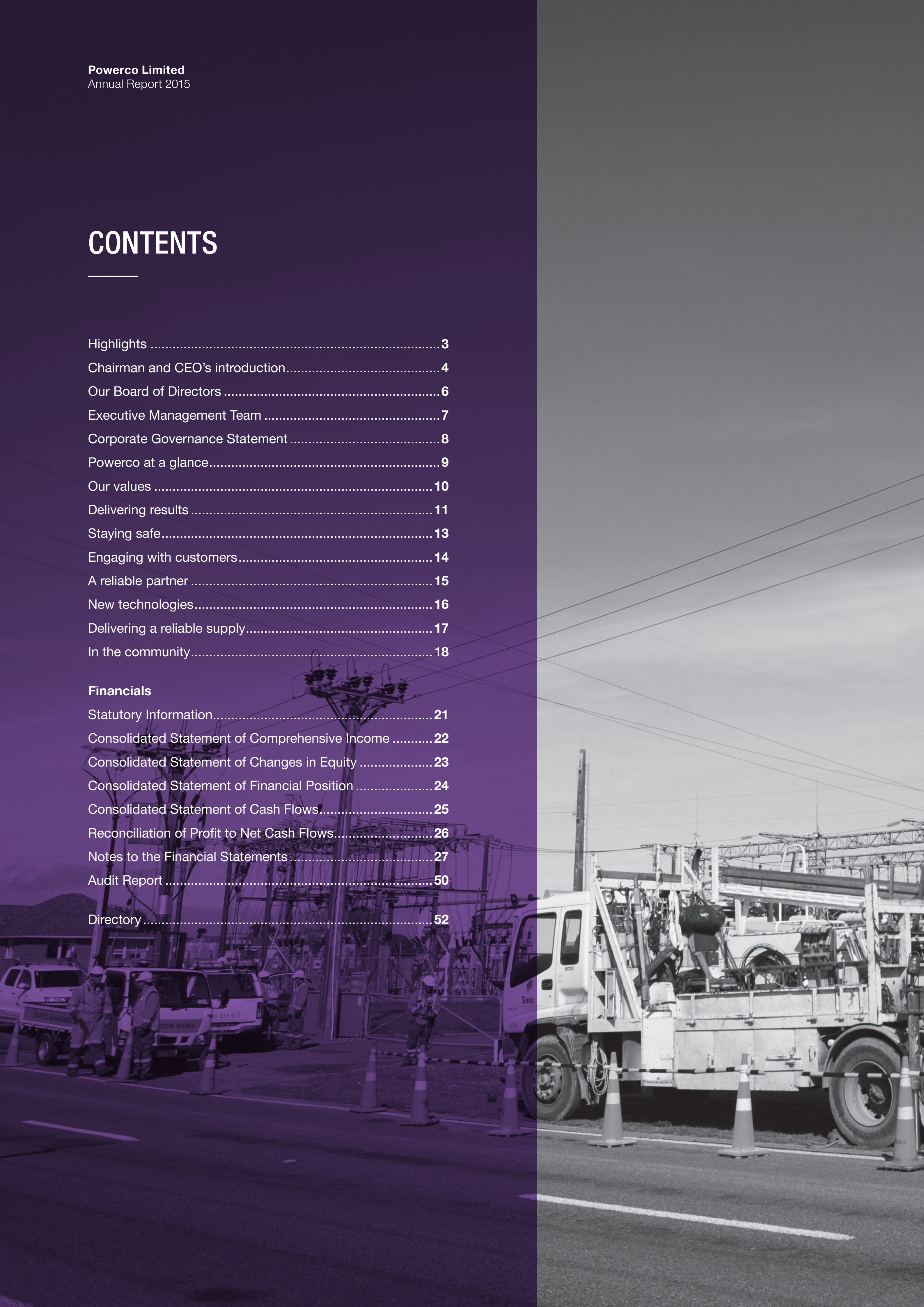

POWERCO
ANNUAL REPORT 2015



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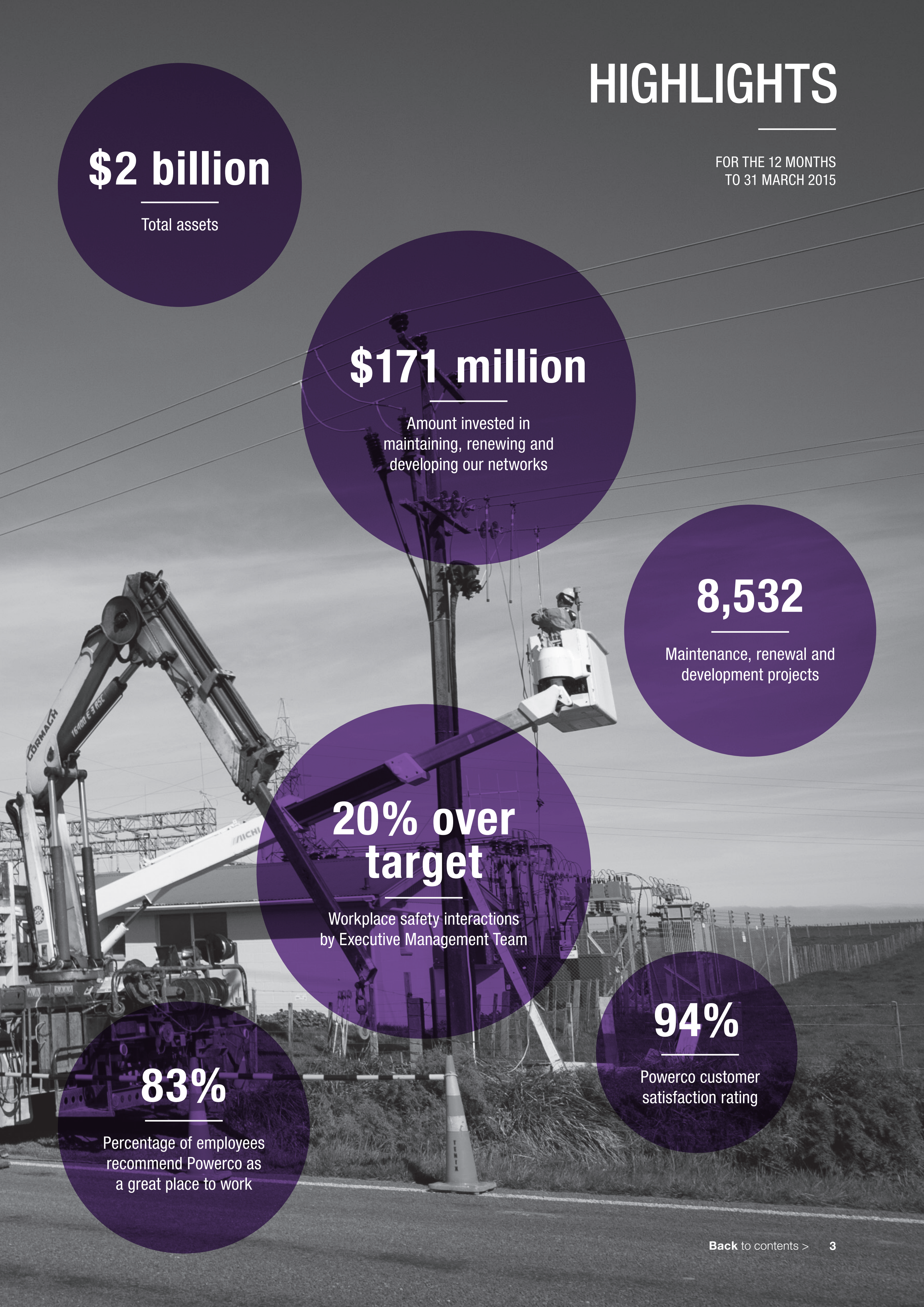


HIGHLIGHTS

FOR THE 12 MONTHS
TO 31 MARCH 2015

$2 billion

Total assets

$171 million

Amount invested in maintaining, renewing and developing our networks

8,532

Maintenance, renewal and development projects

20% over target

Workplace safety interactions by Executive Management Team

94%

Powerco customer satisfaction rating

83%

Percentage of employees recommend Powerco as a great place to work

CHAIRMAN AND CEO'S INTRODUCTION

Your reliable partner, delivering New Zealand's energy future.

In profitable partnership with our stakeholders, we are powering the future of New Zealand through the delivery of safe, reliable and efficient energy.

On behalf of the Board of Directors and Executive Management Team we are pleased to present shareholders and security holders with this Annual Report for the 12 months to 31 March 2015.

Powerco continues to focus on engaging with its 430,000 consumers, adapting to new technologies and ensuring its gas and electricity networks provide a reliable supply for the communities it serves.

It was pleasing to see our work plans for the electricity and gas businesses achieved a combined completion rate of 101% against a target of 95%.This was during a time when the electricity business moved to a new service provision model and had to deal with unusually stormy weather in the first half of the year.

Key highlights

- We invested $170.9 million in maintaining, renewing and developing Powerco's electricity and gas networks, an increase of 7.3% (2014: $159.2 million)
- A record number of 8,532 scheduled maintenance, renewal and development projects were completed (2014: 8,390)
- Powerco surveyed more than 5,700 people. Of the Powerco consumers surveyed (2,600), 94% indicated they were happy with the level of service the company provided
- The Gas Hub programme of initiatives resulted in 1,242 net new gas connections. Gross new connections, including reconnections, were 20% higher than last year

Key to achieving our objectives is an engaged workforce. Our latest staff survey, undertaken in June 2014, revealed 83% of employees recommended Powerco as a great place to work. Powerco outperformed the energy sector benchmark in the majority of survey questions. The six questions relating to safety were in the top 10 scores.

What's more, the company's health and safety performance continued to be better than industry average performance and incident reporting by contractors is improving.

During the year, the industrial sector had strong growth particularly the dairy and kiwifruit sector. This growth is reflected by high values in customer projects totalling $25.6 million (2014: $16.8 million).

We have also seen net domestic connection rates lift nearly 300% to 3,842 (2014: 972), more than doubling our annual projections. On the flip side, average household electricity demand has flattened and peak energy needs have risen. This is due to consumers investing more in energy efficient technologies and deciding how to better use energy in their homes.

Powerco is working with customers to cater for new technology and pricing solutions to assist them make choices about when to use energy. This will help ensure we can continue to deliver a reliable supply of electricity.

Price regulation and new incentive arrangements

Powerco is subject to price regulation by the Commerce Commission.
In November 2014, the Commerce Commission announced its decisions on how the prices charged by Powerco and other electricity distributors are allowed to change in the 2015-2020 period. Powerco's charges were permitted to increase by 0.16% as the Commission found our charges already enabled us to earn a fair rate of return.

During the year, the Commerce Commission also reviewed and implemented a change in the way it calculates the rate of return we are allowed to earn on the assets we provide to meet customer needs.
We believe that the approach to this review was not consistent with good regulatory practice and the outcome of the review was flawed. However, we continue to work cooperatively with the Commerce Commission to help ensure New Zealand's regulatory regime adopts world best practice and delivers the level of stability and rigour that is required to meet the shared objectives of Powerco and its customers for the long term.

Electricity Authority initiatives

The Electricity Authority has recently introduced guidelines for how retailers and distributors should communicate price changes. Powerco welcomes this initiative which should help to reduce the consumer confusion that conflicting descriptions of price changes have sometimes caused in the past.

The Authority has also indicated that it is interested in promoting more efficient distribution pricing, particularly in relation to advancing technologies such as small scale solar panel installations and electric vehicles.
Powerco is also keen to ensure its prices promote efficient resource use and anticipates constructive interaction with the Authority on this issue.

Revenue

Total revenue was $445.9 million, a 7.3% increase on 2014's $415.4 million.

Strong residential connection and commercial growth, higher pass-through costs (primarily transmission) and more typical weather have all contributed to the increase. Price increases directly attributable to our electricity and gas networks accounted for $6.7 million (1.6%). The increase in revenue also included higher pass-through costs of $10.2 million (2.5%), volume and ICP growth of $7.8 million (1.9%) and customer contributions to capital work of $6.1 million (1.5%).

Earnings before Interest, Taxation, Depreciation, Amortisation and Financial Instruments (EBITDAF)

EBITDAF for the 12 month period ended 31 March 2015 was $249.2 million, an increase of 9.7% (2014: $227.1 million). The improvement was due not only to the revenue increases already detailed but the company being able to hold expenses to levels achieved in 2014.

Underlying performance of the company

Powerco is 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 performance of the company showing a 1.6% and 16.9% year-on-year improvement respectively.

The following table shows Profit before Taxation with Other Gains and Losses for 2015 and 2014 removed. The variance of $11.7 million is attributable to the increase in EBITDAF ($22.1 million), largely offset by increases in both depreciation and amortisation ($4.1 million) and finance costs ($6.8 million).

Net Profit After Tax (NPAT)

The company made a net profit after tax of $73.7 million in the 12 months to 31 March 2015 compared to $91.8 million for the 12 months ended 31 March 2014. This reduction in Net Profit after Tax is due to much smaller gains on unrealised valuations of financial instruments and an increase in taxation expense.The results reflect the company's resilience, stability and on-going focus on performance improvement. The company is continuing its focus on being a reliable partner delivering New Zealand's energy future.

	2015 $ MILLION	2014 $ MILLION	VARIANCE $ MILLION	VARIANCE %
Profit Before Taxation	93.7	88.3	5.4	
Remove Other (Gains)/Losses	(12.8)	(19.1)	6.3	
Underlying Profitability	80.9	69.2	11.7	16.9%


John Loughlin
Chairman


Nigel Barbour
Chief Executive

OUR BOARD OF DIRECTORS

John Loughlin
MBA, BCA, FCA, FCIS, FCSAP, FNZIM, ANZIIF (Fellow), AFInstD, INFINZ (Fellow)

Mr Loughlin is the Chairman of the Powerco Board. He is a professional company director and Chairman of Tru-Test Corporation Ltd and Firstlight Foods NZ Ltd. He is also a director of Augusta Capital Ltd, Port of Napier Ltd and Bay Leisure & Events Ltd, and a trustee of the Professionelle Foundation. In his executive career, Mr Loughlin was Chief Executive Officer of Richmond Ltd and prior to that Finance Manager of that company. He and his wife Kathryn established and own Askerne Estate Winery. Mr Loughlin was appointed to the Powerco Board in 2013.

Murray Bain MCom, BSc

Mr Bain has wide experience in working with boards as a senior executive and as a board member. He has held senior roles with Trust Bank, the Ministry of Business, Innovation and Employment, the Ministry of Science and Innovation, Accident Compensation Corporation and the Reserve Bank of New Zealand. In addition to his role at Powerco he is currently Chairman of the Open Polytech of NZ, a Director of TSB Bank and a Director of the DHB Central Technical Advisory Services organisation. He also provides consultancy services to a wide range of public and private organisations. Mr Bain was appointed to the Powerco Board in 2012.

Michael Bessell
BEc, LLB (Hons), GradDipAppFin

Mr Bessell is AMP Capital's Head of Origination and Separately Managed Accounts, Australia and New Zealand. He leads AMP Capital's Australian and NZ origination team and also has responsibility for AMP Capital's $3.5 billion customised accounts infrastructure business.
He has more than 22 years of investment banking and investment experience, with a focus on mergers and acquisitions, equity raising and developing infrastructure projects as a sponsor or principal across all infrastructure subsectors. In the last five years, his team has transacted and executed investments with an enterprise value of more than $5 billion. Mr Bessell was appointed to the Powerco Board in April 2015.

Michael Cummings
BEng, MIPENZ, MInstD, GAICD, MAICD

Mr Cummings is AMP Capital's Head of Australian and New Zealand Funds, including responsibility for leading its Energy and Utilities Sector Team. He is also the Fund Manager for AMP Capital's domestic flagship Infrastructure Equity Fund, with investments in transport, energy and social infrastructure assets. Before joining AMP Capital, Mr Cummings was the Chief Operating Officer (Energy) at Brookfield Infrastructure. He has more than 25 years' experience in the infrastructure sector. Mr Cummings was re-appointed to the Powerco Board in 2013, having previously been a Director between 2008 and 2012 when working for BBI/Brookfield.

Gordon Hay BEng (Hons), MBA

Mr Hay is a Principal in the QIC Global Infrastructure team and co-heads the team's investment and asset management activities in the energy and utilities sector. He has more than 10 years corporate advisory and transaction experience. Prior to joining QIC, he was Executive Director of BurnVoir Corporate Finance, an Australian boutique investment bank where he was responsible for origination and execution of merger and acquisition transactions, debt financings and equity raisings across the infrastructure, energy and resources sectors.
Mr Hay joined the Powerco Board in 2014 as Alternate Director to Angela Karl.
In March 2015, Mr Hay became a Principal Director.

Angela Karl BCom, LLB (Hons)
(Alternate Director to Gordon Hay)

Ms Karl joined QIC in 2012 and is a Principal in the QIC Global Infrastructure (GI) team. She is focused on the power and utilities sector within QIC GI's broader infrastructure portfolio. Prior to joining QIC, Ms Karl had 11 years investment banking, corporate advisory and transaction experience at both JPMorgan and UBS Investment Bank, with her most recent role as Australasian Head of Power and Utilities Advisory at UBS. She is currently also a Director of Epic Energy SA. Ms Karl was appointed to the Powerco Board in 2013 as Principal Director and became Alternate Director to Mr Hay in March 2015.

Tom Parry AM, BEc, MEc, PhD

Dr Parry is Chairman of the Australian Energy Market Operator. He is also a director of ASX-Compliance and the Brisbane Airport Corporation. Previously, Dr Parry was Chairman of Sydney Water Corporation and First Super Trustee Corporation. He has held several positions in regulation and public policy, including 12 years as Foundation Executive Chairman of the Independent Pricing and Regulatory Tribunal of New South Wales, Foundation New South Wales Natural Resources Commissioner and Director of the New South Wales Clinical Excellence Commission.
He has more than 35 years' experience as an academic, business and public policy consultant in the financial sector and as a regulator.
Dr Parry was appointed to the Board of Powerco in 2010.

David Rees MA
(Alternate Director to Michael Bessell)

Mr Rees is Partner and Head of Asset Management, Infrastructure Europe, AMP Capital Investors. He has responsibility for the long-term performance of AMP Capital's European infrastructure assets.
He has more than 28 years' experience of infrastructure businesses, including 10 years at international network energy company, National Grid, where he held a number of senior executive roles. He serves on the boards of Thames Water, Angel Trains, Alpha Trains, Newcastle Airport and Cyclone Windfarms.
Mr Rees was appointed to the Powerco Board as Alternate Director to Chris Wade in November 2013 and was further appointed to the Powerco Board as Alternate to Michael Bessell in April 2015.

Rob Verrion
BSc (Hon), FCA, CIGEM
(Alternate Director to Michael Cummings)

Formerly Head of Asset Management, Europe, responsible for the long-term performance of AMP Capital's European Infrastructure assets but now a senior consultant, Mr Verrion continues to represent AMP Capital on the boards of several European and Australian companies. Previously, Mr Verrion was Chief Executive Officer of Angel Trains Group. Mr Verrion has more than 30 years' experience in infrastructure, including serving as Finance Director and then Chief Operating Officer of international gas and electricity company, National Grid plc (Transco), and Chief Executive Officer of Metrogas S.A. (Argentina).
Mr Verrion was appointed to the Board of Powerco in April 2015.

EXECUTIVE MANAGEMENT TEAM

Nigel Barbour
B.Com/LLB
Chief Executive

Mr Barbour is the Chief Executive of Powerco, leading the Executive Management Team and managing the company's broad range of business interests. He joined Powerco in October 2002 and has been in executive management roles for the past 12 years, including General Manager Electricity. Mr Barbour was appointed Chief Executive in October 2011. He sits on the New Zealand Electricity Networks Association and Gas Industry Company boards. In April 2015 he was appointed as a member of the Security and Reliability Council of the Electricity Authority.

Jo Birnie
BSc (Hons) Psy, CIPD
Group Manager Human Resources

Mrs Birnie joined Powerco in June 2010. Prior to her current role, she was an HR advisor specialising in learning and development. Since moving with her family to New Zealand from the United Kingdom in 2007, Mrs Birnie has held generalist HR roles as well as being Committee Secretary for the Human Resources Institute of New Zealand Taranaki branch. She has more than 10 years' experience in human resources – holding management, specialist, generalist and business partner roles in the private and public sectors including central government, health and the retail industry. Her HR specialist areas include leadership, organisational development, change management and coaching. Mrs Birnie is a graduate member of the Chartered Institute of Personnel and Development (UK) and is a member of the Human Resources Institute of New Zealand.

Stuart Dickson
BEng (Mech)
General Manager Gas

Mr Dickson joined Powerco in 2011 as the General Manager of Powerco's gas business. He is a professional engineer who has worked in the gas and energy industry for the past 20 years in New Zealand and the United Kingdom. His experience spans asset strategy and management, network and plant operations, project delivery, consulting and engineering. Prior to joining Powerco, Mr Dickson worked as a consultant within the gas industry and was previously part of Vector's Gas Management Team.

Fiona Ewing
BSc (Hons), PGDip, CMIOSH, CNZISM
Group Manager Health, Safety, Environment and Quality

Mrs Ewing joined Powerco in 2011 as Group Manager Safety, Health, Environment and Quality. She is an experienced health and safety professional with almost 30 years' experience as a practitioner and leader in a wide range of industries including the energy, engineering, construction, agriculture and forestry sectors in the United Kingdom. Roles in New Zealand have focused on major engineering projects and contractor management within the energy sector. Mrs Ewing is a Chartered Member of the Institution of Occupational Safety and Health (United Kingdom) and a Certified Member of the New Zealand Institute of Safety Management.

Richard Fletcher
BSc (Hons) PhD
General Manager Regulation and Government Relations

Dr Fletcher joined Powerco in 2011 as General Manager Regulation and Government Relations. He is responsible for managing policy interactions with the company's economic and technical regulators, as well as corporate relations with official stakeholders. Prior to joining Powerco, Dr Fletcher was Regulatory Strategy and Pricing Manager at Transpower NZ Ltd. Dr Fletcher relocated with his family from the United Kingdom in 2005. He has worked in the United Kingdom, Middle East and South East Asia, initially as an environmental engineering consultant in various commercial management roles in the water and electricity regulated network sectors. From 2000 to 2005, he was Head of Economic Regulation at Welsh Water plc.

Paul Goodeve
LLB, BCA, CA, Barrister and Solicitor of the High Court of New Zealand
General Manager Operations Support

Mr Goodeve is responsible for the management of Powerco's Operations Support Team. The Operations Support Team includes Corporate Affairs, Legal Services, Business Information, Business Development, Facilities, the Programme Office and Information Systems. Mr Goodeve is a member of the Board of the Electricity and Gas Complaints Commission. He joined Powerco in 2004 and has had roles as Regulatory and Business Manager, and Pricing, Risk and Regulatory Manager. His professional training is in law and commerce.

Dennis Martin
BCA, CA
Chief Financial Officer

Mr Martin is Powerco's Chief Financial Officer, responsible for the company's accounting and finance activities. He has a Bachelor of Commerce and Administration and is a member of Chartered Accountants Australia and New Zealand, and The Institute of Directors and Chartered Secretaries of New Zealand. Before joining Powerco in May 2010, Mr Martin worked in various senior accounting and treasury roles in a number of industries including agribusiness, steelmaking, mining and oil and gas.

Andrew McLeod
BEng (Mech) PGDipFA
General Manager Electricity

Mr McLeod runs Powerco's Electricity Team as General Manager Electricity. He joined Powerco in 2009 as the General Manager Gas. He is a mechanical engineer and general manager with 18 years' experience in the heavy engineering, water utility and gas utility sectors. His experience spans engineering strategy, project delivery, network and plant operations and commercial sales. Prior to working for Powerco, he was part of Vector's Gas Management Team in the role of Asset Strategy Manager. He also previously held senior engineering management roles in New Zealand and the United Kingdom. Mr McLeod is a Chartered Member of the Institute of Mechanical Engineers (United Kingdom). He holds professional qualifications in the areas of engineering and applied finance.

CORPORATE GOVERNANCE STATEMENT

As a listed issuer on the NZX Debt Market (NZDX), Powerco is required to include a statement on its corporate governance policies, practices and processes in its annual report. In determining its approach to corporate governance, the Board has particular regard to the NZX Corporate Governance Best Practice Code and the principles outlined in the Financial Markets Authority Corporate Governance Handbook.

The Board is responsible for the overall direction and management of Powerco and for protecting and enhancing the value of the company's assets.

To achieve these objectives, it has adopted the following overarching governance objectives:

- To lay solid foundations for management and oversight
- To structure itself to add value and encourage performance growth
- To promote ethical and responsible decision making
- To safeguard the integrity of its financial reporting
- To respect the rights of its shareholders and recognise the legitimate interests of stakeholders
- To recognise and manage risk
- To remunerate fairly and responsibly

Board composition

The Board comprises six non-executive directors who are nominated and appointed in accordance with an agreement between the shareholders of Powerco's parent company, Powerco NZ Holdings Limited. The Board has enacted a Board Charter which emphasises the importance of directors being introduced to the management and business of the company and of on-going education to ensure that directors are able to effectively perform their duties. Board and director performance is regularly assessed and evaluated. Directors' remuneration is reviewed at least annually. Input is sought from independent, professional advisers on director remuneration. As Powerco's shares are not publicly traded, directors' remuneration does not include any equity security components.

Board committees

The following committees have been established to assist the Board, each governed by a Committee Charter:

- A Regulatory and Asset Management Committee to ensure Powerco is meeting its regulatory requirements and to assist the Board in relation to asset management and related investment decisions. The committee members are Tom Parry (Chairman), Michael Cummings, Gordon Hay and John Loughlin. Note: Angela Karl was a committee member until becoming Mr Hay's Alternate Director on 26 March 2015.
- A Treasury Committee to assist the Board in relation to debt capital funding, treasury management (including on-going development and review of treasury policies) and minimising the total cost of capital. The committee members are Michael Bessell (Chairman), Murray Bain, Gordon Hay and John Loughlin. Note: Chris Wade was Chairman until his resignation as a Director on 31 March 2015 and Angela Karl was a committee member until becoming Mr Hay's Alternate Director on 26 March 2015.
- An Audit and Risk Committee to oversee the integrity of financial reporting and manage the relationship with external auditors, including the monitoring of their independence. The committee is also responsible for the company's internal control environment and risk management framework. The committee members are Murray Bain (Chairman), Michael Bessell, Gordon Hay and John Loughlin. Note: Chris Wade was a committee member until his resignation as a Director on 31 March 2015 and Angela Karl was a committee member until becoming Mr Hay's Alternate Director on 26 March 2015.
- The HR and Remuneration Committee's role is to provide advice to the Board on human resources and remuneration policies for employees (including for the Chief Executive and senior management), performance-based components of remuneration and the remuneration of directors. The committee members are John Loughlin (Chairman), Michael Cummings and Gordon Hay. Note: Angela Karl was a committee member until becoming Mr Hay's Alternate Director on 26 March 2015.

The Board regularly assesses the performance of each committee against its Charter and reviews each Charter.

Code of Ethics

The Board regularly reviews Powerco's Code of Ethics which applies to the personal and professional behaviour of all directors, senior management and other staff at Powerco. The Code requires Powerco directors and staff to be accountable for acting honestly and with integrity, care and diligence. These are also reflected in Powerco's values on page 10.

The Code emphasises the importance of managing conflicts of interest and using Powerco assets and information properly. Provisions in the Code about securities trading and insider trading are expanded in separate policies and procedures. Powerco has whistle-blowing procedures in place and mechanisms to protect whistle-blowers.

POWERCO AT A GLANCE

Powerco is a leading New Zealand electricity and gas infrastructure company providing distribution services to more than 430,000 customers across the central and lower North Island.

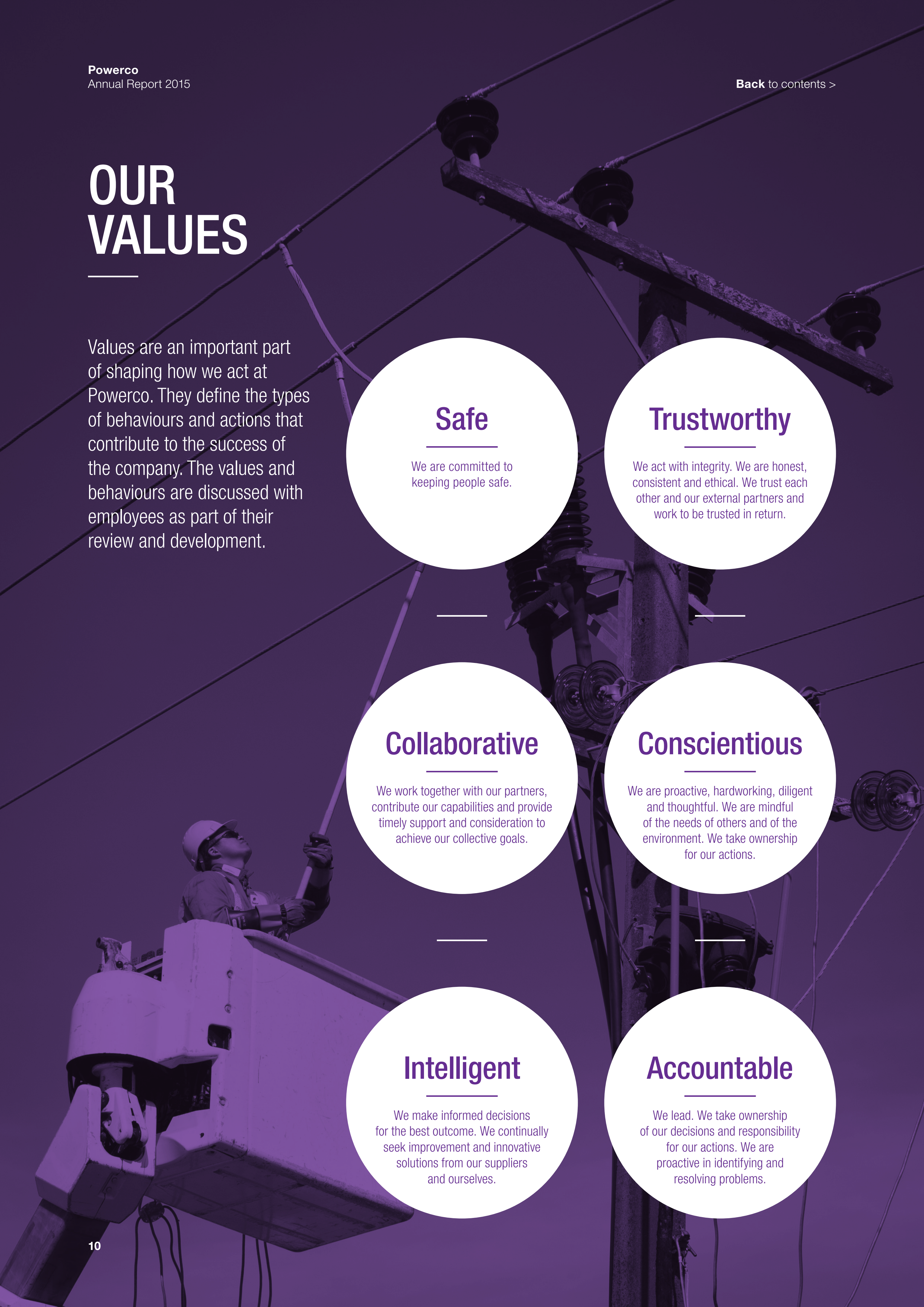
- We have around 100,000 customers connected to our gas networks and 330,000 to our electricity networks
- We have around 325 (full-time equivalent) employees across branches in New Plymouth, Palmerston North, Wellington and Tauranga

- Our networks have a combined length in excess of 36,000 km and span 28 territorial authorities, six regional councils and 11 electorates
- For the year ended 31 March 2015, we conveyed 4,715 GWh of electricity and 8,938,641 GJ of gas

- Powerco's electricity networks are in Western Bay of Plenty, Thames, Coromandel, Eastern and Southern Waikato, Taranaki, Whanganui, Rangitikei, Manawatu and the Wairarapa
- Our gas pipeline networks are in Taranaki, Hutt Valley, Porirua, Wellington, Horowhenua, Manawatu and Hawke's Bay

Map Key

- Electricity networks
- Gas networks
- Dual electricity and gas networks



OUR VALUES

Values are an important part of shaping how we act at Powerco. They define the types of behaviours and actions that contribute to the success of the company. The values and behaviours are discussed with employees as part of their review and development.

Safe

We are committed to keeping people safe.

Trustworthy

We act with integrity. We are honest, consistent and ethical. We trust each other and our external partners and work to be trusted in return.

Collaborative

We work together with our partners, contribute our capabilities and provide timely support and consideration to achieve our collective goals.

Conscientious

We are proactive, hardworking, diligent and thoughtful. We are mindful of the needs of others and of the environment. We take ownership for our actions.

Intelligent

We make informed decisions for the best outcome. We continually seek improvement and innovative solutions from our suppliers and ourselves.

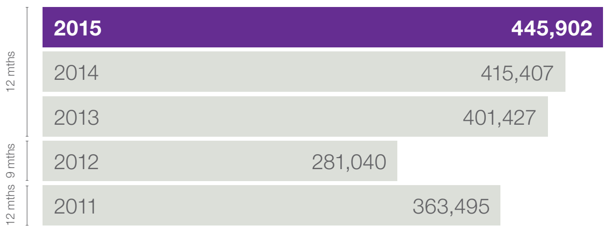
Accountable

We lead. We take ownership of our decisions and responsibility for our actions. We are proactive in identifying and resolving problems.

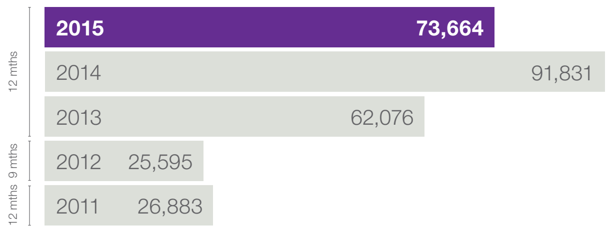
DELIVERING RESULTS

FINANCIAL SNAPSHOT	2015 $MILLION	2014 $MILLION
Income	445.9	415.4
EBITDAF	249.2	227.1
Net loss on disposals, depreciation and amortisation	(89.5)	(85.9)
EBIT	159.7	141.2
NPAT	73.7	91.8
Total equity	534.4	515.2
Total assets	2,053.4	1,940.4
Borrowings	1,183.6	1,059.6
KEY FINANCIAL MEASURES		
Gearing ratio	59.8%	60.4%
EBITDAF/revenue	55.9%	54.7%
EBIT/revenue	35.8%	34.0%
Equity/total assets	26.0%	26.6%
Net interest cover (EBIT/net finance costs)	2.0 times	2.0 times

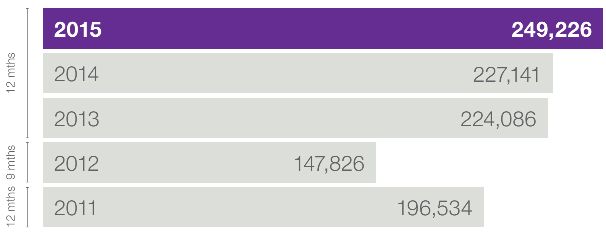
Total Revenue for the period ($000)



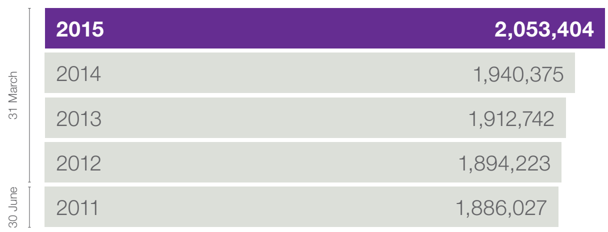
NPAT for the period ($000)



Earnings before finance costs, loss on disposal, tax, depreciation, amortisation and financial instruments for the period ($000)



Total assets employed at end of period ($000)



CUSTOMER CONNECTIONS

Electricity customer connections as at 31 March

2015	**328,913**
2014	325,860
2013	323,515
2012	320,874
2011	319,168

Gas customer connections as at 31 March

2015	**103,788**
2014	102,538
2013	103,009
2012	102,850
2011	102,529

The ICP count includes the status of active, inactive and ready as this aligns to the definition of the number of connections in the electricity industry information disclosure requirements and ensures figures are reported consistently.

ENERGY TRANSPORTED

Energy transported in gigawatt hours (GWh) across Powerco's electricity networks in the 12 months ending 31 March

2015	**4,715**
2014	4,635
2013	4,803*
2012	4,639
2011	4,652

Energy transported in gigajoules (GJ) across Powerco's gas networks in the 12 months ending 31 March

2015	**8,938,641**
2014	8,798,926
2013	8,975,365
2012	9,077,461
2011	8,934,720

*In 2013, the method for determining the volumes at Carter Holt Harvey changed briefly due to the onsite generation not being considered as embedded. This resulted in volumes being 153 GWh higher than typical. Excluding this impact, the volumes for 2013 would have been 4,650 GWh instead of 4,803 GWh.

STAYING SAFE

Powerco remains committed to achieving an incident-free environment for our staff, contractors and the public.

Our health and safety performance is measured across a raft of areas, including targets set out in the Health, Safety and Environment Plan. We achieved more than 90% of initiatives in our plan despite a busy year of contract changes and transitions.

Powerco is well positioned for the proposed Health and Safety Reform Bill. Strong leadership, clear expectations of our contracting partners and effective contractor management processes are key to achieving this.

Our field service contractors are encouraged to report incidents and complete agreed actions. To the best of our knowledge, we are leading the industry with this framework.

During the period, we had seven lost-time injuries. None were serious harm incidents or related to electrical or gas work. The incidents have been thoroughly investigated and findings shared and there have been an increased number of site visits by management.

Our Safety Through Design Policy helps identify risks early, as does the Incident Causation Analysis Method. We are leading the industry in our use of this method which has enabled us to identify risk areas and share these with our staff and contractors.

Our electricity and gas public safety management systems, as required by NZS7901:2008 electricity and gas industries safety management systems for public safety, were recertified by the Ministry of Business Innovation and Employment following external audits. These showed an improvement in our public safety education programme from previous audits.

We retained the Workplace Safety Management Practices Tertiary Level and achieved Enviro-mark Platinum for our corporate offices and Gold for our gas network.

Safety leadership culture

This continued performance demonstrates the effectiveness of our robust health, safety and environment management systems and our strong health and safety leadership culture.

Collectively, Powerco's Executive Management Team completed 20% more workplace safety interactions. Safety interactions involve giving feedback when people are doing the right thing, as well as where improvements can be made.

Public safety

Powerco's public safety campaign has continued at the National and Central Districts field days.

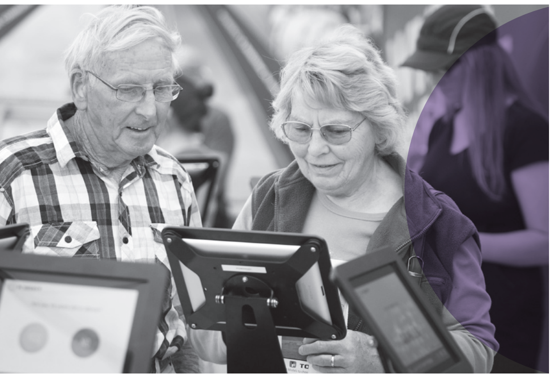
One of the key messages was that a four metre distance is required when doing any tree maintenance around our electricity network. Contractors, farmers and people doing DIY were the target audiences.

As part of the safety campaign, transformer boxes in New Plymouth were painted with eye-catching images, pictured above. The artwork associates the hazards of electricity with dangerous creatures – raging bulls, wolves, spiders and jellyfish. Each includes a safety message warning people to keep clear of the transformers.

Our Safety in Schools Programme has been rolled out in Taranaki and is about to be launched in Tauranga. Our real-life character, called Sparky, pictured below, visits schools to help spread safety messages to children.

ENGAGING WITH CUSTOMERS

Prior to committing to investment, Powerco considers the needs of consumers to strike a balance between price and quality of service.



We recognise that customers have diverse needs and expectations and we aim to tailor our service to reflect this. An example is providing higher levels of security and reliability of energy to central business districts where possible.

We engage with our customers through consultation events, meetings, key account management, surveys, as pictured above, and other activities. The events also give our staff an opportunity to educate the public about the energy sector and safety around our network.

One way to gather feedback is by surveying people at the Central Districts Field Days and National Field Days at Mystery Creek. Around 2,600 of the 5,700 surveys completed at the two field day events were by Powerco consumers. Of those, 94% rated the reliability of their supply as acceptable or better.

In a separate consultation initiative, we gained insight into what residents and businesses thought about a plan to construct a new connection point to the national grid near Putaruru. The project will improve the security of supply to around 11,000 properties in the area. It was important for Powerco to gauge community expectations on the proposed project early on to ensure expectations were met.

Industrial sector growth

During the year, the industrial sector experienced strong growth particularly the dairy and kiwifruit sectors. This growth is reflected by high values in customer projects totalling $25.6 million (2014: $16.8 million).

A change in milk cooling requirements which come into effect in 2018 will potentially impact on the dairy industry's electricity use. Milking operations in New Zealand consume around 685,000 MWh annually of electricity and 20-25% of that is used by refrigeration plants to cool the milk following milking.

Many farmers are gearing up for the new chilling requirements by upgrading their farm electricity capacity. Powerco's Commercial Team visited a farm in Opunake to see how new regulations and technology impact on the dairy industry.

Powerco wants to help farmers manage peak loads with advancements in its Basepower product line.

Supporting businesses

Powerco understands the importance of New Zealand having a vibrant export industry.

We have more than 100 major customers connected to our electricity network and another 90 to our gas networks. The majority are in the dairy, food processing, manufacturing and timber processing sectors. Many are companies dependent on international trade and require a reliable power supply to carry out their day-to-day activities and meet their long-term goals.

"It was a great opportunity to get closer to our customers and learn first-hand what's happening in the industry." Powerco Electricity Commercial Manager Eric Pellicer.

Powerco works closely to help these large customers grow and prosper. One company is Tatua Dairy in Piako. Tatua exports 94% of its dairy products to more than 60 countries worldwide each year.

Powerco has constructed a dedicated zone substation to accommodate the plant's load growth. The business has continued to expand in the form of a new drier plant, pictured above, and by increasing the electrical site load. We are now installing new transformers and associated assets to support the increasing demand.

A RELIABLE PARTNER

Powerco's vision is to be your reliable partner, delivering New Zealand's energy future. We do this through listening to our customers, understanding their needs and aiming to meet their expectations.

Helping new businesses

Powerco's Gas Team is working with an American biofirm to understand the gas capacity requirements for a new factory in Feilding.

Proliant Health and Biologicals will produce about half the world's supply of bovine serum albumin in the factory. The serum albumin is used in pharmaceuticals, vaccines and in medical research.

Natural gas is being used to run the boilers initially for 12 hours per day and eventually 23 hours a day. The installation has gone well, largely due to working closely with Proliant to understand its business.

Powerco worked with the customer at an early stage, resulting in a successful project for both parties.

Proliant is planning to build two other factories in the future which will require two additional gas connections.

Working with retailers

The Gas Hub programme of initiatives has resulted in around 1,250 net new gas connections.

This strong growth is due to a joint natural gas reconnection promotion developed in partnership with Nova Energy. The campaign targets people who have an unused connection at their house, offering a continuous flow hot water unit plus installation at a special price.

The promotion has only been possible through a willingness to work together and a mutual desire to grow the natural gas network.

NEW TECHNOLOGIES

Powering Tomorrow's Homes

Energy choices and demands are changing and we want to know how we can best respond. Powerco's two-year Powering Tomorrow's Homes Project aims to give us that answer. To do this, three houses have been kitted out with a mix of solar panels, insulation, space and water heating, monitoring and controlling systems, energy-efficient lighting and energy storage.

The trial is far-reaching and considers a range of factors such as peak loads, behavioural changes, solar panels, smart technology and back-up energy storage.

Trial participants are recording their experiences in a diary, helping Powerco assess engineering and behavioural aspects. The company is monitoring electricity, gas and water use, temperatures and moisture levels in the homes.

The data collected will be beneficial to Powerco and the wider electricity sector.

> "Powerco is an innovative company embracing new technology and the opportunity it creates to better meet customer needs." Powerco Research and Development Manager Jamie Silk

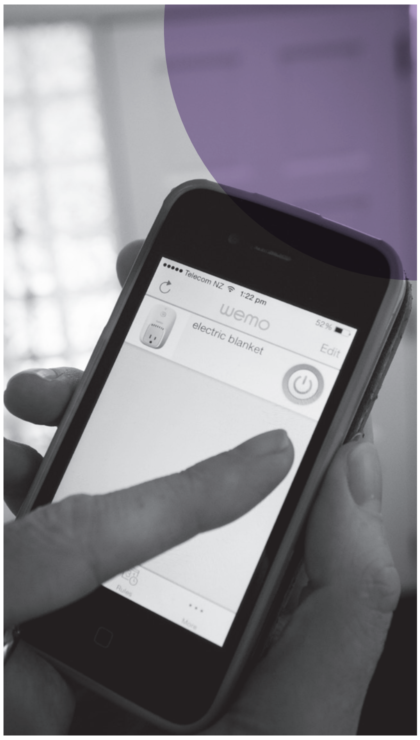
Gas meters

Powerco is committed to growing its gas business and delivering benefits for customers, energy retailers and distributors.

As part of this commitment, the company launched a smart meter trial across its networks in Wellington, Taranaki, Hutt Valley and Porirua. The meters produce daily data on gas consumption which is available via a secured web portal.

This trial demonstrated that the technology is safe, reliable and capable of providing retailers and customers with information they previously could not access in a timely and efficient manner.

The benefits from the introduction of the new meters include safety improvements, remote reading, a shift away from estimated bills and a better understanding of gas consumption.



DELIVERING A RELIABLE SUPPLY

It has been a busy year for planning and delivering network projects. We invested $170.9 million in maintaining, renewing and developing Powerco's electricity and gas networks and completed 8,532 projects.

Projects were spread across Powerco's network areas. They included:

- An upgrade at the Te Ore Ore substation on the edge of Masterton
- An upgrade of the Parkville substation near Eketahuna
- A major upgrade of the Piako substation, a second point of supply from the national grid for the Morrinsville/Piako region

Mikkelsen Road substation upgrade

The old has made way for the new with the completion of a new $3.8 million Powerco substation at Mikkelsen Road in Te Aroha.

Eight years in the making, the new substation replaces a 55-year-old building with an up-to-the-minute facility, providing an improved service for Powerco customers in the area. In its place is a modern 33kV – 11kV facility, replacing old switchgear and electromechanical protection equipment with the latest microprocessor-based equipment.

Former Thames Valley Electric Power Board employee Allan Junge, pictured below, was given a special tour of the new substation. He helped fit-out the old substation in the early 1970s.

The Mikkelsen Road substation has served homes and businesses in Te Aroha and the surrounding area for more than half a century. Powerco's investment in the new facility will ensure it continues to do so for another 50 years and beyond.

Tauranga Eastern Link cabling project

This project formed a key element of Powerco's long-term plan to provide security and capacity to the Papamoa, Wairakei and Te Tumu areas in the greater Tauranga region.

The work was carried out in conjunction with the construction of the Eastern Arterial Link Road Corridor, a $500 million roading project due to officially open later in 2015. Powerco's $6.3 million project involved installing 10km of 33kV-capacity underground circuits.

Wellington gas pipeline inspection

The Gas Team undertook a complex project to inspect a gas pipeline that supplies the Wellington region. The pipeline needed to be inspected to see if any repair work, or possible replacement, was required.

The pipeline, pictured above, installed in the early 1970s, is suspended under the Takapu Road bridge in Tawa. It runs over the Porirua Stream and the electrified North Island main trunk railway line. In addition to this, the condition of the 45m-long steel pipe was relatively unknown.

These factors brought an element of complexity to what would normally be a fairly routine inspection job. There were extra logistic and safety matters to consider to ensure the project ran smoothly and was a safe working environment. To assess the pipe's condition, the steel casing and covering were removed. Scaffolding was erected for contractors to work on the site.

The impact of storms

Powerco is the largest electricity distributor by network length which provides unique challenges, particularly during severe weather events and restoring network supply following storm damage, as pictured above.

Four large storms caused damage to Powerco's electricity network during the year.

The most severe was in June, when wind and heavy rain battered the Coromandel and Tauranga regions resulting in 33,000 customers losing power. Supply was restored to all but 4,000 by the following morning and just a handful by the end of that day.

The restoration effort was managed safely and efficiently. The effort to restore power to consumers was an example of Powerco effectively working with its service providers and retailers for the benefit of customers.

Despite our best efforts, in the year to 31 March 2015 Powerco exceeded its outage duration, or SAIDI, target of 210.13 minutes by 7.51 minutes. We were comfortably within our outage frequency, or SAIFI, target (2.28 versus the target of 2.80). The SAIDI exceedance was due principally to weather conditions but does not represent a breach of our regulated price-quality path because a breach requires exceedance in two-out-of-three years.

IN THE COMMUNITY

We believe one of our responsibilities is supporting the communities in which we operate. We have a strong sponsorship programme that has helped many different community groups, charities and events across the North Island.

During the past 12 months we have supported more than 100 different events and organisations including surf lifesaving clubs, school galas, kindergartens, sports clubs and many more.

As part of our community involvement we sponsored a hearing dog puppy through his training. The dog, named Edison by Powerco's Facebook community, was trained by Hearing Dogs New Zealand. He has been matched with a hearing-impaired woman in New Plymouth and alerts her to sounds such as alarm clocks, door bells and smoke alarms.

In Wellington, Powerco's Gas Team spread Christmas cheer by making special presents for children with cystic fibrosis. The gifts will help with their health and physical activity.

"Without the generous support from companies like Powerco we would struggle to provide this essential service to the deaf and hearing-impaired. Hearing dogs give them greater independence and confidence to go about their daily activities."

NZ Hearing Dogs General Manager Clare McLaughlin.

FINANCIALS

FOR THE YEAR ENDED
31 MARCH 2015

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KEY MESSAGES REGARDING THESE FINANCIAL STATEMENTS

How we manage our borrowings and interest rates

Powerco Limited is a leading New Zealand electricity and gas infrastructure company providing distribution services to more than 430,000 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. We have made a number of changes in our financial statements to better reflect the environment we operate in.

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.

Expense categories in the Statement of Comprehensive Income have been changed to mirror the categories used for regulatory reporting.

Changes have been made to the segments reported in the segmental reporting note. The regulated gas and electricity business are shown as separate segments, with all unregulated activities included in the other segment. Expense categories in this 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.

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 Limited	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 27 May 2015:

NAME	ORDINARY SHARES	PERCENTAGE OF ISSUED ORDINARY SHARES
Powerco NZ Holdings Limited	369,929,053	100%

Directors' Equity Securities

The Directors of Powerco Limited held no relevant interests in Equity Securities in the Company as at 31 March 2015.

Quoted Security Holder Spread

As at 30 April 2015:

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 29 March 2004) 6.53%		
5,000 up to 100,000	182	6,043,000
Over 100,000	45	43,957,000
Total	**227**	**50,000,000**
Guaranteed Bonds (issued 28 September 2005) 6.74%		
5,000 up to 100,000	138	5,128,000
Over 100,000	36	44,872,000
Total	**174**	**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 was granted a waiver in September 2013 relating to the Credit Wrap Bonds issued in 2004. This waiver related to Rule 5.2.3 concerning the minimum holding requirements. The effect of this waiver is that the Company is not required to have at least 500 members of the public holding those bonds. For further information please refer to the Company announcement on 18 September 2013.

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 2015 under Listing Rule 5.4.2.

Companies Act 1993

In accordance with section 211(3) of the Companies Act 1993 (the Act), Powerco NZ Holdings Limited, as the Company's sole shareholder, has resolved that the Company's annual report for the year ended 31 March 2015 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 27 May 2015 and is signed on behalf of the Board by:

John Loughlin Director

Murray Bain Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2015

	NOTES	2015 NZ$000	2014 NZ$000
Revenue and other income	3	445,902	415,407
Pass-through and recoverable costs		115,155	104,905
Network operational expenditure		34,514	36,685
System operations and network support		12,286	14,720
Business support		34,721	31,956
Operating expenses		196,676	188,266
Earnings before finance costs, loss on disposal, taxation, depreciation, amortisation and financial instruments (EBITDAF)		**249,226**	**227,141**
Net loss on disposal of fixed assets		13,018	13,509
Depreciation and amortisation		76,484	72,418
Earnings before finance costs and taxation (EBIT)		**159,724**	**141,214**
Finance costs	4	78,866	72,071
Gains on financial instruments	5	(12,817)	(19,138)
Profit before taxation		**93,675**	**88,281**
Income tax expense/(benefit)	6	20,011	(3,550)
Profit for the period after tax		**73,664**	**91,831**
Other comprehensive income			
Items that may be reclassified subsequently in profit/loss:			
Cash flow hedges amortised		677	677
Income tax expense on cash flow hedges		(189)	(189)
Total other comprehensive income/(loss)		**488**	**488**
Total comprehensive income for the period, net of tax		**74,152**	**92,319**

These financial statements should be read in conjunction with the notes to the financial statements on pages 27 to 49.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2015

	ATTRIBUTABLE TO OWNERS			
	SHARE CAPITAL $000	ACCUMULATED DEFICITS $000	HEDGE RESERVE $000	TOTAL $000
Balance as at 31 March 2013	**698,165**	**(214,679)**	**(5,581)**	**477,906**
Profit for the period	-	91,831	-	91,831
Cash flow hedges amortised	-	-	677	677
Income tax expense on amortisation of cash flow hedges	-	-	(189)	(189)
Total comprehensive income, net of tax	**-**	**91,831**	**488**	**92,319**
Transactions with owners:				
Dividends (14.87 cents per share)	-	(55,008)	-	(55,008)
Balance as at 31 March 2014	**698,165**	**(177,856)**	**(5,093)**	**515,217**
Profit for the period	-	73,664	-	73,664
Cash flow hedges amortised	-	-	677	677
Income tax expense on amortisation of cash flow hedges	-	-	(189)	(189)
	-	**73,664**	**488**	**74,152**
Transactions with owners:				
Dividends (14.86 cents per share)	-	(54,971)	-	(54,971)
Balance as at 31 March 2015	**698,165**	**(159,163)**	**(4,605)**	**534,397**

These financial statements should be read in conjunction with the notes to the financial statements on pages 27 to 49.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2015

	NOTES	2015 $000	2014 $000
Current assets			
Cash and cash equivalents		357	-
Trade and other receivables	12	37,261	34,766
Finance lease receivable	14	429	396
Other financial assets	10	319	2
Other current assets		89	98
		38,455	35,262
Non-current assets			
Property, plant and equipment	7	1,920,420	1,876,442
Finance lease receivable	14	9,473	9,902
Other financial assets	10	67,805	4,288
Intangible assets	8	17,251	14,481
		2,014,949	1,905,113
TOTAL ASSETS		**2,053,404**	**1,940,375**
Current liabilities			
Bank overdraft		-	292
Trade and other payables	13	37,868	34,491
Employee benefits	16	4,837	3,998
Other financial liabilities	10	19,784	58
Borrowings	9	131,326	72,629
		193,815	111,468
Non-current liabilities			
Employee benefits	16	1,583	1,030
Other financial liabilities	10	73,705	148,288
Borrowings	9	1,052,278	986,946
Deferred tax liability	6	197,626	177,426
		1,325,192	1,313,690
Equity			
Issued capital	19	698,165	698,165
Retained earnings		(159,163)	(177,855)
Reserves	20	(4,605)	(5,093)
		534,397	515,217
TOTAL EQUITY AND LIABILITIES		**2,053,404**	**1,940,375**

These financial statements should be read in conjunction with the notes to the financial statements on pages 27 to 49.

John Loughlin
Director
27 May 2015

Murray Bain
Director
27 May 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2015

	2015 $000	2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	491,922	459,128
Cash paid to suppliers and employees	221,837	199,709
	270,085	259,419
GST paid	23,649	20,281
Interest paid	76,537	71,572
	100,186	91,853
Net cash provided by operating activities	**169,899**	**167,566**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	133	114
Purchase of property, plant and equipment	(131,311)	(125,601)
Net cash used in investing activities	**(131,178)**	**(125,487)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	160,000	111,900
Proceeds from finance leases	396	366
Loan establishment costs	(832)	-
Repayment of borrowings	(142,665)	(100,000)
Dividend paid	(54,971)	(55,008)
Net cash used in financing activities	**(38,072)**	**(42,742)**
Net increase/(decrease) in cash and cash equivalents	**649**	**(662)**
Cash and cash equivalents at the beginning of the period	(292)	370
Cash and cash equivalents at the end of the period	**357**	**(292)**
Comprises the following:		
Cash and cash equivalents	357	-
Bank overdraft	-	(292)
	357	**(292)**

Cash and cash equivalents comprise cash on hand, cash in banks, 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.

These financial statements should be read in conjunction with the notes to the financial statements on pages 27 to 49.

RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

For the year ended 31 March 2015

	NOTE	2015 $000	2014 $000
Profit after taxation		**73,664**	**91,831**
Add/(less) non-cash items			
Depreciation and amortisation		76,484	72,418
Loss on disposal of assets		13,151	13,623
Non-cash component of finance costs		1,123	1,018
Other gains on financial instruments	5	(12,817)	(19,138)
Non-cash items in relation to investing/financing activities		(7,789)	3,540
Increase/(decrease) in deferred tax liability		20,011	(3,173)
Other items			
Capital contributions received in cash		3,789	1,521
Movements in working capital			
(Increase)/decrease in assets			
Trade and other receivable		(2,495)	(3,296)
Other current assets		9	10
Increase/(decrease) in liabilities			
Trade and other payables		3,377	8,018
Employee entitlements		1,392	1,194
Net cash provided by operating activities		**169,899**	**167,566**

These financial statements should be read in conjunction with the notes to the financial statements on pages 27 to 49.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2015

1. Basis of Accounting

General Information

Powerco Limited 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), and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

These consolidated financial statements are for the economic entity comprising Powerco Limited and its subsidiaries (the Group). Powerco Limited 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 Limited (trading as Basepower)	Sells remote area power and energy storage solutions
The Gas Hub Limited	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 Limited.

The immediate parent of the Group is Powerco NZ Holdings Limited (PNZHL). The shareholders of PNZHL are QPC Investments No 1 Pty Limited (30%), QIC Infrastructure Management Pty Limited (28%), PINZ Holding Company Pty Limited (27%) and AMP Capital Investors Limited (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 functional and presentation 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 $6.8 million.

b) Impairment of network assets

Determining whether the network assets are impaired requires an estimation of the value in use of the cash-generating units to which the networks have been allocated. The value in use calculation requires the estimation of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. There were no indicators of impairment. An increase in the discount rate applied of 0.5% would result in no impairment to network assets. No reasonably possible change in any of the other assumptions would give rise to an impairment. The total carrying value of network assets is disclosed in Note 7 Property, Plant and Equipment.

Significant accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of Powerco Limited 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. Investments in subsidiaries are recorded at cost less any impairment in the Parent company's financial statements.

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.

c) Functional and presentation currency

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

d) Comparatives

During the year the expense categories disclosed in the Statement of Comprehensive Income were changed to better reflect the regulatory nature of our operations. All costs previously recorded against operating, employee benefit and indirect expenses are now disclosed in the following categories: pass-through and recoverable costs; network operational expenditure; system operations and network support and business support.

As a result, in the comparative period, the expenses have been reclassified in accordance with the revised categories. Details of the changes in the comparative numbers are as follows:

	ORIGINAL 2014 DISCLOSURE $000	REVISED 2014 DISCLOSURE $000
Expenses		
Operating expenses	136,447	
Employee benefit expenses	32,447	
Indirect expenses	19,445	
Pass-through and recoverable costs		104,905
Network operational expenditure		36,685
System operations and network support		14,720
Business support		31,956
	188,339	**188,266**

Difference of $73,000 due to minor reclassifications between income and expenses.

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; and

ii) Gas – regulated gas line distribution

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

For the year ended 31 March 2015

	REGULATED BUSINESSES ELECTRICITY $000	GAS $000	UNALLOCATED SEGMENT $000	TOTAL $000
External revenue	**367,239**	**50,828**	**27,835**	**445,902**
Pass-through and recoverable costs	113,456	1,694	5	115,155
Network operational expenditure	28,804	4,939	771	34,514
System operations and network support	8,441	3,841	3	12,286
Business support	28,445	6,263	13	34,721
Depreciation and amortisation and net loss on disposal of fixed assets	74,248	15,039	215	89,502
Segment result	**113,844**	**19,052**	**26,828**	**159,724**
Gains on financial instruments				(12,817)
Finance costs				78,866
Profit before tax				**93,675**
Income tax expense				20,011
Net profit for the period				**73,664**
Other information				
Capital additions	121,168	13,068	2,147	136,383

For the year ended 31 March 2014

	REGULATED BUSINESSES ELECTRICITY $000	GAS $000	UNALLOCATED SEGMENT $000	TOTAL $000
External revenue	**346,678**	**46,672**	**22,057**	**415,407**
Pass-through and recoverable costs	103,000	1,787	5	104,791
Network operational expenditure	30,960	5,839	-	36,798
System operations and network support	10,907	3,850	(37)	14,720
Business support	25,576	6,124	256	31,956
Depreciation and amortisation and net loss on disposal of fixed assets	71,519	14,192	216	85,927
Segment result	**104,717**	**14,879**	**21,617**	**141,214**
Gains on financial instruments				(19,138)
Finance costs				72,071
Profit before tax				**88,281**
Income tax benefit				(3,550)
Net profit for the period				**91,831**
Other information				
Capital additions	111,063	9,526	1,949	122,539

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 reportable segments have been changed during this financial period to better reflect regulatory and non-regulatory activities and to report expenses based on regulatory categories. The comparative information has been restated in line with the changes.

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, $238.8 million (2014: $233.2 million) came from major customers. The table below outlines the major customers and the segments they have been recorded in.

	SEGMENT	2015 $000	2014 $000
Customer one	Electricity/Gas	110,113	114,191
Customer two	Electricity/Gas	67,468	62,798
Customer three	Electricity/Gas	61,202	56,219
		238,783	**233,208**

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 expenses, assets and liabilities cannot be split between the operating segments, they have been included within all other segments.

3. Revenue and Other Income

	2015 $000	2014 $000
Line revenue	301,803	287,733
Pass-through and recoverable cost revenue	115,155	104,905
Customer contributions	18,804	12,734
Gas metering revenue	4,369	4,018
Total Revenue	**440,131**	**409,390**
Other income	5,771	6,017
Total Revenue and Other Income	**445,902**	**415,407**

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

	2015 $000	2014 $000
Interest on bank overdrafts	1,176	602
Interest on senior debt and related derivatives	75,550	70,867
Deferred funding costs and financial instrument fees	3,738	3,617
Interest attributed to funding of capital projects	(1,598)	(3,015)
	78,866	**72,071**

Policy

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, whose construction period is expected to be greater than six months. Interest is calculated at 6.73% per annum (2014: 6.73%).

5. Gains on Financial Instruments

	2015 $000	2014 $000
Movement of derivatives held at fair value through profit or loss	96,203	(14,691)
Foreign exchange movement on debt held at amortised cost	(94,406)	21,961
Amortisation of debt previously held at fair value (i)	11,697	12,545
Amortisation of fair value movement on derivatives previously taken to reserves (ii)	(677)	(677)
Other gains on financial instruments	**12,817**	**19,138**

The movement of derivatives held at fair value through profit or loss includes a loss of $15.7 million attributable to the change in the credit risk of the liabilities (2014: gain of $6.0 million).

De-designation of hedge accounting

In the prior financial year, the Group made the decision to stop hedge accounting and de-designate its existing hedge relationships. This decision was made for the purpose of reducing complexity and aiding 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 in the hedge reserve 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 $30.1 million remaining to be amortised over the next 13 years using the effective interest method in line with the debt settlement periods as disclosed in Note 9.

(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 $4.6 million remaining to be amortised over the next 13 years.

6. Taxation

	2015 $000	2014 $000
Tax expense comprises:		
Deferred tax expense on temporary differences	17,938	(4,264)
Adjustments recognised in current period in relation to the deferred tax of prior years	2,073	714
Total tax expense/(benefit)	**20,011**	**(3,550)**

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

	2015 $000	2014 $000
Profit before taxation	93,675	88,281
Tax at the New Zealand income tax rate of 28 per cent	26,229	24,719
Tax effect of losses transferred from Powerco New Zealand Holdings Limited	(6,818)	(11,131)
Tax effect of revenue items that are not deductible in determining taxable profit	(1,473)	1,728
Tax effect of changing spreading methods for certain financial arrangements	-	(19,580)
	17,938	(4,264)
Adjustments recognised in current period in relation to the deferred tax of prior years	2,073	714
Total tax expense/(benefit)	**20,011**	**(3,550)**

For the year ended 31 March 2015

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	209,683	6,185	-	215,868
Derivatives	(42,318)	35,027	189	(7,102)
Borrowings	7,802	(21,727)	-	(13,925)
Other	2,259	526	-	2,785
	177,426	**20,011**	**189**	**197,626**

For the year ended 31 March 2014

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	200,941	8,742	-	209,683
Derivatives	(22,225)	(20,282)	189	(42,318)
Borrowings	-	7,802	-	7,802
Other	2,071	188	-	2,259
	180,787	**(3,550)**	**189**	**177,426**

Spreading method changes for certain arrangements

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

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.

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

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates 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 2013					
Cost	2,425,662	43,529	16,205	31,832	2,517,228
Accumulated depreciation	645,699	-	3,761	28,051	677,511
Net book value	1,779,963	43,529	12,444	3,781	1,839,717
Movements in the year ended 31 March 2014					
Opening net book value	1,779,963	43,529	12,444	3,781	1,839,717
Additions	783	119,755	54	-	120,592
Transfers	111,390	(114,137)	1,459	1,288	-
Reclassification	-	-	(2,505)	-	(2,505)
Disposals	(13,306)	-	-	(6)	(13,312)
Depreciation expense	(65,583)	-	(536)	(1,931)	(68,050)
Closing net book value	1,813,247	49,147	10,916	3,132	1,876,442
At 31 March 2014					
Cost	2,516,216	49,147	15,213	33,105	2,613,681
Accumulated depreciation	702,969	-	4,297	29,973	737,239
Net book value	1,813,247	49,147	10,916	3,132	1,876,442
Movements in the year ended 31 March 2015					
Opening net book value	1,813,247	49,147	10,916	3,132	1,876,442
Additions	58	129,021	23	1,217	130,319
Transfers	124,965	(125,069)	-	104	-
Disposals	(13,141)	-	-	(10)	(13,151)
Depreciation expense	(70,971)	-	(517)	(1,702)	(73,190)
Closing net book value	1,854,158	53,099	10,422	2,741	1,920,420
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

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

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 2013			
Cost	28,849	1,890	30,739
Accumulated depreciation	16,032	-	16,032
Net book value	12,817	1,890	14,707
Movements in the year ended 31 March 2014			
Opening net book value	12,817	1,890	14,707
Additions	1,947	-	1,947
Reclassifications	-	2,505	2,505
Disposals	-	(310)	(310)
Amortisation expense	(4,368)	-	(4,368)
Closing net book value	10,396	4,085	14,481
At 31 March 2014			
Cost	30,796	4,085	34,881
Accumulated depreciation	20,400	-	20,400
Net book value	10,396	4,085	14,481
Movements in the year ended 31 March 2015			
Opening net book value	10,396	4,085	14,481
Additions	5,700	364	6,064
Amortisation expense	(3,294)	-	(3,294)
Closing net book value	12,802	4,449	17,251
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

Policy

Intangible assets are comprised of 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 their 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 2015

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)	100,000	385	(333)	35	100,087
Wholesale bonds (b)	100,000	-	(199)	1,188	100,989
US dollar private placement notes (c)	638,861	18,766	(2,185)	4,420	659,862
NZ dollar private placement notes (d)	135,000	-	(778)	1,495	135,717
Bank debt (e)	186,500	-	(141)	590	186,949
	1,160,361	**19,151**	**(3,636)**	**7,728**	**1,183,604**
Current portion	140,802	(16,503)	(701)	7,728	131,326
Non-current portion	1,019,559	35,654	(2,935)	-	1,052,278
	1,160,361	**19,151**	**(3,636)**	**7,728**	**1,183,604**

As at 31 March 2014

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)	100,000	1,948	(604)	47	101,391
Wholesale bonds (b)	100,000	-	(252)	1,222	100,970
US dollar private placement notes (c)	733,026	(87,993)	(2,616)	4,749	647,166
Bank debt (e)	210,000	-	(454)	503	210,048
	1,143,026	**(86,045)**	**(3,927)**	**6,521**	**1,059,575**
Current portion	94,165	(28,007)	(50)	6,521	72,629
Non-current portion	1,048,861	(58,038)	(3,877)	-	986,946
	1,143,026	**(86,045)**	**(3,927)**	**6,521**	**1,059,575**

The fair value adjustment includes:

(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. Refer to note 5(i) for further details.

(ii) Valuation of debt as a result of movements in the NZD/USD exchange rate.

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

	AMOUNT $000	ISSUE DATE	INTEREST RATE	MATURITY	RISK MITIGATED BY:
(a) Guaranteed bonds					
11 year guaranteed bonds – secured	50,000	Mar 2004	6.53% fixed	Jun 2015	Fixed rate
12 year guaranteed bonds – secured	50,000	Sep 2005	6.74% fixed	Sep 2017	Fixed rate
(b) Wholesale bonds					
7 year fixed rate wholesale bonds	65,000	Dec 2011	6.31% fixed	Dec 2018	Fixed rate
7 year floating rate wholesale bonds	35,000	Dec 2011	90 day bank bill rate plus a margin	Dec 2018	Interest rate swaps
(c) US Dollar private placement notes					
12 year US dollar private placement notes – 2003 issue	90,802	Nov 2003	5.57% fixed	Nov 2015	US cross currency & interest rate swaps
13 year US dollar private placement notes – 2003 issue	109,299	Nov 2003	5.67% fixed	Nov 2016	US cross currency & interest rate swaps
9 year US dollar private placement notes – 2011 issue	91,371	Jun 2011	4.36% fixed	Jun 2020	US cross currency & interest rate swaps
12 year US dollar private placement notes – 2011 issue	114,213	Jun 2011	4.56% fixed	June 2023	US cross currency & interest rate swaps
15 year US dollar private placement notes – 2011 issue	105,330	Jun 2011	4.86% fixed	June 2026	US cross currency & interest rate swaps
12 year US dollar private placement notes – 2013 issue	30,440	Jan 2013	3.40% fixed	Jan 2025	US cross currency & interest rate swaps
15 year US dollar private placement 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 NZ dollar private placement 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 (c) above with the addition of the following borrowing that matured during the period:

(c) 11 year US dollar private placement notes – 2003 issue	94,165	Nov 2003	5.47% fixed	Nov 2014	US cross currency & interest rate swaps

2015	FLOATING INTEREST RATE	FACILITY AMOUNT $000	AMOUNT DRAWN $000	ISSUE DATE	MATURITY	RISK MITIGATED BY:
(e) Revolving Cash Facility 1 – Tranche A	3.72%	100,000	55,000	Apr 2012	Apr 2017	Interest rate swaps
(e) Revolving Cash Facility 2	3.63%	75,000	75,000	Mar 2015	Mar 2019	Interest rate swaps
(e) Revolving Cash Facility 3	3.63%	25,000	25,000	Mar 2015	Mar 2019	Interest rate swaps
(e) Working Capital Facility	3.50%	50,000	31,500	Mar 2014	Mar 2017	Interest rate swaps

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

2014	FLOATING INTEREST RATE	FACILITY AMOUNT $000	AMOUNT DRAWN $000	ISSUE DATE	MATURITY	RISK MITIGATED BY:
(e) Revolving Cash Facility 1 – Tranche A	3.00%	100,000	100,000	Apr 2012	Apr 2017	Interest rate swaps
(e) Revolving Cash Facility 1 – Tranche B	3.11%	100,000	5,000	Dec 2010	Dec 2015	Interest rate swaps
(e) Revolving Cash Facility 2	3.11%	55,000	55,000	Apr 2012	Apr 2015	Interest rate swaps
(e) Working Capital Facility	2.87%	50,000	50,000	Mar 2014	Mar 2017	Interest rate swaps

The Group operates a $2 million overdraft facility. As at 31 March 2015, there were no drawings against this facility. As at 31 March 2014 there were drawings of $292,000, with an interest rate of 8.7%.

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 perfectly 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 and 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.

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

	2015 $000	2014 $000
Other current financial assets		
Interest rate swaps	304	-
Foreign exchange contracts	15	2
	319	**2**
Other non-current financial assets		
US cross currency interest rate swap	52,733	-
Interest rate swaps	15,072	4,288
	67,805	**4,288**
Other current financial liabilities		
US cross currency interest rate swap	(16,493)	-
Interest rate swaps	(3,246)	-
Foreign exchange contracts	(45)	(58)
	(19,784)	**(58)**
Other non-current financial liabilities		
US cross currency interest rate swap	(16,379)	(116,111)
Interest rate swaps	(57,326)	(32,177)
	(73,705)	**(148,288)**
Fair value of assets and liabilities	**(25,365)**	**(144,056)**

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 2015 $000	AS AT 2014 $000	AS AT 2015 $000	AS AT 2014 $000	FOR THE PERIOD ENDED MAR 2015 $000	FOR THE PERIOD ENDED MAR 2014 $000
1 – US cross currency swaps	638,861	733,026	19,862	(116,111)	113,485	(54,822)
2 – Interest rate swaps (pay floating)	185,000	50,000	15,375	1,462	13,913	(2,084)
3 – Interest rate swaps (pay fixed)	1,333,000	793,000	(60,573)	(29,351)	(31,221)	42,263
4 – Foreign exchange contracts	801	899	(30)	(56)	26	(48)
	2,157,662	**1,576,925**	**(25,366)**	**(144,056)**	**96,203**	**(14,691)**

Policy

Financial assets

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

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

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

Financial assets at fair value through profit or loss

Other financial assets relate to derivatives held at period end. All derivative assets are measured at fair value through profit or loss.

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 Company manages its levels of debt and equity to ensure an efficient capital structure while maintaining certain internal financial ratios. Powerco's Treasury Policy specifies a long term target for total debt divided by equity. This is managed both by reviewing debt levels and altering distributions, which influence the balance of equity. The Company 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 is the fundamental policy that determines how we govern our risk management.

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

(1) Market risk;

(2) Credit risk; and

(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.

(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 Company'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 approved by the Board of Directors, which provides parameters on the level and duration of borrowings that must be hedged. Hedging activities are monitored and evaluated regularly to ensure that the most cost-effective hedging strategies are being applied.

Cash and cash equivalents are held at floating interest rates. The Group does not enter into derivatives in relation to these balances.

(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. This risk is mitigated by the use of prudentials and ensuring retailers meet our credit rating standard.

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.

– 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, approved by the Board of Directors, 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.

Changes in risk management

During the year the Group amended the Treasury Policy in respect to managing interest rate risk. Previously this was managed using a portfolio approach; the Group now hedges interest risk with reference to the applicable WACC of the regulatory period for each of the electricity and gas business units.

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% 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 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. 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 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	
	2015 $000	2014 $000	2015 $000	2014 $000
Net profit before tax +100 basis points	(1,334)	(772)	28,334	23,283
Net profit before tax -100 basis points	1,369	790	(29,131)	(24,327)
Total equity +100 basis points	(1,334)	(772)	28,334	23,283
Total equity -100 basis points	1,369	790	(29,131)	(24,327)

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.

2015	LESS THAN ONE YEAR	1 - 2 YEARS	3 - 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS
Non-derivative financial liabilities					
Trade and other payables	37,868	-	-	-	37,868
Current secured borrowings	127,138	-	-	-	127,138
Non-current secured borrowings	51,049	317,083	269,145	763,576	1,400,853
	216,055	**317,083**	**269,145**	**763,576**	**1,565,859**
Derivative (assets)/liabilities					
Net settled interest rate swaps	16,586	23,757	16,838	(15,839)	41,342
Gross settled cross currency interest rate swaps:					
– (inflow)	(101,347)	(132,138)	(40,183)	(561,549)	(835,217)
– outflow	121,958	162,412	49,416	629,369	963,155
Gross settled foreign exchange contracts:					
– (inflow)	(768)	-	-	-	(768)
– outflow	801	-	-	-	801
Net value of derivative transactions	**37,230**	**54,031**	**26,071**	**51,981**	**169,313**

2014	LESS THAN ONE YEAR	1 - 2 YEARS	3 - 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS
Non-derivative financial liabilities					
Trade and other payables	34,491	-	-	-	34,491
Current secured borrowings	74,898	-	-	-	74,898
Non-current secured borrowings	40,072	214,248	459,942	500,790	1,215,052
	149,461	**214,248**	**459,942**	**500,790**	**1,324,441**
Derivative (assets)/liabilities					
Net settled interest rate swaps	17,817	17,440	32,085	5,173	72,515
Gross settled cross currency interest rate swaps:					
– (inflow)	(93,095)	(87,260)	(131,069)	(500,790)	(812,214)
– outflow	126,630	120,368	179,988	641,722	1,068,708
Gross settled foreign exchange contracts:					
– (inflow)	(838)	-	-	-	(838)
– outflow	899	-	-	-	899
Net value of derivative transactions	**51,413**	**50,548**	**81,004**	**146,105**	**329,070**

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	Bank overdraft
Interest rate swaps	US cross currency interest rate swaps
Foreign exchange contracts	Commercial bank debt and working capital advances
NZD private placement notes	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	2015 CARRYING AMOUNT $000	2015 FAIR VALUE $000	2014 CARRYING AMOUNT $000	2014 FAIR VALUE $000
Guaranteed bonds	100,087	102,581	101,391	102,122
Wholesale bonds	100,989	104,588	100,970	101,648
US dollar private placement notes	659,862	630,063	647,166	607,299
	860,938	**837,232**	**849,527**	**811,069**

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

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

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

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

Reporting date rates	NZ SWAP RATES 2015	NZ SWAP RATES 2014	US SWAP RATES 2015	US SWAP RATES 2014
1 year swap rate	3.54%	3.61%	0.69%	0.56%
2 year swap rate	3.51%	4.07%	0.81%	0.55%
3 year swap rate	3.54%	4.37%	1.11%	0.99%
4 year swap rate	3.58%	4.54%	1.35%	1.43%
5 year swap rate	3.62%	4.65%	1.53%	1.80%
7 year swap rate	3.69%	4.88%	1.79%	2.36%
10 year swap rate	3.75%	5.05%	2.02%	2.84%
30 year swap rate	0.00%	0.00%	2.39%	3.54%

	2015	2014
NZD/USD rate	0.74694	0.86753

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 (i.e. prices) or indirectly (i.e. derived from prices); and
3) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NZD interest rate swap contracts, Foreign exchange contracts and USD cross currency interest rate swaps 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 entered into, the Group determines whether it wishes to hedge account or not. If it does not it designates them as either:

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

The fair values of financial derivatives are determined by using market-quoted rates as inputs into valuation models for interest and currency swaps, forwards and options. The 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

	2015 $000	2014 $000
Trade receivables	35,945	33,552
Impairment allowance	(300)	(300)
Prepayments	1,616	1,514
Trade and other receivables	**37,261**	**34,766**

Debtor ageing

	2015 $000	2014 $000
Current	34,499	32,190
Past due 0 to 30 days	58	116
Past due 31 to 120 days	122	255
121+ days	1,266	991
	35,945	**33,552**

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 3% over the bank base rate.

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

The Group enters contractual arrangements with creditworthy 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

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

	2015 $000	2014 $000
Trade payables and accruals	37,294	33,841
GST payable	574	650
	37,868	**34,491**

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	
	2015 $000	2014 $000	2015 $000	2014 $000
Amount receivable under finance lease				
Not later than one year	1,390	1,364	429	396
Later than one year and not later than five years	5,767	5,688	2,104	1,943
Later than five years	12,885	14,354	7,369	7,959
Minimum future lease payments	20,042	21,406	9,902	10,298
Unguaranteed residual value				
Gross finance lease receivable	20,042	21,406	9,902	10,298
Less unearned finance income	(10,140)	(11,108)		
	9,902	**10,298**	**9,902**	**10,298**
Classified as:				
Current			429	396
Non-current			9,473	9,902
			9,902	**10,298**

Powerco Transmission Services Limited entered into a lease with NZ Windfarms Limited. 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

	2015 $000	2014 $000
Lease payments under operating leases recognised as an expense in the period	**1,878**	**1,655**
Operating lease obligations payable after balance date on non-cancellable leases are as follows:		
Within one year	1,422	1,615
One to five years	2,586	3,175
More than five years	662	640
	4,670	**5,430**

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

Policy

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

16. Employee benefits

	2015 $000	2014 $000
Current portion	4,837	3,998
Non-current portion	1,583	1,030
	6,420	**5,028**

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 $34.8 million were incurred during the period (2014: $32.4 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’s remuneration

	2015 $000	2014 $000
Amounts paid or payable to the auditors for:		
Audit of financial statements	250	250
Audit and review of financial statements		
Other assurance services	121	128
Regulatory audit services	5	5
Trustee reporting	**376**	**383**

Regulatory audit services consists of the audit of regulatory disclosure statements and the compliance statements.

18. Related parties

Related Party Transactions

	2015 $000	2014 $000
Transactions between Powerco Limited and PNZHL		
– dividends paid to PNZHL	54,971	55,008
– tax losses transferred to Group from PNZHL	24,352	39,753

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

Compensation of key management personnel

	2015 $000	2014 $000
Short-term benefits	3,921	3,851
Long-term benefits	240	458

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

19. Share capital

Total number of ordinary shares authorised, issued and fully paid at 31 March 2015 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 2015, no swaps were effective cash flow hedges. The remaining hedge reserve balance is being amortised based on the maturity dates of the previously effective cash flow hedges, the last of which will mature in January 2028. For further information refer to Note 5.

21. Contingent liabilities and commitments

Contingent assets and liabilities

As at 31 March 2015, the Group had no contingent assets or liabilities.

Commitments

	2015 $000	2014 $000
Commitments for future capital expenditure resulting from contracts entered into	2,325	5,742
Commitments for future operational expenditure resulting from contracts entered into	5,407	12,312
Commitments resulting from Electricity Field Service Agreement (EFSA's) contract entered into	170,000	4,988

The Group and Downer Utilities Alliance New Zealand Ltd have entered into Electricity Field Service Agreements (EFSA's) 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 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 2015. Management have not yet assessed the impact of these standards.

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 26)	1 January 2016	31 March 2017
Financial Instruments NZ IFRS 9	1 January 2018	31 March 2019
Revenue from Contracts with Customers NZ IFRS 15	1 January 2017	31 March 2018

Adoption of new and revised Standards and Interpretations

Management has reviewed the Standards and Interpretations that became mandatory in the current year, and has determined that there is no material effect on the results and position of the Group.

23 Subsequent events

There have been no significant subsequent events since 31 March 2015 requiring adjustment to these financial statements and disclosures.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF POWERCO LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Powerco Limited and its subsidiaries ('the Group') on pages 22 to 49, which comprise the consolidated statement of financial position as at 31 March 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

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

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

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

Deloitte.

Opinion

In our opinion, the consolidated financial statements on pages 22 to 49 present fairly, in all material respects, the financial position of Powerco Limited and its subsidiaries as at 31 March 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand.

Deloitte

Chartered Accountants
27 May 2015
Wellington, New Zealand

This audit report relates to the consolidated financial statements of Powerco Limited and its subsidiaries for the year ended 31 March 2015 included on Powerco Limited's website. The Board of Directors is responsible for the maintenance and integrity of Powerco Limited's website. We have not been engaged to report on the integrity of Powerco Limited's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 27 May 2015 to confirm the information included in the audited consolidated financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORY

Directors

J Loughlin (Chairman)

M Bain (also Alternate to T Parry)

M Bessell

M Cummings

G Hay

A Karl (Alternate to G Hay)

T Parry (also Alternate to M Bain)

D Rees (Alternate to M Bessell)

R Verrion (Alternate to M Cummings)

On 22 May 2014, Mr Israel resigned as Ms Karl's Alternate and Mr Hay was appointed Ms Karl's Alternate.

On 26 March 2015, Mr Hay was appointed Director and Ms Karl was appointed Mr Hay's Alternate. Ms Karl had previously been Director and Mr Hay was Alternate to Ms Karl.

On 31 March 2015, Mr Wade (and Mr Rees, as Alternate to Mr Wade) resigned from the Board.

On 29 April 2015:

- Mr Law (as Alternate to Mr Cummings) resigned from the Board.
- Mr Bessell was appointed to the Board.
- Mr Rees was appointed Mr Bessell's Alternate.
- Mr Verrion was appointed Mr Cummings' Alternate.

Executive Management Team

N Barbour
Chief Executive

J Birnie
Group Manager Human Resources

S Dickson
General Manager Gas

F Ewing
Group Manager Health, Safety, Environment and Quality

R Fletcher
General Manager Regulation and Government Relations

P Goodeve
General Manager Operations Support

D Martin
Chief Financial Officer

A McLeod
General Manager Electricity

Gender composition

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

AS AT 31 MARCH 2015	MALE	FEMALE
Directors	6	0
Alternate Directors	2	1
Officers	6	2

AS AT 31 MARCH 2014	MALE	FEMALE
Directors	5	1
Alternate Directors	3	0
Officers	6	2

Registered office

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

Auditors

Deloitte

Bankers

Westpac Institutional Bank

ANZ National Bank Limited

Bank of Tokyo-Mitsubishi UFJ Limited

Commonwealth Bank of Australia

Bond Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna, Auckland 0622

Bondholder enquiries

To change your address or bank account and to view your registered details including transactions visit www.computershare.co.nz/investorcentre

Private Bag 92119
Auckland 1142
Telephone +64 9 488 8777
Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

POWERco