to profit or loss $000	Charged to other comprehensive income $000	Closing Balance $000
Property, plant and equipment	226,751	16,540	-	243,291
Derivatives	9,134	(813)	190	8,511
Borrowings	(21,722)	7,987	-	(13,735)
Other	3,796	1,276	-	5,072
	217,959	**24,990**	**190**	**243,139**

For the year ended 31 March 2016

Deferred tax liabilities	Opening Balance $000	Charged to profit or loss $000	Charged to other comprehensive income $000	Closing Balance $000
Property, plant and equipment	215,868	10,883	-	226,751
Derivatives	(7,102)	16,046	190	9,134
Borrowings	(13,925)	(7,797)	-	(21,722)
Other	2,785	1,011	-	3,796
	197,626	**20,143**	**190**	**217,959**

Policy

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.

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 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 this case, the deferred tax or current tax is also recognised in other comprehensive income or directly in equity. Where it arises from the initial accounting for a business combination, it is taken into account in the determination of goodwill.

7. Property, plant and equipment

	Network systems $000	Work in progress $000	Land and buildings $000	Plant and equipment $000	Total $000
At 31 March 2015					
Cost	2,617,620	53,099	15,236	33,718	2,719,673
Accumulated depreciation	(763,462)	-	(4,814)	(30,977)	(799,253)
Net book value	1,854,158	53,099	10,422	2,741	1,920,420
Movements in the year ended 31 March 2016					
Opening net book value	1,854,158	53,099	10,422	2,741	1,920,420
Additions	54	139,560	545	2,708	142,867
Transfers	144,762	(149,430)	310	4,358	-
Disposals	(13,641)	-	-	(2)	(13,643)
Depreciation expense	(69,690)	-	(542)	(1,662)	(71,894)
Closing net book value	1,915,643	43,229	10,735	8,143	1,977,750
At 31 March 2016					
Cost	2,735,659	43,229	16,091	40,780	2,835,759
Accumulated depreciation	(820,016)	-	(5,356)	(32,637)	(858,009)
Net book value	1,915,643	43,229	10,735	8,143	1,977,750
Movements in the year ended 31 March 2017					
Opening net book value	1,915,643	43,229	10,735	8,143	1,977,750
Additions	94	165,404	7	1,744	167,249
Transfers	127,982	(131,241)	69	3,190	-
Disposals	(9,415)	-	(12)	(3)	(9,430)
Depreciation expense	(69,147)	-	(512)	(1,578)	(71,237)
Closing net book value	1,965,157	77,392	10,287	11,496	2,064,332
At 31 March 2017					
Cost	2,840,688	77,392	16,121	45,004	2,979,205
Accumulated depreciation	(875,531)	-	(5,834)	(33,508)	(914,873)
Net book value	1,965,157	77,392	10,287	11,496	2,064,332

Note 4 finance costs provides details of borrowing costs capitalised during the period.

Policy

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 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.

With the exception of a small number of non-network assets that are calculated using diminishing value, depreciation is calculated on a straight-line basis to write off the cost of the assets (other than land) over their useful lives. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for from the start of the period.

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

Land	Not depreciated
Buildings	4 to 50 years
Plant and equipment	3 to 28 years
Network systems	8 to 70 years

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.

Classification of expenditure in relation to property, plant and equipment and software intangibles

On initial recognition of items of property, plant and equipment and software intangibles, judgement must be made about whether costs incurred bring the item to working condition for their intended use and therefore should be capitalised as part of the cost of the item, or whether they should be expensed. Judgement is applied to assess the amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of property, plant and equipment and software intangibles.

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.

8. Intangible assets

	Software $000	Easements $000	Total $000
At 31 March 2015			
Cost	36,496	4,449	40,945
Accumulated depreciation	(23,694)	-	(23,694)
Net book value	12,802	4,449	17,251
Movements in the year ended 31 March 2016			
Opening net book value	12,802	4,449	17,251
Additions	4,860	(508)	4,352
Amortisation expense	(5,004)	-	(5,004)
Closing net book value	12,658	3,941	16,599
At 31 March 2016			
Cost	41,356	3,941	45,297
Accumulated depreciation	(28,698)	-	(28,698)
Net book value	12,658	3,941	16,599
Movements in the year ended 31 March 2017			
Opening net book value	12,658	3,941	16,599
Additions	3,473	112	3,585
Amortisation expense	(5,213)	-	(5,213)
Closing net book value	10,918	4,053	14,971
At 31 March 2017			
Cost	44,829	4,053	48,882
Accumulated depreciation	(33,911)	-	(33,911)
Net book value	10,918	4,053	14,971

Policy

Intangible assets comprise computer software and easements. Computer software has 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 a 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 from the start of the period.

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 the fair value at the acquisition date.

Amortisation of intangibles is calculated on a diminishing value basis for computer software over their useful lives.

Amortisation rates based on remaining useful life for computer software is 4 to 55 years. Easements are not amortised.

The policy regarding impairment of intangible assets is included in note 7.

9. Borrowings

As at 31 March 2017

Current and non-current liabilities at amortised cost	Face value $000	Fair value adjustment $000	Deferred funding costs $000	Accrued interest $000	Total $000
Guaranteed bonds (a)	50,000	-	(59)	37	49,978
Wholesale bonds (b)	450,000	-	(859)	2,756	451,897
US dollar private placement notes (c)	438,760	77,811	(1,551)	3,083	518,103
NZ dollar private placement notes (d)	135,000	-	(650)	1,764	136,114
Bank debt (e)	165,600	-	(229)	611	165,982
	1,239,360	**77,811**	**(3,348)**	**8,251**	**1,322,074**
Current portion	50,000	-	(59)	8,251	58,192
Non-current portion	1,189,360	77,811	(3,289)	-	1,263,882
	1,239,360	**77,811**	**(3,348)**	**8,251**	**1,322,074**

As at 31 March 2016

Current and non-current liabilities at amortised cost	Face value $000	Fair value adjustment $000	Deferred funding costs $000	Accrued interest $000	Total $000
Guaranteed bonds (a)	50,000	-	(177)	37	49,860
Wholesale bonds (b)	250,000	-	(529)	1,296	250,767
US dollar private placement notes (c)	548,059	74,614	(1,829)	3,911	624,754
NZ dollar private placement notes (d)	135,000	-	(714)	1,789	136,075
Bank debt (e)	205,300	-	(69)	1,078	206,308
	1,188,359	**74,614**	**(3,318)**	**8,109**	**1,267,763**
Current portion	154,599	(13,304)	(50)	8,109	149,354
Non-current portion	1,033,760	87,918	(3,268)	-	1,118,409
	1,188,359	**74,614**	**(3,318)**	**8,109**	**1,267,763**

The fair value adjustment includes:

- Debt balance resulting from the increase in the fair value of debt which is being amortised to profit or loss over its remaining life. Refer to note 5(i) for further details.
- Valuation of debt as a result of movements in the NZD/USD exchange rate.

The information on the following page provides details of the borrowings listed in the tables above.

	Amount $000	Issue date	Interest rate	Maturity	Risk mitigated by:
(a) Guaranteed bonds					
12 year bonds	50,000	Sep 2005	6.74% fixed	Sep 2017	Fixed rate
(b) Wholesale bonds					
7 year fixed rate bonds	65,000	Dec 2011	6.31% fixed	Dec 2018	Fixed rate
7 year floating rate bonds	35,000	Dec 2011	90 day bank bill rate plus a margin	Dec 2018	Interest rate swaps
7 year fixed rate bonds	150,000	Sep 2015	4.76% fixed	Sep 2022	Fixed rate
3.5 year floating rate bonds	100,000	Aug 2016	90 day bank bill rate plus a margin	Feb 2020	Interest rate swaps
7 year fixed rate bonds	100,000	Nov 2016	4.67% fixed	Nov 2024	Fixed rate
(c) US dollar private placement notes					
9 year notes – 2011 issue	91,371	Jun 2011	4.36% fixed	Jun 2020	US cross currency & interest rate swaps
12 year notes – 2011 issue	114,213	Jun 2011	4.56% fixed	Jun 2023	US cross currency & interest rate swaps
15 year notes – 2011 issue	105,330	Jun 2011	4.86% fixed	Jun 2026	US cross currency & interest rate swaps
12 year notes – 2013 issue	30,440	Jan 2013	3.40% fixed	Jan 2025	US cross currency & interest rate swaps
15 year notes – 2013 issue	97,407	Jan 2013	3.60% fixed	Jan 2028	US cross currency & interest rate swaps
(d) NZ dollar private placement notes					
12.5 year notes – 2014 issue	135,000	Oct 2014	6.62% fixed	Apr 2027	Fixed rate

The comparative period included all of the borrowings listed in (a) to (d) above, with the addition of the following borrowings that matured during the period:

(c) 13 year notes – 2003 issue	109,299	Nov 2003	5.67% fixed	Nov 2016	US cross currency & interest rate swaps

Excluded from the comparative borrowings were the $100 million wholesale bonds issued during this financial period.

(e) Bank debt

2017	Floating interest rate	Facility amount $000	Amount drawn $000	Issue date	Maturity	Risk mitigated by:
Revolving cash facility 1 – Tranche A	n/a	15,000	-	Apr 2012	Apr 2017	Interest rate swaps
Revolving cash facility 2	2.74%	75,000	75,000	Mar 2015	Mar 2019	Interest rate swaps
Revolving cash facility 3	2.79%	25,000	25,000	Mar 2015	Mar 2019	Interest rate swaps
Revolving cash facility 4	2.79%	50,000	25,000	Mar 2017	Mar 2021	Interest rate swaps
Revolving cash facility 5	n/a	50,000	-	Mar 2017	Mar 2021	Interest rate swaps
Working capital facility	2.59%	50,000	40,600	Mar 2017	Mar 2019	Interest rate swaps

In addition, Powerco has a revolving cash facility for $75 million that was issued in March 2015. As at 31 March 2017, no funds were drawn down against this facility.

2016	Floating interest rate	Facility amount $000	Amount drawn $000	Issue date	Maturity	Risk mitigated by:
Revolving cash facility 1 – Tranche A	2.58%	100,000	60,000	Apr 2012	Apr 2017	Interest rate swaps
Revolving cash facility 2	2.65%	75,000	75,000	Mar 2015	Mar 2019	Interest rate swaps
Revolving cash facility 3	2.63%	25,000	25,000	Mar 2015	Mar 2019	Interest rate swaps
Working capital facility	2.25%	50,000	45,300	Mar 2014	Mar 2017	Interest rate swaps

In addition, Powerco had a revolving cash facility for $75 million that was issued in March 2015. As at 31 March 2016, no funds were drawn down against this facility.

The Group operates a $2 million overdraft facility. As at 31 March 2017, there were no drawings against this facility (2016: no drawings).

The guaranteed bonds, wholesale bonds, US dollar private placement notes, revolving cash facilities and working capital facility are all secured against the assets of the Company through the Security Trust Deed.

The scheduled payments of guaranteed bonds and related interest are guaranteed on an unsecured basis by US-based Syncora Guarantee Inc. (Syncora), a specialist financial guaranty organisation. 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 balance date, no default by Syncora had occurred.

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, minimum 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. There have been no breaches.

Policy

All borrowings are initially recognised at the fair value of the consideration received, less issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost, using the effective interest rate method, which allocates the cost through the expected life of the borrowing. Borrowing costs are recognised as an expense when incurred, except to the extent that they are capitalised in accordance with the policy in note 4.

Payments of US dollar private placement note interest is made in US dollars and is exactly offset by the proceeds of cross-currency swaps. As a result, the accounting treatment is not affected by movements in exchange rates.

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

10. Other financial assets and liabilities

The Company enters into various financial instruments to either eliminate or manage its exposures to foreign currencies and interest rate movements. Cross Currency Interest Rate Swap Agreements are used to economically convert exposures to US dollar borrowings and US interest rates to NZD borrowings and NZ interest rates. Interest rate swaps are used to economically convert our exposure to floating interest rates to fixed rates. Other financial instruments may be used from time to time to reduce risk.

Derivative instruments are initially recognised at fair value on the contract date and subsequently measured at their fair value on each reporting date. Derivative instruments are undertaken as economic hedges of exposures, but are not hedge accounted. Changes in the fair value of derivative instruments are recognised in the profit or loss component of the Statement of Comprehensive Income.

The fair value of financial derivatives and fixed rate debt is determined based on current market information from independent valuation sources. Refer to note 11(g) for further information.

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

	2017 $000	2016 $000
Other current financial assets		
Interest rate swaps	-	-
Foreign exchange contracts	6	-
	6	**-**
Other non-current financial assets		
US cross currency interest rate swap	74,292	102,703
Interest rate swaps	19,942	29,153
	94,234	**131,856**
Other current financial liabilities		
US cross currency interest rate swap	-	(12,879)
Interest rate swaps	(1,448)	(4,203)
Foreign exchange contracts	(3)	-
	(1,451)	**(17,081)**
Other non-current financial liabilities		
US cross currency interest rate swap	-	-
Interest rate swaps	(62,395)	(82,156)
	(62,395)	**(82,156)**
Fair value of assets and liabilities	**30,394**	**32,619**

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

The Group holds the following instruments:

	Notional principal		Fair value		Movement of derivatives held at fair value through profit or loss	
	As at 2017 $000	As at 2016 $000	As at 2017 $000	As at 2016 $000	For the period ended Mar 2017 $000	For the period ended Mar 2016 $000
1 – US cross currency swaps	438,760	548,059	74,292	89,824	(32,541)	61,252
2 – Interest rate swaps (pay floating)	385,000	285,000	16,402	29,153	(12,751)	13,777
3 – Interest rate swaps (pay fixed)	1,460,000	1,375,000	(60,303)	(86,358)	26,055	(25,785)
4 – Foreign exchange contracts	1,490	-	3	-	3	30
	2,285,250	**2,208,059**	**30,394**	**32,619**	**(19,234)**	**49,274**

Policy

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract where the 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:

i) 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 and are classified as held for trading.

ii) Loans and receivables

Cash and cash equivalents, trade and other receivables (excluding prepayments) and bank accounts 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.

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.

Other financial liabilities

Trade and other payables, 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.

11. Financial instruments

a) Capital risk management

The Group manages its levels of debt and equity to ensure an efficient capital structure while maintaining certain internal financial ratios. The Group's Treasury Policy specifies target gearing for total debt to equity. This is managed both by reviewing debt levels and altering distributions, the later influencing the balance of equity. The Group also complies with financial covenants agreed with lenders as part of financing arrangements as set out in note 9.

b) Risk management

The Group manages risks in accordance with policies approved by the Board of Directors. Compliance with these policies is monitored by the Board of Directors on a regular basis. The Treasury Policy determines how risk management is undertaken.

The financial instruments that the Company holds exposes it to the following risks:

(1) Market risk

(2) Credit risk

(3) Liquidity risk

(1) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument or transaction will fluctuate because of changes in foreign exchange rates. The Group operates in New Zealand and has foreign exchange exposures arising from US dollar denominated debt and the purchase of items of property, plant and equipment in foreign currencies.

This exposes the Group to potential gains and losses arising from currency movements. The policy relating to US dollar denominated debt is to eliminate the exchange rate exposure by use of matching cross currency and interest rate contracts taken out at the time the loans are drawn down and by entering forward exchange contracts when items of property, plant and equipment are ordered. Refer to notes 11(d) and 11(e) for further information.

(ii) Interest rate exposures

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, thereby changing the cost of borrowing or the return on cash and cash equivalents.

The Group's short-term borrowings are on a floating interest rate basis. The Group has entered into interest rate swaps to reduce the impact on its borrowings of changes in interest rates. These derivatives are entered into in accordance with the Treasury Policy Hedging activities are monitored and evaluated regularly to ensure that the most cost-effective economic hedging policy is being applied.

Cash and cash equivalents are held at floating interest rates. The Group does not enter into derivatives in relation to these balances. Refer to notes 11(c) and 11(e) for further information.

(2) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default on its obligations and consequently cause loss to the Group. The financial assets that expose the Group to credit risk are bank balances and accounts receivable. The maximum credit risk is the carrying value of each of these assets. There are concentrations of credit risk in regards to retailers.

Credit risk is managed in the following ways:

- Accounts receivable – the Group undertakes credit checks for all those seeking credit and will only provide credit to those with an acceptable credit rating. Each credit customer has a credit limit and compliance with limits is monitored on a regular basis. In addition, compliance with payment terms is monitored on a regular basis and debtors in arrears are subject to collection action. Retailer credit risk is mitigated by the use of prudentials and ensuring retailers meet our credit rating standard.
- Cash and cash equivalents – cash deposits are only made with registered banks.

3) Liquidity risk

Liquidity risk is the risk that the Group 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, and forecasting and monitoring liquidity levels on a continuous basis. The Group adheres to a Treasury Policy, which specifies the levels of liquidity that must be maintained to meet short term requirements and further stipulates timeframes for refinancing maturing debt. Note 9 provides details of additional undrawn facilities that the Group has at its disposal to reduce liquidity risk. Refer to note 11(f) for further information.

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 paying or receiving the difference between fixed and floating interest rate.

d) Foreign currency sensitivity analysis

The Company's foreign currency borrowings are 100% economically 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.

e) Interest rate and foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 100 basis point increase and decrease in the New Zealand interest rates across the entire curve, with all other variables held constant as at the reporting date. The rate of 100 basis points is Powerco's and the industry-accepted sensitivity rate used for 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 debt, and the cash flows on floating debt, and the cash flows and valuation movements on interest rate derivatives.

The table below details the sensitivity to changes in the exchange rate and interest rate:

	Foreign currency sensitivity analysis		Interest rate sensitivity analysis	
	2017 $000	2016 $000	2017 $000	2016 $000
Net profit before tax +100 basis points	(953)	(1,574)	5,314	11,720
Net profit before tax -100 basis points	980	1,620	(4,239)	(11,076)
Total equity +100 basis points	(953)	(1,574)	5,314	11,720
Total equity -100 basis points	980	1,620	(4,239)	(11,076)

f) 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 and the floating rate portion of derviative instruments, the forecast cash flow is based on the floating rate applicable at the end of the reporting period.

2017	Less than 1 year	1 - 2 years	3 - 5 years	Over 5 years	Total contractual cash flows
Non-derivative financial liabilities					
Trade and other payables	45,069	-	-	-	45,069
Current secured borrowings	51,685	-	-	-	51,685
Non-current secured borrowings	55,807	442,181	206,097	911,537	1,615,622
	152,561	**442,181**	**206,097**	**911,537**	**1,712,376**
Derivative (assets)/liabilities					
Net settled interest rate swaps	22,245	35,759	(7,859)	(27,777)	22,368
Gross settled cross currency interest rate swaps:					
– (inflow)	(21,420)	(42,840)	(138,888)	(459,803)	(662,951)
– outflow	17,553	35,112	120,175	399,121	571,961
Gross settled foreign exchange contracts:					
– (inflow)	(1,490)	-	-	-	(1,490)
– outflow	1,490	-	-	-	1,490
Net value of derivative transactions	**18,378**	**28,031**	**(26,572)**	**(88,459)**	**(68,622)**

2016	Less than 1 year	1 - 2 years	3 - 5 years	Over 5 years	Total contractual cash flows
Non-derivative financial liabilities					
Trade and other payables	40,965	-	-	-	40,965
Current secured borrowings	146,164	-	-	-	146,164
Non-current secured borrowings	52,244	404,697	177,528	837,208	1,471,677
	239,374	**404,697**	**177,528**	**837,208**	**1,658,806**
Derivative (assets)/liabilities					
Net settled interest rate swaps	22,165	40,522	4,572	(27,097)	40,163
Gross settled cross currency interest rate swaps:					
– (inflow)	(121,128)	(43,439)	(145,375)	(483,408)	(793,350)
– outflow	131,161	38,096	126,530	418,559	714,346
Gross settled foreign exchange contracts:					
– (inflow)	-	-	-	-	-
– outflow	-	-	-	-	-
Net value of derivative transactions	**32,198**	**35,179**	**(14,273)**	**(91,946)**	**(38,841)**

g) Fair values

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

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

Derivatives are the only items carried at fair value. Refer to note 10 for further information.

For the following liabilities, fair value does not equate to carrying value:

Financial liabilities	2017 Carrying amount $000	2017 Fair value $000	2016 Carrying amount $000	2016 Fair value $000
Guaranteed bonds	49,978	50,934	49,860	52,264
Wholesale bonds	451,897	454,175	250,767	260,136
US dollar private placement notes	518,103	501,165	624,754	602,715
NZD private placement notes	136,114	153,505	136,075	159,475
	1,156,092	**1,159,779**	**1,061,456**	**1,074,590**

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

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

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

The following market interest rates and currency rates were used for valuation purposes:

Reporting date rates	NZ Swap rates 2017	NZ Swap rates 2016	US Swap rates 2017	US Swap rates 2016
1 year swap rate	2.08%	2.19%	1.39%	0.74%
2 year swap rate	2.32%	2.20%	1.62%	0.84%
3 year swap rate	2.56%	2.27%	1.81%	0.95%
4 year swap rate	2.76%	2.38%	1.95%	1.06%
5 year swap rate	2.93%	2.50%	2.05%	1.17%
7 year swap rate	3.20%	2.72%	2.22%	1.39%
10 year swap rate	3.45%	2.98%	2.38%	1.64%
15 year swap rate	3.77%	3.31%	2.54%	1.90%

	2017	2016
NZD/USD rate	0.70060	0.69094

The above rates have been sourced from Bloomberg.

Fair value measurements recognised in the Statement of Financial Position

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

1) Level 1 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 (ie prices) or indirectly (ie derived from prices).
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).

NZD interest rate swap contracts, foreign exchange contracts, USD cross currency interest rate swaps, guaranteed bonds, wholesale bonds, US dollar private placement notes and NZ dollar private placement notes are all categorised as Level 2.

Policy

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. When derivative contracts are are entered into, the Group determines whether it wishes to hedge account or not. If it does not it manages 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 risk of non-performance as an input is also required. 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; 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.

12. Trade and other receivables

	2017 $000	2016 $000
Trade receivables	36,811	35,354
Impairment allowance	(300)	(300)
Prepayments	1,992	1,636
Trade and other receivables	**38,503**	**36,690**

Debtor ageing

	2017 $000	2016 $000
Current	35,094	33,380
Past due 0 to 30 days	111	135
Past due 31 to 120 days	192	515
121+ days	1,414	1,324
	36,811	**35,354**

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 an interest rate in the event of payment default of 5% 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 with credit-worthy retailers, and conducts active credit evaluations on these retailers to minimise credit risk.

A review of the debtors' aged trial balance, primarily third party damages, occurs monthly to ensure no debtor is impaired and that the impairment allowance is sufficient. There was no change to the impairment allowance during the period.

Policy

Trade and other receivables are initially recognised at fair value. Subsequent to initial recognition, trade receivables and other accounts receivable are recorded at amortised cost. As trade and other receivables are usually received within 30 days, they are carried at face value.The impairment allowance on receivables is assessed on a portfolio basis, based on historical delinquency rates and losses. Bad debts are written off when identified.

13. Trade and other payables

	2017 $000	2016 $000
Trade payables and accruals	44,964	40,849
GST payable	105	116
	45,069	**40,965**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. On average, the creditors are paid on the 20th of the following month, unless a different term of credit is specified on the invoice.

Policy

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. As trade and other payables are usually paid within 30 days, they are carried at face value.

14. Finance lease receivable

	Minimum future lease payments		Present value of minimum future lease payments	
	2017 $000	2016 $000	2017 $000	2016 $000
Amount receivable under finance lease				
Not later than one year	1,433	1,413	503	465
Later than one year and not later than five years	5,904	5,839	2,468	2,279
Later than five years	9,902	11,400	6,036	6,729
Minimum future lease payments	17,239	18,652	9,007	9,473
Unguaranteed residual value	-	-	-	-
Gross finance lease receivable	17,239	18,652	9,007	9,473
Less unearned finance income	(8,232)	(9,179)		
	9,007	**9,473**	**9,007**	**9,473**
Classified as:				
Current			503	465
Non-current			8,504	9,008
			9,007	**9,473**

Powerco Transmission Services Ltd entered into a lease with NZ Windfarms Ltd. The term of the lease is 20 years, with an expiry in 2028. 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.

Policy

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

15. Operating leases

	2017 $000	2016 $000
Lease payments under operating leases recognised as an expense in the period	**2,018**	**1,892**
Operating lease obligations payable after balance date on non-cancellable leases are as follows:		
Within one year	1,229	1,480
One to five years	1,683	2,334
More than five years	388	437
	3,300	**4,251**

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 33 years, with rights of renewal on most licences. Vehicle leases are for a term of three years.

Policy

Leases that do not meet the criteria of a finance lease are classified as operating leases.

16. Employee benefits

	2017 $000	2016 $000
Current portion	4,723	4,961
Non-current portion	1,892	1,818
	6,615	**6,779**

The provision for employee benefits includes 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.

Employee benefit expenses of $36.8 million were incurred during the period (2016: $35.8 million). Employer contributions to defined contribution schemes of $1.2 million were incurred during the period (2016: $1.1 million).

Policy

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.

17. Auditor remuneration

	2017 $000	2016 $000
Amounts paid or payable to the auditor for:		
Audit of financial statements		
Audit of financial statements	195	195
Review of interim financial statements	35	35
Other assurance services		
Regulatory audit services	279	112
Regulatory audit services	31	-
Trustee reporting	5	5
	545	**347**

Regulatory audit services consists of the audit of regulatory disclosure statements, compliance statements and Customised Price-Quality Path application.

18. Related parties

Related party transactions

	2017 $000	2016 $000
Transactions between Powerco Ltd and PNZHL		
– Dividends paid to PNZHL	58,523	58,708
– Tax losses made available to the Group from PNZHL	29,124	41,048

PNZHL transfers tax losses to the Powerco Group for nil consideration either via a loss offset or through the use of a consolidated tax group. Powerco Ltd performs the accounting function of PNZHL for nil consideration.

Compensation of key management personnel

	2017 $000	2016 $000
Short-term benefits	4,271	3,892
Long-term benefits	381	249

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.

19. Share capital

Total number of ordinary shares authorised, issued and fully paid at 31 March 2017 is 369,929,053. There has been no movement in the number of shares in the period.

Each ordinary share in the Company confers on the holder:

(a) The right to one vote on a poll at a meeting of the Company on any resolution;

(b) The right to an equal share in the distributions approved by the Board of Directors; and

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

The shares have no par value.

Policy

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.

20. Reserves

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 2017, no swaps were effective cash flow hedges as the Group discontinued hedge accounting in 2013. 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 January 2028. For further information refer to note 5.

21. Contingent liabilities and commitments

Contingent assets and liabilities

As at 31 March 2017, the Group had no contingent assets or liabilities (31 March 2016: nil).

Commitments

	2017 $000	2016 $000
Commitments for future capital expenditure resulting from contracts entered into	1,654	4,842
Commitments for future operational expenditure resulting from contracts entered into	6,738	10,282
Commitments resulting from Electricity Field Service Agreement (EFSA) contract entered into	90,000	130,000
	98,392	**145,124**

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

22. New and revised standards and interpretations

The following are the significant 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 2017. Management has reviewed NZ IFRS 9 Financial Instruments and has determined that this is unlikely to have a material effect on the results and position of the Group. Management has not yet assessed the impact of the other standards.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 9 Financial Instruments	1 January 2018	31 March 2019
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	31 March 2019
NZ IFRS 16 Leases	1 January 2019	31 March 2020

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.

23 Subsequent events

There have been no significant subsequent events since 31 March 2017 requiring adjustment to these financial statements and disclosures.

To the Shareholders of Powerco Limited

Opinion

We have audited the consolidated financial statements of Powerco Limited and its subsidiaries (the 'Group' or 'Powerco'), which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 2 to 29, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of other assurance services including the audit of regulatory disclosure statements and trustee reporting, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Context for our audit

Powerco has securities listed on the NZX Debt Market and its primary business activity is the operation of regulated electricity and gas distribution assets throughout the North Island of New Zealand.

As a result, key focus areas for Powerco are investment in maintaining and developing the distribution networks within the regulatory framework established by the Commerce Commission.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the quantitative materiality for our audit of the Group's financial statements as a whole to be $7.6 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter and results
Classification of expenditure between operating expenditure and capital expenditure Powerco carry out a large number of individual network system projects that can be either operational (network maintenance) or capital (asset replacement or network growth) in nature. As described in note 1 and note 7 professional judgement must be exercised about whether costs incurred in bringing assets to working condition for their intended use should be capitalised as part of the cost of the asset, or whether they should be expensed as network maintenance. In the current year, total capital expenditures were $167.249 million compared to System operations and network support expenditure incurred of $38.6 million. Powerco's business operations are regulated and are subject to maximum allowable revenue limits set by the Commerce Commission. These revenue limits are, in part, determined by the value of Powerco's regulatory asset base. Therefore, we have included the classification of expenditure between operating and capital as a key audit matter due to the level of judgement involved, extent of costs incurred, and importance of the regulatory asset base to future revenue determination.	We assessed Powerco's capitalisation policy for compliance with NZ IFRS and IFRS. We tested the design and implementation of controls over the application of the policy to expenditure incurred on network system projects. We used analytic software to analyse all operating and capital expenditure transactions. We used this software to identify expenditure trends throughout the year on a network and regional basis and compared these to historical trends. We also compared Powerco's average operating and capital expenditure ratios against industry averages taking into consideration our understanding of Powerco and its operations. Using this analysis we were able to focus our testing procedures on those areas or periods which were not consistent with the trends in the wider population to focus our testing. We tested a sample of costs to invoice or other supporting information to determine whether the expenditure was capital in nature.

Key audit matter	How our audit addressed the key audit matter and results
Asset lives and depreciation Powerco's asset base, as noted above, is also impacted by depreciation, which requires Powerco to exercise judgement in determining the useful lives of property, plant and equipment, and in particular the network system asset components as described in Note 1. Depreciation totalled $71.237 million for the year ended 31 March 2017, as disclosed in note 7. The significant value and geographic spread of Powerco's network system assets means that a small change in the useful life estimates could have a material impact on depreciation expense recorded over these long asset lives. As a result, we consider this to be a key audit matter.	We tested the design and implementation of key controls relating to the application of useful lives to network system assets as they are commissioned. We assessed the appropriateness of the useful lives of the assets through comparison to industry and regulatory benchmarks taking into consideration our understanding of Powerco and its operations. We challenged the Group's on going processes to review the appropriateness of component asset useful life assumptions and the key controls relating to any changes made to useful life information. We assessed historical information of losses on disposal through the use of specialist analytic software in order to identify which types of assets and what particular regions were responsible for the losses. We considered whether the losses were indicative of inappropriate useful life assumptions in conjunction with Powerco's Asset Management Plan. We formed an independent expectation of depreciation and compared it to the amount recorded.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. 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.

Deloitte

Trevor Deed, Partner for Deloitte Limited
Wellington, New Zealand | 25 May 2017