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INTERIM  
**16**  
REPORT

## Chairman and Chief Executive Introduction

On behalf of the Board of Directors and Executive Management Team, we are pleased to present shareholders and security holders with this Interim Report for the six months to 30 September 2016.

### Financial performance

The amount of energy (electricity and gas) conveyed across Powerco's electricity and gas distribution networks was down 2%, when compared to the six months to 30 September 2015. Revenue was up \$3.2 million to \$247.1 million. Included in the revenue result was:

- \$60.1 million of transmission and other pass-through costs, up \$2.3 million from the same period last year
- \$14.0 million of customer contributions to capital works, up \$3.2 million from the same period last year

Earnings before interest expense, taxation, depreciation and fair value adjustments (EBITDAF) decreased by \$2.3 million to \$140.6 million. This compares to \$142.9 million for the six months to 30 September 2015 and \$134.0 million for the six months to 30 September 2014.

Net profit after tax was up \$26.4 million to \$70.0 million. This compares to \$43.6 million for the six months to 30 September

2015 and \$51.6 million for the six months to 30 September 2014. This includes a \$24.9 million gain on the revaluation of financial derivative instruments related to Powerco's debt obligations. Valuations of derivatives used to hedge these obligations flow through the profit and loss statement as either gains or losses, depending upon market movements. Powerco holds foreign currency loans and related hedges to expiry and, as such, the \$24.9 million gain reported in this six month period will, except in extraordinary circumstances, never be realised by the company.

Underlying profit before tax (profit for the period excluding gains/losses on financial instruments) increased by \$5.2 million to \$60.6 million. This compares to \$55.4 million for the six months to 30 September 2015 and \$51.2 million for the six months to 30 September 2014.

Powerco increased investment in its core electricity and gas networks with capital expenditure of \$77.8 million for the six months to the 30 September 2016. This compares to \$63.9 million for the six months to 30 September 2015 and \$61.8 million for the six months to 30 September 2014.

Dividends for the six months to 30 September 2016 were \$23.7 million. This compares to \$25.7 million for the

six months to 30 September 2015 and \$23.3 million for the six months to 30 September 2014.

Powerco remains of the opinion that both EBITDAF and profit before taxation, adjusted to remove the impact of unrealised gains and losses, are better measures of the operating performance of the company, showing a 1.6% year-on-year reduction and a 9.3% increase respectively.

The table below shows how the company reconciled reported net profit after tax and underlying profit before tax for the six months ended 30 September 2016 and 30 September 2015.



**John Loughlin**  
Chairman



**Nigel Barbour**  
Chief Executive

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### Financials

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|   | 2016                    |                   |                           | 2015                    |                   |                           |
|---|-------------------------|-------------------|---------------------------|-------------------------|-------------------|---------------------------|
|   | REPORTED EARNINGS \$000 | ADJUSTMENTS \$000 | UNDERLYING EARNINGS \$000 | REPORTED EARNINGS \$000 | ADJUSTMENTS \$000 | UNDERLYING EARNINGS \$000 |
| <b>EBITDAF per Income Statement</b>           | <b>140,594</b>          | <b>-</b>          | <b>140,594</b>            | <b>142,914</b>          | <b>-</b>          | <b>142,914</b>            |
| Other (losses)/gains on financial instruments | 24,862                  | (24,862)          | -                         | (8,578)                 | 8,578             | -                         |
| Net loss on disposal of fixed assets          | (3,016)                 | -                 | (3,016)                   | (8,901)                 | -                 | (8,901)                   |
| Depreciation and amortisation                 | (37,654)                | -                 | (37,654)                  | (38,006)                | -                 | (38,006)                  |
| Finance costs                                 | (39,345)                | -                 | (39,345)                  | (40,565)                | -                 | (40,565)                  |
| Profit for the period before tax              | 85,441                  | (24,862)          | 60,579                    | 46,864                  | 8,578             | 55,442                    |
| Income tax expense                            | (15,408)                | 8,365             | (7,043)                   | (3,303)                 | (2,003)           | (5,306)                   |
| <b>Profit for the period after tax</b>        | <b>70,033</b>           | <b>(16,498)</b>   | <b>53,536</b>             | <b>43,561</b>           | <b>6,575</b>      | <b>50,136</b>             |

# Interim Financial Statements

For the six months ended 30 September 2016

## Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 September 2016

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

The accompanying notes form part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 September 2016

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


The accompanying notes form part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Statement of Financial Position

As at 30 September 2016

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

 **John Loughlin**  
Director  
24 November 2016

 **Paul Callow**  
Director  
24 November 2016

## Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 September 2016

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

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

### Transactions recorded net in the Financial Statements

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

## Reconciliation of Profit to Net Cash Flows from Operating Activities

For the six months ended 30 September 2016

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

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 September 2016

### 1. Basis of accounting

#### Basis of preparation

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

#### Significant accounting policies

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

### 2. Segmental reporting

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

- Electricity – regulated electricity line distribution
- Gas – regulated gas line distribution

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

#### For the six months ended 30 September 2016

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

## For the six months ended 30 September 2015

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

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

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

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

### 3. Seasonality of interim operations

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

### 4. (Gains)/losses on financial instruments

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

## 5. Property, plant and equipment

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



## 6. Intangible assets

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

## 7. Borrowings

The Group operates a \$2 million overdraft facility. As at 30 September 2016, there were no drawings against this facility. The guaranteed bonds, wholesale bonds, US dollar private placement notes, NZ dollar private placement notes, revolving cash facilities and working capital facility are all secured against the assets of the Company through the Security Trust Deed. On 25 August 2016, the Company issued a \$100 million wholesale bond, for three and a half years at BKBM + 1.30%. This is to refinance the upcoming US dollar private placement notes maturity of \$109 million on 25 November 2016. The cash flow statement shows \$132.2 million as proceeds from borrowings and \$122.5 million as repayment of borrowings, reflecting the movements within the working capital facility.

## 8. Other financial assets and liabilities

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

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

### Fair value of assets and liabilities

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

The Group holds the following instruments:

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



| FAIR VALUE                         | UNAUDITED<br>30 SEPTEMBER 2016<br>\$000 | UNAUDITED<br>30 SEPTEMBER 2015<br>\$000 | AUDITED<br>31 MARCH 2016<br>\$000 |
|------------------------------------|---|---|-----------------------------------|
| US cross currency swaps            | 66,434                                  | 126,836                                 | 89,824                            |
| Interest rate swaps (pay floating) | 40,056                                  | 17,110                                  | 29,153                            |
| Interest rate swaps (pay fixed)    | (82,620)                                | (77,109)                                | (86,358)                          |
| Foreign exchange contracts         | (5)                                     | -                                       | -                                 |
|                                    | <b>23,865</b>                           | <b>66,837</b>                           | <b>32,619</b>                     |

| MOVEMENT OF DERIVATIVES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS | UNAUDITED<br>FOR THE SIX<br>MONTHS ENDED<br>30 SEPTEMBER 2016<br>\$000 | UNAUDITED<br>FOR THE SIX<br>MONTHS ENDED<br>30 SEPTEMBER 2015<br>\$000 | AUDITED<br>FOR THE YEAR ENDED<br>31 MARCH 2016<br>\$000 |
|---|--|--|---|
| US cross currency swaps   | (23,391)   | 106,973  | 61,252  |
| Interest rate swaps (pay floating)                                | 10,903   | 1,734  | 13,777  |
| Interest rate swaps (pay fixed)                                   | 3,738  | (16,536)   | (25,785)  |
| Foreign exchange contracts  | (5)  | (140)  | 30  |
|   | <b>(8,755)</b>   | <b>92,031</b>  | <b>49,274</b>   |

#### Fair values

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

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

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

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

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

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

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

#### Fair value measurements recognised in the Statement of Financial Position

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

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

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

#### 9. Related parties

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

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

#### 10. Share capital

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

Each ordinary share in the Company confers on the holder:

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

The shares have no par value.

#### 11. Contingent liabilities and commitments

##### Contingent assets and liabilities

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

##### Commitments

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

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

#### 12. Subsequent events

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

# Directory

## Directors

J Loughlin (Chair)  
 M Bessell (Alternate to M Cummings)  
 P Callow (also Alternate to T Parry)  
 M Cummings  
 G Hay  
 A Karl (Alternate to G Hay)  
 T Parry (also Alternate to P Callow)  
 D Rees (Alternate to M Bessell)

### On 1 September 2016

- Mr Bain (also Alternate to T Parry) resigned from the Board
- Mr Callow (also Alternate to T Parry) was appointed to the Board
- Mr Dorreen (Alternate to Mr Cummings) resigned from the Board

### On 23 September 2016

Mr Cummings was appointed Mr Bessell's Alternate

## Executive Management Team

**N Barbour**  
 Chief Executive

**J Birnie**  
 Group Manager Human Resources

**S Dickson**  
 General Manager Gas

**R Fletcher**  
 General Manager Regulation and Corporate Affairs

**P Goodeve**  
 General Manager Operations Support  
 (Held this position until 17 June 2016)

**J McAvoy**  
 Group Manager Health, Safety, Environment and Quality

**A McLeod**  
 General Manager Electricity

**C Taylor**  
 Chief Financial Officer  
 (D Martin held this position during this period and  
 Acting Chief Information Officer from 20 June 2016)

## Registered office

Level 2, NPDC Civic Centre  
 84 Liardet St  
 New Plymouth 4310  
 New Zealand

## Auditors

Deloitte

## Bankers

Westpac Institutional Bank  
 ANZ National Bank Ltd  
 Bank of Tokyo-Mitsubishi UFJ Ltd  
 Commonwealth Bank of Australia

## Bond Registrar

Computershare Investor Services Ltd  
 Private Bag 92119  
 Auckland 1142  
 159 Hurstmere Rd  
 Takapuna  
 Auckland 0622

## Bondholder inquiries

To change your address or bank account and to view your registered details, including transactions, visit: [www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre)

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