
POWERCO
Annual Report 2018
Delivering New Zealand's energy future

Highlights

For the 12 months to 31 March 2018

$2.3b
Total assets

$216m
Amount invested maintaining, renewing and developing our networks

26,895
Fault callouts responded to

95%
Powerco customer satisfaction rating

13,900
Network projects relating to customer requests

12,168
Maintenance, renewal and development projects

446,000
Gas and electricity customer connections

$56.8m
Dividends

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.

Chairman and CEO Introduction

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 2018.

Powerco continued its track record of consistent delivery of operational and financial results for its stakeholders.

Key highlights

- Revenue increased 2.2% from $466.7 million to $477.1 million.
- EBITDAF rose 2.2% from $254.2 million to $259.7 million.
- We invested $216.0 million in maintaining, renewing and developing Powerco's electricity and gas networks, an increase of 7% (2017: $201.8 million).
- Powerco surveyed about 3,800 electricity and gas consumers. Of those, 95% were happy with reliability of supply.

As a reliable partner, delivering New Zealand's energy future, we are committed to providing safe, secure and resilient electricity and gas supply to our customers.

Sustainability for the future is at the core of this.

Powerco is committed to developing more sustainable energy outcomes. We endeavour to incorporate good environmental, social and governance practices into everything we do. To demonstrate the high standards we set for our operations and our commitment to sustainability and accountability, Powerco participates in the annual GRESB Infrastructure Survey. This is a global benchmarking of environmental, social and governance performance across companies.

In 2017 – for the second year running – Powerco came out top in the GRESB Sector Leader Awards which recognise real estate and infrastructure companies, funds and assets that have demonstrated outstanding leadership in sustainability. We achieved Asset Sector Leader Status in 'energy, transmission, distribution and storage' – ranking first out of 22 companies.

Overall, Powerco ranked eighth out of the 160 global infrastructures assets that participated.

While this is a pleasing result, we know we cannot rest on our laurels. Safety and looking after the environment remain major areas of focus for Powerco and we strive to ensure we continue to be an industry leader in these areas.

A milestone of the last financial year was the decision by our regulator, the New Zealand Commerce Commission to grant a customised price-quality path (CPP), allowing us to invest $1.27 billion over five years to replace ageing assets and meet growing demand. It will make for a safe, secure, reliable network for the long-term benefit of our customers. The Commission's decision was very satisfying for the many people involved and a reflection of the confidence the Commission has in Powerco and its ability to deliver on the proposal.

We appreciate our investment plans will have an impact on the average prices customers pay for our services and this is why we consulted on our plans extensively. We are committed to providing what our customers told us they wanted. They expect a safe, resilient network that encompasses future energy demands. The CPP outcome allows us to deliver that.

The business has worked extremely hard to be at this point. We already have the resources and partnerships in place to drive the changes we need to. Our focus for previous years has been on gearing up to ensure the business is poised to deliver its five year plan efficiently and effectively. This is significant step in Powerco's history and we look forward to continuing to deliver New Zealand's energy future.

Chairman and CEO Introduction

Revenue

Total revenue was $477.1 million, a 2.2% increase on 2017's $466.7 million. The positive revenue performance was mainly driven by continued strong customer growth.

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 2.2% improvement and an 8.6% reduction respectively.

The following table shows Profit Before Taxation with Other Gains and Losses for 2018 and 2017 removed. The variance of $7.7 million is attributable to the increases in EBITDAF ($5.5 million), disposal of fixed assets ($7.2 million) and depreciation and amortisation ($6.6 million) and a decrease in finance costs ($0.5 million).

Net Profit After Tax (NPAT)

The company made a Net Profit After Tax of $86.7 million in the 12 months to 31 March 2018 compared with $58.5 million for the 12 months ended 31 March 2017. The improvement in Net Profit After Tax is due to gains on unrealised valuations of financial instruments. The results reflect the company's resilience, stability and ongoing focus on performance improvement.

John Loughlin
Chairman

Nigel Barbour
Chief Executive

	2018 $ million	2017 $ million	Variance $ million	Variance %
Profit Before Taxation	91.7	83.5	8.2	
Remove other (gains)/losses	(9.8)	6.1	(15.9)	
Underlying profitability	81.9	89.6	(7.7)	(8.6)%

Board of Directors

John Loughlin

Michael Bessell

Paul Callow

Michael Cummings

Angela Karl

Leisel Moorhead

Tom Parry

Stasha Prnjatovic

David Rees

John Loughlin

MBA, BCA, FCA, FNZIM, ANZIIF (Fellow), AFInstD, INFINZ (Fellow)

Mr Loughlin is the Chair of the Powerco Board. He is a professional Company Director and Chairman of Tru-Test Corporation Ltd, EastPack Ltd, Meat Industry Association Inc, Rockit Global Ltd and Hop Revolution Ltd. He is also a Director of Augusta Capital Ltd. In his executive career, Mr Loughlin was Finance Manager of Richmond Ltd before becoming the company's Chief Executive. Before holding those positions, he was an institutional fund manager. Mr Loughlin and his wife Kathryn established and own Askerne Estate Winery. Mr Loughlin was appointed to the Powerco Board in 2013.

Michael Bessell

BEc, LLB (Hons), GradDipAppFin, GAICD

Mr Bessell is a Partner in AMP Capital's Global Infrastructure Equity business and is Head of Origination and Separately Managed Accounts. He leads AMP Capital's Australian and New Zealand origination team and also has responsibility for AMP Capital's $5 billion customised accounts infrastructure business. Mr Bessell has more than 25 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. He has worked in Europe and North America and has led teams undertaking investments in Europe, Australasia and North America. He is a member of the AMP Capital Alternative Assets Investment Committee, is on the AMP Capital global infrastructure equity management committee and serves as a director of a number of investee companies. Mr Bessell was appointed to the Powerco Board in April 2015.

Paul Callow

BSc, IoDNZ

Mr Callow is a professional director with more than 30 years' experience in financial, commercial and engineering roles. He spent 13 years with Deloitte as a Partner in the Wellington corporate finance practice and led the firm's energy sector group in New Zealand. He has extensive advisory experience in the energy sector, both in New Zealand and internationally. Before joining Deloitte, Mr Callow was a Project Director at Asiapower Developments Ltd, responsible for electricity generation project origination and development in India, and Thailand and other parts of South East Asia. Mr Callow holds a degree in mechanical engineering from the University of Birmingham. He is a director of other private companies and is a chartered member of the Institute of Directors. Mr Callow was appointed to the Powerco Board in September 2016.

Michael Cummings

BEng (Mech), Chartered Member EngNZ, Member InstD, Graduate Member AICD

Mr Cummings is Partner, and Global Co-Head of AMP Capital Infrastructure Equity business. He is a Director of Australian Pacific Airports Corporation (Melbourne and Launceston airports), a Director of Endeavour Energy, and Chairman of Evergen. Before joining AMP Capital, he was the Chief Operating Officer (Energy) at Brookfield Infrastructure. This involved investment management responsibility for a multi-billion dollar global portfolio of energy businesses as the Chair or Director, including NGPL and Cross Sound Cable in the US, the International Energy Group in the UK, DBP and WA Gas Networks in Western Australia, and the Tasmanian Gas Pipeline. Prior to this, Mr Cummings was CEO, Gas Division for Vector, where he was responsible for all aspects of the company's gas business, including processing, transmission, distribution and sales. Since starting his career with British Gas in 1990, Michael has more than 27 years' experience in the infrastructure sector.

Angela Karl

BCom (Hons 1), LLB (Hons 1)

Alternate Director to Leisel Moorhead

Ms Karl joined QIC in 2012 and is a Partner in the QIC Global Infrastructure (GI) team. She is focused on the power and utilities sector within QIC GI's broader infrastructure portfolio. Before joining QIC, Ms Karl had more than a decade of investment banking, corporate advisory and transaction experience at JPMorgan and UBS Investment Bank, with her most recent role as Australasian Head of Power & Utilities Advisory at UBS. During her time in banking, Ms Karl advised on more than 100 mergers and acquisitions and capital raisings for Australasian corporates, predominantly in the utility sector. She is a Director of Epic Energy SA, a Director of Powering Australian Renewables Fund and a Director of Lochard Energy. Ms Karl was appointed to the Powerco Board in 2013 as Principal Director then became Alternate Director on 26 March 2015 and is now Alternate Director to Ms Moorhead.

Leisel Moorhead

BA, LLB (Hons), LLM

Ms Moorhead is a Partner of the QIC Global Infrastructure team, which she joined in 2008. Ms Moorhead has responsibility for asset management across the portfolio and primary responsibility for ESG within the team. Ms Moorhead is on the Board of Port of Brisbane, CampusParc, is an alternate director on Northwestern Roads Group and was previously on the Board of Powerco from 2009-11. Before joining QIC, Ms Moorhead had more than 11 years' corporate advisory and transaction experience as a senior lawyer at King & Wood Mallesons. In that role she had extensive experience in mergers and acquisitions, joint venture arrangements, acting for equity sponsors on major infrastructure projects and advising on directors' duties and corporate governance.

Tom Parry

AM, BEc, MEc, PhD

Dr Parry is Chairman of the Powering Australian Renewables Fund, Deputy Chairman of ACTEW-AGL, and a Director of Icon Water. Previously he was Chairman of the Australian Energy Market Operator, Chairman of Sydney Water Corporation, Chairman of First Super Trustee Corporation, a Director of ASX-Compliance and a Director of Brisbane Airport Corporation. He has also held several important positions in regulation and public policy, including 12 years as Foundation Executive Chair 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 Powerco board in 2010.

Stasha Prnjatovic

BComm (Hons 1)

Alternate Director to Michael Cummings

Ms Prnjatovic is Investment Director with AMP Capital Infrastructure Equity, responsible for asset management of AMP Capital's energy investments in Australia and New Zealand. She has 13 years' experience in both listed and unlisted infrastructure markets, having previously worked in transactions, asset management and equity research. Before joining AMP Capital in 2017, Ms Prnjatovic was a Director with NSW Treasury where she led a $34 billion privatisation of the state's electricity networks TransGrid, Ausgrid and Endeavour Energy. She had responsibility for asset management of the state's electricity assets portfolio prior to the start of the privatisation process. As an equity analyst with Citigroup Global Markets, Ms Prnjatovic was responsible for the coverage of Australian and New Zealand listed utility and infrastructure companies. Ms Prnjatovic is an alternate director of Endeavour Energy and was appointed to the Powerco Board as Alternate Director to Michael Cummings in 2018.

David Rees

MA

Alternate Director to Michael Bessell

Mr Rees is Partner and Global Co-Head of Asset Management, Infrastructure Equity. He joined AMP Capital in 2012 and has more than 29 years' experience of infrastructure businesses. Before joining AMP Capital, he worked for 10 years at National Grid, the international network energy company, where he held a number of senior executive roles, including Director of Finance and Regulation of Transco, the UK gas transmission and distribution business. He serves on the boards of Angel Trains, Esvagt A/S and Newcastle Airport. Mr Rees was appointed to the Powerco Board as Alternate Director in November 2013 and further appointed to the Powerco Board as Alternate to Michael Bessell in April 2015.

Executive Management Team


Nigel Barbour


Jo Birnie


Brigitte Colombo


Stuart Dickson


Stuart Marshall


Julie McAvoy


Ian Skipworth


Chris Taylor


Ryno Verster

Nigel Barbour

B.Com/LLB

Chief Executive

Mr Barbour is the Chief Executive of Powerco. He is responsible for leading the business to deliver on all customer, financial and operational targets. He joined Powerco in October 2002 and has been in executive management roles for the past 15 years, including General Manager (Electricity). He was appointed Chief Executive in October 2011. He is a board member of the New Zealand Electricity Networks Association and the Gas Industry Company, and is a member of the New Zealand Security and Reliability Council. Mr Barbour has an economics and legal background and has previously held roles with Transpower and the Bank of New Zealand.

Jo Birnie

BSc (Hons), Psy, CIPD, CMHRINZ

Group Human Resources Manager

Mrs Birnie joined Powerco in June 2010. Before her current role, she was employed as an HR advisor specialising in learning and development. Since immigrating with her family to New Zealand from the UK 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. In addition to HR roles, she has worked on European funding and corporate business projects. Mrs Birnie is a graduate member of the Chartered Institute of Personnel and Development (UK) and a member of the Human Resources Institute of New Zealand.

Brigitte Colombo

B. Surv (Hons), BSc

Chief Information Officer

As Chief Information Officer, Mrs Colombo is responsible for managing information and digital technologies for Powerco. Mrs Colombo holds a Bachelor of Surveying, a Bachelor of Computer Science, and a Certificate in Management and Leadership. Before returning to New Zealand in 2014, she enjoyed an international IT career working across industry sectors in technology infrastructure and applications implementation roles, IT operations, business development, strategy and change management. She has held executive positions in the UK and New Zealand, and joined Powerco in 2017.

Stuart Dickson

BEng (Mech)

General Manager (Gas)

Mr Dickson joined Powerco in 2011 as General Manager (Gas). He is a professional engineer who has worked in the gas and energy industry for the past 25 years in New Zealand and the UK. His experience spans asset strategy and management, network and plant operations, project delivery, consulting and engineering. Before joining Powerco, Mr Dickson worked as a consultant within the gas industry and was previously part of Vector's Gas Management Team.

Stuart Marshall

BMS (Hons), CFTP (Snr)

General Manager Regulation and Commercial

Mr Marshall joined Powerco in 2010 as Treasurer. In 2017, he was appointed General Manager Regulation and Commercial. He is responsible for managing policy interactions with the company's economic and technical regulators, corporate relations with its customers and official stakeholders, the company's legal services, pricing strategy, and internal and external communications. Before joining Powerco, Mr Marshall was the General Manager of Bancorp Treasury Services, Australasia's largest provider of treasury consultancy services. He has a Bachelor of Management Studies, and is a certified member of the New Zealand Institute of Financial Professionals, the Finance and Treasury Association, and the Institute of Directors.

Julie McAvoy

MSc, BEng (Hons)

Group Health, Safety, Environmental and Quality Manager

Mrs McAvoy joined Powerco in 2015 and manages the HSEQ team, which supports the wider Powerco company and service providers to achieve zero harm to people and the environment. She holds a Mechanical Engineering degree and a Masters in Mechatronics. During her 25 years' experience, Mrs McAvoy has held a number of engineering, project management and leadership roles in the UK and New Zealand in heavy engineering and marine, including eight years with Rolls-Royce Marine. Since immigrating to New Zealand in 2009, Mrs McAvoy's experience has been in the oil and gas sector in Taranaki. She has worked for both an integrated energy company and engineering, procurement, and construction contractors in operations, engineering leadership and quality, health, safety and environment (QHSE) roles. Her experience ranges from engineering and project management, design for safety, lean six sigma, and QHSE management through to strategic planning and execution.

Ian Skipworth

BEng (Mech), CEng MIMecheE

General Manager Service Delivery and Systems Operations

Mr Skipworth leads Powerco's electricity service delivery and operational teams. He joined Powerco in 2018. Mr Skipworth is a chartered engineer with 25 years' experience in industrial engineering, high precision manufacturing and continuous chemical processing sectors. He has previously held business leadership positions in the UK, Indonesia, New Zealand and Australia before returning to New Zealand to join Powerco. Before working for Powerco, Mr Skipworth led a business transformation programme for Nexans based in Melbourne.

Chris Taylor

BCom, MBA, CA

Chief Financial Officer

Mr Taylor is Powerco's Chief Financial Officer, responsible for the company's accounting and treasury activities. Mr Taylor joined Powerco in October 2016. He is a chartered accountant with more than 20 years' experience in the energy sector and professional services. Before working at Powerco, Mr Taylor was the General Manager of Finance at Counties Power and was a partner at PwC, advising on a range of sector issues. Mr Taylor has a Bachelor of Commerce and a Master of Business Administration, and is a member of Chartered Accountants Australia and New Zealand, the Institute of Directors, and Governance NZ.

Ryno Verster

BEng (Elec), MEng (Elec), MBA

General Manager Asset Management and Network Transformation

Mr Verster heads the asset management of Powerco's electricity network business, with responsibility for the company's asset management strategy and network investment plans. He is also responsible for overseeing the transformation of the electricity network in response to emerging energy options and opportunities. Before joining Powerco in 2015, he held executive and senior management roles at Vector. In addition, he has extensive international experience in engineering and management consulting, advising on energy regulation, asset management, asset valuation, due diligence studies for mergers and acquisitions, and engineering design and project management. Mr Verster has served on several industry working groups and bodies, and is a member of the New Zealand Smart Grid Forum and the Electricity Networks Association's Smart Technology Working Group.

Powerco at a glance

Powerco is a leading New Zealand electricity and gas infrastructure business providing distribution services to 446,000* customers throughout the North Island.

Powerco is New Zealand's largest gas distribution utility. Our gas pipeline networks are in Taranaki, Hutt Valley, Porirua, Wellington, Horowhenua, Manawatu and Hawke's Bay.

Powerco is New Zealand's second largest electricity utility. Our electricity networks are in Western Bay of Plenty, Thames, Coromandel, Eastern and Southern Waikato, Taranaki, Whanganui, Rangitikei, Manawatu and Wairarapa.

107,400*
customers connected to our gas networks.

8,543,000*GJ
of gas conveyed for the year ended 31 March 2018.

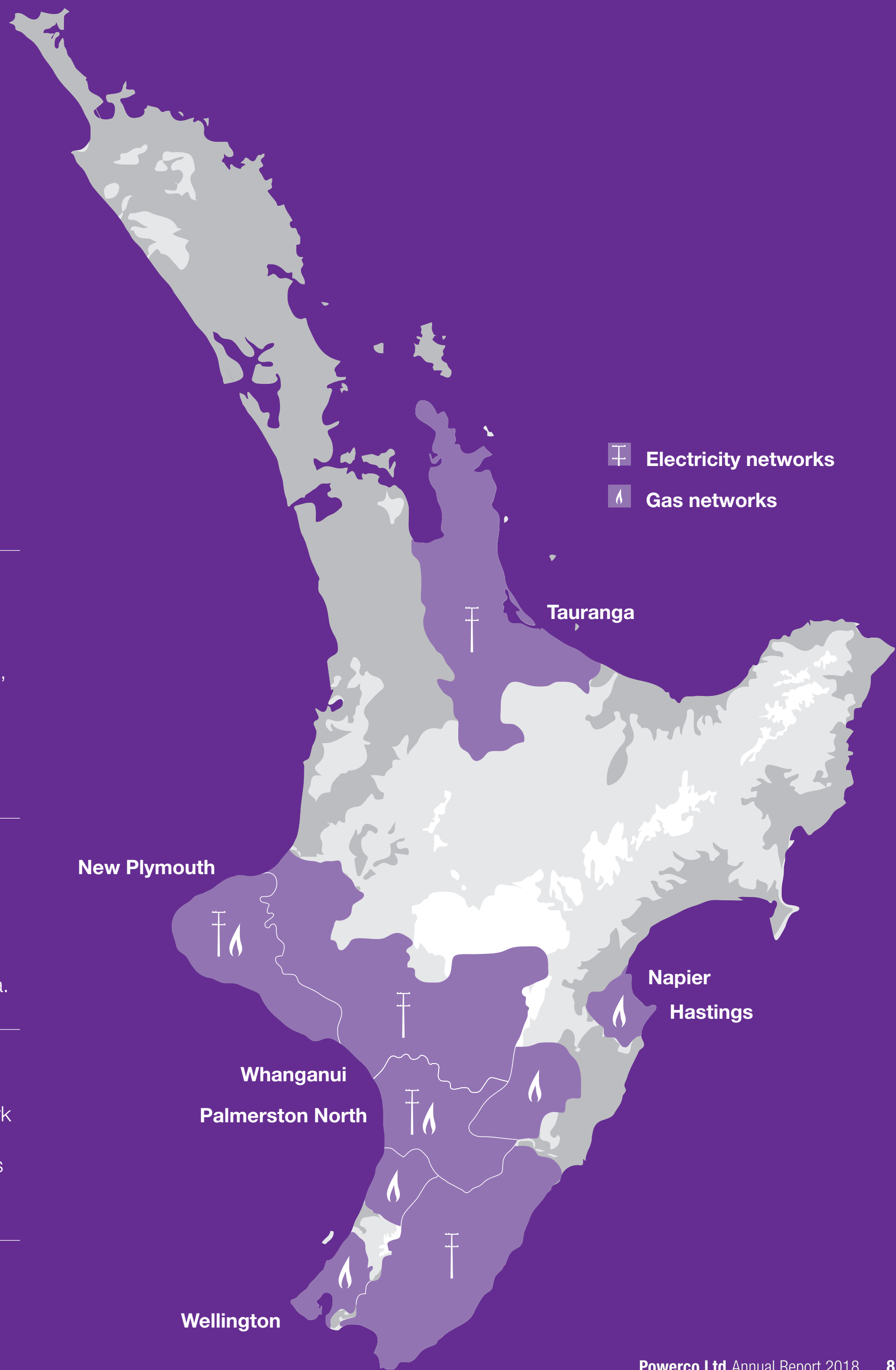
385*
(fulltime equivalent) employees across branches in New Plymouth, Palmerston North, Wellington and Tauranga.

338,400*
customers connected to our electricity networks.

5,086* GWh
of electricity conveyed for the year ended 31 March 2018.

36,000+
Kilometres of combined network length spanning 28 territorial authorities, six regional councils and 11 electorates.

*approximately



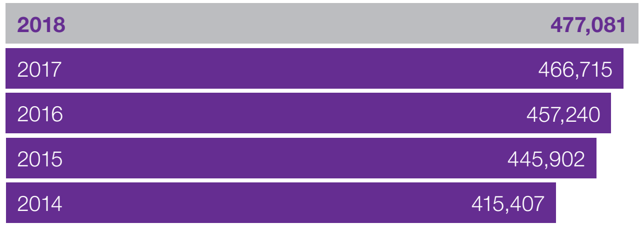
Delivering results

Financial snapshot

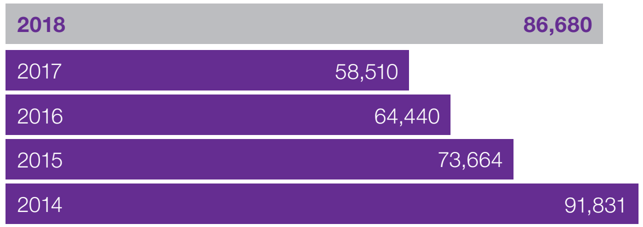
	2018 $million	2017 $million
Income	477.1	466.7
EBITDAF	259.7	254.2
Net loss on disposals, depreciation and amortisation	99.5	85.8
EBIT	160.2	168.4
NPAT	86.7	58.5
Total equity	571.5	541.1
Total assets	2,278.2	2,221.8
Borrowings	1,348.1	1,322.1
Key financial measures		
EBITDAF/revenue	54.4%	54.5%
EBITDAF/revenue less pass-through costs	74.7%	73.7%
Equity/total assets	25.1%	24.4%
Gearing ratio	59.9%	59.9%
Net interest cover (EBIT/net finance costs)	2.0 times	2.1 times
Underlying profit*	81.9	89.6
Net profit after tax	86.7	58.5
Dividends	56.8	58.5

*Net profit before tax less gains or losses on financial instruments.

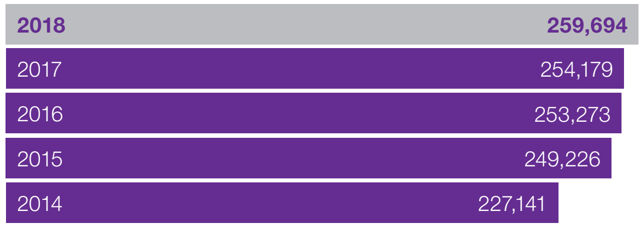
Total Revenue for the period ($000)



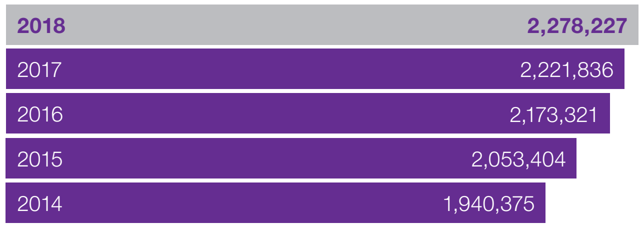
NPAT for the period ($000)



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

2018	**338,428**
2017	335,843
2016	332,247
2015	328,913
2014	325,860

*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.

Gas customer connections as at 31 March**

2018	**107,369**
2017	105,917
2016	104,439
2015	103,788
2014	102,538

**Billable connections consisting active, active vacant and ready status.

Energy transported

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

2018	**5,086**
2017	5,046
2016	5,085
2015	4,981
2014	5,027*

Current and historical system volume figures have been revised to ensure calculations are consistent with information disclosure requirements.

*The 2014 figure was impacted by a one-off configuration of metering assets at Carter Holt Harvey (Kinleith).

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

2018	**8,542,500**
2017**	8,572,333
2016	8,829,198
2015	8,938,641
2014	8,798,926

**During 2017, Fonterra Pahiatua connected directly to the high pressure pipeline. While large in volume, ~400GJ per annum, the site was a low $/GJ customer and the impact to the revenue line is minimal in comparison to the volume impact.

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Sustainable

For Powerco, sustainability is at the core of our vision:
Your reliable partner, delivering New Zealand's enery future.

Below: Safety and the environment are the responsibility of everyone at Powerco.

Being sustainable is the ability of the current generation to meet its needs without compromising the ability of future generations to do the same.

For Powerco, sustainability is at the core of our vision: Your reliable partner, delivering New Zealand's energy future. Sustainability requires us to strike the right balance between economics, society and the environment, while meeting our customers' energy needs reliably and efficiently, now and in the future. We embrace this challenge.

Responsible and ethical

In recent years, there has been a shift in investor preference towards companies that consider environmental, social and corporate governance (ESG) issues as part of their day-to-day business. This is important to Powerco's shareholders as they look to provide assurance to their investors that the decisions made about where their money is invested are responsible and ethical.

At Powerco, we are committed to developing more sustainable energy outcomes. We endeavour to incorporate good environmental, social and governance practices into everything we do. It is a culture that comes from the top and flows throughout the organisation.

Powerco's Board of Directors takes a collective responsibility for decision-making on ESG issues. The Board has a Health and Safety Charter and signs off governance documents relating to ESG. The Board Chair ensures these accountabilities are met.

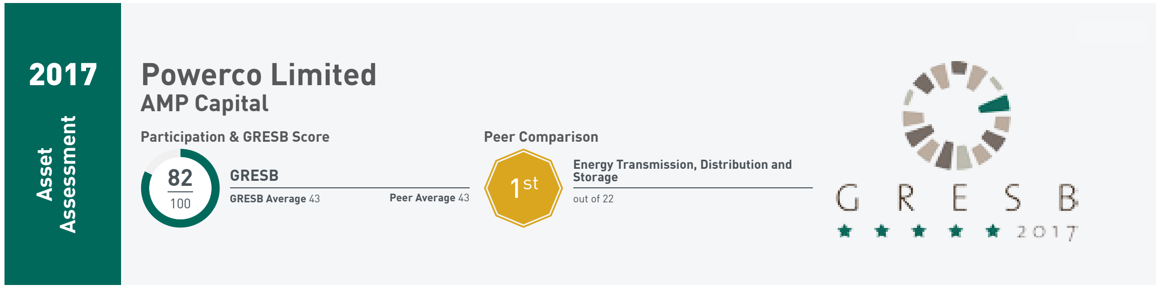
To assist the Board, Powerco created a dedicated Health, Safety, Environment and Quality Group to raise the profile of these issues across both the electricity and gas businesses.

While Powerco's Group Health, Safety, Environmental and Quality Manager is a member of the company's Executive Management Team and leads a team that implements ESG throughout the company, safety and the environment are the responsibility of everyone in the company. At Powerco, we are united in our responsibility for:

- Staff safety (page 17)
- Contractor safety (page 17)
- Public safety (page 17)
- Our environmental footprint (page 13)
- Ensuring quality in our systems and processes (pages 13-24)

Details of how ESG principles are incorporated throughout Powerco's business can be found in the following sections of this Annual Report:

- Environment (page 13)
- Safety and wellbeing (page 17)
- Engagement (page 19)
- Governance (page 22)



In 2017, for the second year running, Powerco came top in the GRESB Sector Leader Awards, which recognise real estate and infrastructure companies, funds and assets that have demonstrated outstanding leadership in sustainability.

International benchmark

To demonstrate the high standards we set for our operations and our commitment to sustainability and accountability, Powerco participates in the annual GRESB Infrastructure Survey. This is a global benchmarking of environmental, social and governance performance across companies.

Based in Amsterdam, GRESB assesses information regarding the sustainability performance of companies, funds and assets worldwide, including information on performance indicators, such as energy, greenhouse gas emissions, water and waste.

In 2017, for the second year running, Powerco came top in the GRESB Sector Leader Awards, which recognise real estate and infrastructure companies, funds and assets that have demonstrated outstanding leadership in sustainability. We achieved Asset Sector Leader Status in ‘energy, transmission, distribution and storage’ – ranking first out of 22 companies. Overall, Powerco ranked eighth out of the 160 global infrastructure assets that participated.

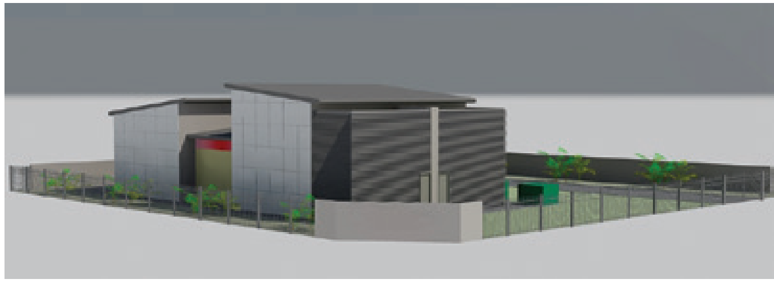
We understand, however, that ESG is not a static process. We strive for continuous improvement, with our goal being that ESG principles become a part of every decision made at Powerco.

Left: Base Power, Powerco’s all-in-one energy system, uses the sun to generate renewable energy. Excess energy is stored in batteries, with a diesel generator providing back-up.

Environment

Top: A concept drawing of a new Palmerston North substation, designed to look more suburban than industrial and to be more aesthetically pleasing.

Below: Through its support of Paradox: Tauranga Street Art Festival, Powerco has been helping beautify the Tauranga community by bringing to life its substations, which are often the target of unwanted graffiti.



At Powerco we see ourselves as custodians of our environment. Through our consultation and asset management planning we know that caring for the environment and our environmental performance is important to our communities, as well as our regulators and shareholders.

We do not want to cause any lasting harm to our environment and ensure that our electricity and gas assets and operations have as little impact on the environment as possible. We encourage the efficient use of energy and strive to minimise our carbon footprint by keeping our emissions in check.

Collective responsibility

Environmental awareness is promoted to everyone working at Powerco. From their induction onwards, staff are educated on Powerco's Environmental Management Systems, reporting of greenhouse gases and waste management. Led by the Environment and Sustainability Manager – a new role created in 2017 – we are committed to achieving and maintaining the highest environmental standards. We also have a workplace sustainability team that meets regularly with its goals including:

- Increasing staff awareness and participation in sustainable initiatives
- Promoting sustainable business practices
- Providing a point of contact for staff on environmental and sustainability matters

- **Closely monitoring our carbon footprint.** In the six years since Powerco began recording carbon emissions, there has been an 8.4% overall decrease in tonnes of carbon emissions. This includes direct emissions that come from sources that are owned or controlled by Powerco, electricity use at Powerco offices and operations, and business travel and employee commuting. We are aiming to reduce our carbon footprint further by transferring 30% of our corporate vehicle fleet to electric vehicles by 2019 and using new high-tech video conferencing for inter-office meetings, cutting down on unnecessary vehicle and air travel. Through community-based green travel initiatives such as New Plymouth district's Let's Go Project and the nationwide Aotearoa Bike Challenge, we also encourage staff to walk, bike, use public transport or carpool for short trips.
- **Improving the amenity of residential areas.** We are designing and constructing new electricity substations to look more like residential buildings than concrete industrial sites. This allows for improved street appeal and outlook for neighbours. Where possible, our gas assets are put underground. Burying the District Regulator Stations (DRSs) has a dual purpose – improving the visual environment and reducing noise. Creating aesthetically pleasing murals on our assets is also instilling a sense of community pride. While our assets are designed to be functional, artwork makes them into points of interest as well, brightening up pockets of communities and acting as a deterrent to unwanted graffiti.

Below: Remote Kai Iwi farmers Michelle and Hans Brink with their Base Power all-in-one energy unit and solar panels on the shearing shed roof.

Staff participate in the annual Keep New Zealand Beautiful community clean-up, which helps clean up the environment and also provides social engagement between staff and the community.

Substations around Tauranga are being brought to life with professional spray art as part of the Paradox: Tauranga Street Art Festival, which Powerco sponsors. This is not the first time Powerco has turned its utilities into works of art. Several transformer boxes and substations in Taranaki have been painted. The artwork associates dangerous creatures – raging bulls, wolves, spiders and jellyfish – with the hazards of electricity. We also work with people wanting to apply art to the company's electricity boxes, with safety a priority. We listened to the community and worked with elderly Tokoroa resident Elaine Rowe to ensure colourful bird designs she painted on Powerco pillar boxes could remain.

- **Minimising soil contamination.**
  We are progressively upgrading the oil containment systems for our substation electricity transformers. A small number of our power transformers have inadequate or no oil bund containers. A transformer that leaks oil can contaminate the soil and poses an environmental hazard. We are addressing this by installing or upgrading sites with oil containment and separator systems. We are also replacing oil-filled underground electricity circuits with new non-oil-filled cables to minimise underground soil contamination from pressurised oil-filled electricity cable leaks.
- **Controlling noise.**
  As well as putting the gas DRSs underground, Powerco is incorporating noise mitigation measures into new electricity transformer and substation designs to minimise noise pollution to the surrounding community.
- **Managing waste.**
  Powerco has a wide range of recycling bins in offices to promote recycling and composting. In 2010, all our waste went to landfills. Our recycling and composting has improved markedly since then and our target is to have at least 10 tonnes (40% of a total 25 tonnes) of our waste recycled and another four tonnes (16%) composted. We are also constantly looking at ways to cut back on waste generation – this annual report is a prime example. This year we decided it was better for the environment to produce only an online copy rather than a printed version. Not only does the change remove the need for paper, it also reduces carbon emissions produced from air and vehicle postage. Staff also participate in the annual Keep New Zealand Beautiful community clean-up, which helps clean up the environment and also provides social engagement between staff and the community.
- **Conserving and monitoring energy use.**
  Powerco promotes energy efficiency to staff, including switching off computers and monitors (a 'switch-off fairy' visits office desks regularly and rewards staff conserving energy), turning off lights if not in use, and using the stairs rather than the lifts. Data is collected about the amount of electricity used and purchased by Powerco offices. The total electricity purchased is then calculated against the number of fulltime equivalent employees. Each FTE now uses 47% less electricity per year (compared with 2011 monitoring) despite an increase in staff during that time.

We have achieved the highest Diamond certification under the Enviro-Mark Programme for all our office sites, along with our gas and electricity network operations.

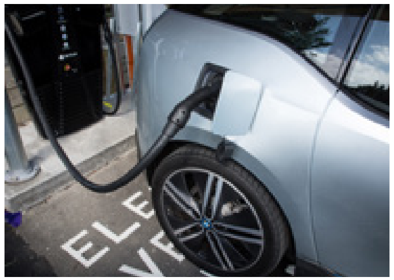
- **Promoting efficient energy use.**
  We conserve and monitor energy use in our own operations, and actively encourage our customers to use energy more efficiently. We do this through the education and promotion of smart meters and appliances. These measures are an alternative to costly network expansions, helping us to reduce the size of peak electricity use by spreading it evenly throughout the day. They help flatten peak loads and help New Zealanders save money on their electricity bills. The use of solar energy is also promoted. Base Power is Powerco's all-in-one energy system. It uses the sun to generate electricity, with excess energy stored in batteries and a diesel generator providing back-up. It gives remote customers the electricity they need without having to rely on traditional power poles and lines. We also assist Base Power customers to reduce their electricity costs by encouraging them to use the sun's energy first for the power they need.
- **Promoting the use of electric vehicles (EV).**
  We support the development of a corridor of EV chargers within our network, in partnership with ChargeNet NZ, various local councils and Foodstuffs. We expect to be involved with 30 charging stations by 2020. We are also supporting New Plymouth community-based health and social service provider Tui Ora to go green with the launch of a community-based EV trial. For the trial, Powerco has installed an EV charging station at Tui Ora and provided a 2015 Volkswagen e-Golf for staff to use for 12 months. The purpose of the trial is to collect data so Powerco can better understand how the use of electric vehicles will impact its network, as the use of EVs grows.

Accountable

As part of our commitment to sustainability and the environment, Powerco has an externally verified Environmental Management System (EMS), aligned with ISO 14001. The EMS has a set of environmental objectives and targets that direct Powerco's aims in terms of environmental management.

Powerco is a member of the independent Enviro-Mark Programme and has annual external compliance audits of its EMS against international best practice criteria. We have achieved the highest Diamond certification under the Enviro-Mark Programme for all our office sites, along with our gas and electricity network operations. We achieved the Enviro-Mark Diamond level in 2017 after establishing robust environmental risk management processes, communicating our environmental policy statement and testing our environmental emergency plans. Achieving and retaining our Diamond level requires us to continuously monitor our environmental performance, ensure staff receive EMS training, continuous improvement, and internal auditing of our EMS. Diamond Enviro-Mark is equivalent to ISO 14001 certification.

We are also a participant in the Emissions Trading Scheme (ETS) under the Climate Change Response Act 2002 for our use of Sulphur hexafluoride (SF6). SF6 plays an important role on Powerco's networks, particularly where there is a need for reliable and low footprint installations, such as the Safelink



Above: Hayden Wano (left), of New Plymouth community health and social service provider Tui Ora, Powerco CEO Nigel Barbour and 'the future', four-year-old Kiera Neal, at the EV trial launch.

Top left: A concept design of the Central Energy Trust Wildbase Recovery Centre in Palmerston North, of which Powerco is a major sponsor.

Below left: Patients at the Wildbase Recovery Centre will receive world-class rehabilitation care from Massey University's specialist wildlife veterinary staff.

ground-mounted switch or the Nulec load break switch. The SF6 rates for 2016 and 2017 were 0.46% and 0.66% respectively. While both are below the legislative compliance level of 2%, we continue to pay close attention to this area to ensure our environmental impact is as low as practical.

Conservation

Powerco's commitment to looking after the environment includes partnerships with conservation initiatives that not only protect the natural environment and what lives in it, but benefits the communities in which we operate.

We are the naming sponsor of the Powerco Education Centre – part of the Central Energy Trust Wildbase Recovery Centre in Palmerston North – where children will gain valuable insights into New Zealand's native wildlife. When complete, Wildbase Recovery will provide purpose-built rehabilitation aviaries and world-class care for native wildlife to rehabilitate from illness and injury.

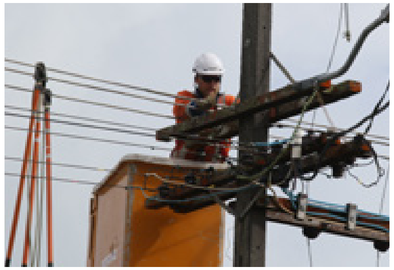
We also sponsor the not-for-profit Aorangi Undulator trail running race on a Department of Conservation route in remote south-east Wairarapa. Net proceeds from the event go to the Aorangi Restoration Trust, which advocates for the restoration of the area's native ecosystems. They are involved in predator control and monitoring, penguin recovery, and ecology education.

We give more than financial support to conservation. Powerco staff regularly support sustainability projects, such as mobile phone recycling for World Environment Day 2017.

We had collection boxes at each Powerco office where people could drop off their unwanted phones for recycling. This avoids the phones going to landfills where an array of hazardous toxic substances could seep into the environment, contaminating the land, water and air. About 95% of mobiles recycled through the scheme get a new lease of life or have their components recycled.

Below: Conservation is behind the Aorangi Undulator trail running race, which Powerco supports.

Safety and wellbeing



Left: We work with our contract service providers to ensure safety in the field.

Below: Sparky, Powerco's safety mascot, visits pupils at Mosston School in Whanganui.

We are committed to keeping people safe. It is one of the six core values that shape the way we act at Powerco.

Our customers and stakeholders have told us that providing safe electricity and gas networks is important to them. Therefore, protecting the public, our staff and our service providers from the inherent risks posed by our electricity and gas networks is behind everything we do.

At Powerco we are committed to developing the leadership, culture and systems to support us in our objective of safeguarding the public and ensuring each and every team member works safely and gets home to their family each day.

Safety at the core

On-going education is a tool to instil a safety-first culture in our organisation. Powerco provides extensive health and safety (H&S) training for staff and contractors. All new employees receive a full H&S induction as well as on-going training. Each Powerco site has an active H&S committee of staff who are passionate about finding solutions to any day-to-day H&S issues around their workplace. This could range from urging motorists to slow down in office car parks to identifying trip hazards.

Keeping the public safe

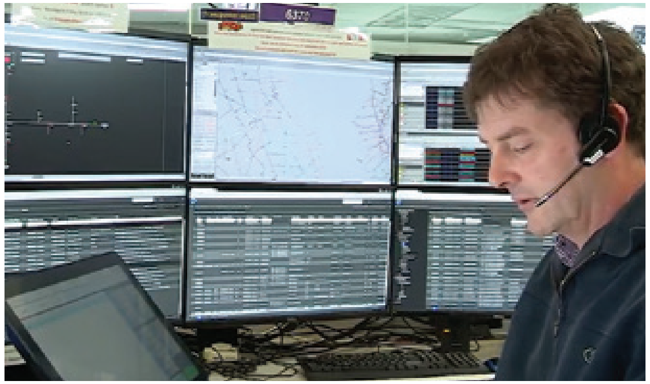
Powerco undertakes a range of initiatives to engage with and educate the public about keeping safe around our electricity and gas networks. These include advertising campaigns centred on the hazards of trimming trees near electricity lines, an in-school education programme aimed at children using a Powerco public safety mascot called Sparky, and the importance of staying clear of downed power lines.

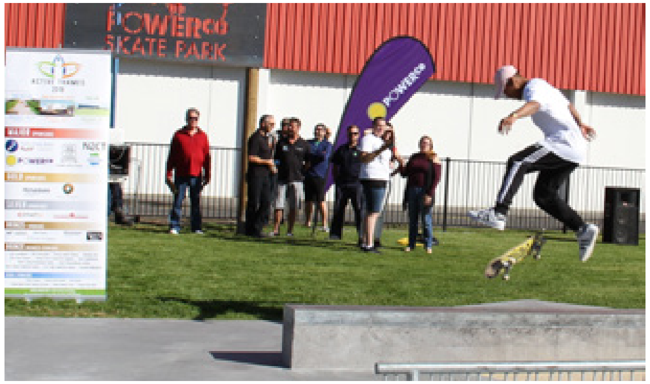
Keeping our service providers safe by working in partnership

We are committed to working collaboratively with our contractors to keep them safe. To ensure the safety of our field contracting staff, we have a comprehensive suite of industry recognised competency standards and qualifications. This ensures all staff working on our network are qualified and are safe to perform the work. We work alongside industry to develop best practice both in field work and asset management to continually improve safety.

Powerco has a comprehensive audit and assurance programme for safety using internal specialists, independent experts and contracted field auditors. This is further strengthened by our annual public safety audits NZS7901, carried out by Telarc. The next five years will see an evolution of this assurance programme encompassing ISO45001 Health and Safety Management certification, combined with critical risk-based auditing in the field and office.

We have partnered with ISN to provide us with a comprehensive contractor approval system, which has allowed us to embed best practice on approval systems from the oil and gas sector. This will deliver an integrated approval, competency and performance monitoring system that will be leading edge in New Zealand.





Far left: Powerco's new voice radio system delivers a step-change in safety of crews, meaning NOC operators, such as Markus Kruger, will have a much greater awareness of what is happening and who is out in the field, particularly during storms.

Left The Powerco Skate Park in Thames.

We invest in projects to increase the safety of contractors working for Powerco and on our assets. Powerco is working on a high-tech voice radio system, expected to help the safety of workers in the field. The new radio system will allow coverage to the majority of Powerco's large and geographically diverse electricity network and replace outdated radio transmitters that have a smaller reach. The new technology will also mean Powerco's Network Operations Centre (NOC) operators, based in New Plymouth, will have a much greater awareness of what is happening out in the field, particularly during storms.

We are accountable for our safety performance

We are committed to developing the leadership, culture and systems to support us in our goal of zero serious harm incidents. We learn from incidents that happen, whether they cause harm or have the potential to do so. These lessons are applied to improve our systems and culture to drive us towards our goal that everyone goes home safe each day.

We have a robust safety governance structure and framework involving all levels of the organisation, through the Executive Management Team to the Board. Powerco continually challenges itself to improve and engineer out risk. We seek out best practice within New Zealand and overseas to ensure we are achieving safety excellence, and undertake external reviews of our health and safety systems, plans and company culture.

Our people: Collaboration and engagement

Ensuring our people have a voice on safety is critical to us. Health and safety committees are located at each of our offices and Powerco's intranet site has H&S information to keep staff up-to-date. There is a comprehensive training framework for all staff that covers what health, safety, environment and quality (HSEQ) training is available and required for each staff member's role – whether they are in the gas, electricity or general areas of the business. Courses range from stress awareness to hazard identification, drug and alcohol awareness to driving assessments.

Our people: Health and wellbeing

There are about 385 fulltime equivalent employees working at Powerco branch offices in New Plymouth, Palmerston North, Wellington and Tauranga. We appreciate that a significant proportion of our staff's time is spent at work, so looking after their health and wellbeing is important. Not only does this help our staff and their families, it also has a flow-on effect to the communities in which they live.

To nurture the health and wellbeing of staff, Powerco provides a variety of programmes, including regular access to an occupational health nurse, free flu vaccinations and a confidential employee assistance programme, as well as service recognition and individual recognition policies. Good work/life balance is also valued and Powerco supports a variety of initiatives to support staff outside work, including leave for volunteering, supporting staff fundraising for various health initiatives and charities, and phased return to work following parental leave.

A staff fundraising initiative late last year helped raise about $4,000 for the Motor Neurone Disease (MND) Association to raise awareness of the disease and support a colleague whose wife had recently died from MND. Staff staged 'The Amazing Race 2.0', involving six teams racing around Wellington city, competing in a range of activities including rock climbing, wasabi eating and ice water challenges. Teams raised funds through bake and lunch sales and through public donations on race day. As a company, Powerco also contributed $2,000.

In the community, we support the social wellbeing of our customers and their families by getting involved in health-based events. Supporting healthy lifestyles includes sponsoring cycling safety programmes, Manawatu's Rural Games and The Golden Shears event in Masterton. Our gas brand, The Gas Hub, together with Upper Hutt City Council's Activation team run a Parks and Places programme, which showcases active recreation in a calendar of activities catering for all interests and fitness levels.

In Thames, the Powerco Skate Park is the new 'hot spot' for skateboard and scooter enthusiasts, not only providing a social spot for the community's youth but also a place that promotes fitness and wellbeing. The skate park is part of Powerco's sponsorship of Active Thames 2018, which also includes a new community indoor sports facility – the Jack McLean Recreation Centre.

Engagement

We have worked hard in recent years to develop a closer relationship with our customers and the many stakeholders and partners who support us or have an interest in our business operations.

We engage on an ongoing basis with our customers in a number of ways and use the feedback we receive in our annual business planning process and asset management plans. Engagement is key to Powerco being a good corporate citizen – knowing what people in our communities value and how we can improve their energy outcomes.

Our engagement is a two-way process. We use the process to provide relevant and timely information to customers about our business and the services we provide, and to seek specific feedback about how we are performing and customers' expectations regarding future service requirements.

Early last year, we launched a major programme of customer engagement, seeking feedback from all our stakeholders on the 2018-2023, $1.4 billion investment proposal for our electricity network areas. The proposal formed the basis of our application to the Commerce Commission for a customised price-quality path (CPP). The scale of consultation was unprecedented. The quality of that consultation has been recognised by the Public Relations Institute of New Zealand (PRINZ), with Powerco being highly commended in the corporate public relations category of the 2018 PRINZ Awards.

Our customers and stakeholders

We consult with a wide range of customers and stakeholders using a variety of communication channels and mechanisms.

Customers

- Residents of homes in our communities
- Owners of small-to-medium businesses
- Larger commercial and industrial customers

Representative Groups

- Iwi
- Federated Farmers
- Chambers of Commerce
- Grey Power
- Consumer NZ
- Major Electricity Users Group
- Business NZ
- Field service contractors
- Electricity Networks Association
- Debt and equity investors

Government

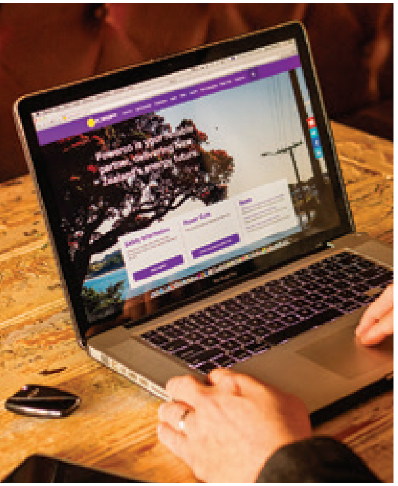
- Local authorities
- Regional councils
- Members of Parliament
- Government officials

Regulators

- Commerce Commission
- Electricity Authority
- Electricity and Gas Complaints Commissioner
- Ministry of Business, Innovation and Employment
- Energy Efficiency and Conservation Authority

Industry participants

- Electricity Retailers Association of New Zealand (ERANZ)
- Energy retailers (there are currently 29)
- Energy generators
- Energy Networks Association (ENA)
- Other electricity distribution businesses
- Transpower



Left: Powerco's website is one way customers can receive information and contact us.

Below: Our customers engage with us through a variety of ways, including completing surveys at field days' events.

We have more than 700 major customers connected to our electricity network and a further 250 to our gas network. We regularly survey our major customers to assess the overall health of these relationships and areas for improvement.

How we engage

We engage with our stakeholders across a number of channels as a means of gaining insight into their preferences and understanding what they value. Throughout many years of engagement, we have developed the following communication channels:

- **Agricultural field days, expos and trade shows.** Each year we have information stands at the Mystery Creek and Central Districts agricultural field days. We also attend various expos and trade shows across our network area. Attending these events provides customers with an opportunity to have face-to-face discussions with our staff. This allows for a highly constructive exchange of information.
- **Commercial and account management interactions.** We employ a team to maintain regular dialogue with our larger commercial and industrial customers so we remain well informed of their needs, plans and expectations. We have more than 700 major customers connected to our electricity network and a further 250 to our gas network. We regularly survey our major customers to assess the overall health of these relationships and areas for improvement. The most recent surveys show that electricity customer satisfaction of Powerco overall has improved. Satisfaction with electricity account managers has also increased. The satisfaction with supply among commercial (98%) and industrial (97%) gas customers is also high.
- **Surveys.** We survey customers face to face, online and by post about the quality and price of their electricity supply. Last year we surveyed about 3,800 customers. Our surveys identified 95% customer satisfaction (based on customers rating electricity reliability acceptable or better). Market research was also undertaken across Powerco's gas customer base to determine the level of satisfaction with supply. Results were positive with 95% of residential householders happy with the reliability of gas supply.
- **Stakeholder meetings and focus groups.** We meet regularly with key stakeholders and customer representative groups. We also hold focus groups, which provide us with valuable insights on different customer demographics. One such group is the Electricity Network Association's Consumer Engagement Working Group, which brings together representatives from lines companies from throughout New Zealand to work on consumer engagement activities. Energy retailers pass on our costs to end users, and we meet all the retailers on our network every year to discuss our pricing methodology and our service delivery with them.
- **Website, Facebook and phone.** Our website, Facebook page and free phone number – and 0800 POWERCO (0800 769 3726) – allow customers to contact us easily and provide feedback.
- **Consultation material.** We produce documents such as brochures, newsletters, presentations and documents to keep stakeholders informed and to generate discussion.

Right: The Whangamata community was invited to a 'Power Out Party' to thank them for bearing with us while we got essential electricity maintenance work completed in the area.

Far right: Powerco is a proud sponsor of the Jack McLean Community Recreation Centre in Thames.

- **Community-wide consultation.**
  We conduct community-wide consultation to address specific regional issues and to seek feedback on specific major projects or regional medium and long-term network development plans. Campaigns involve a mixture of engagement methods including media advertising and information kiosks. We recently conducted the largest ever consultation campaign in the communities we operate in the lead-up to applying for a CPP from the New Zealand Commerce Commission. Our consultation report can be found here.
- **Consultation videos.**
  We develop short educational videos and publish them on YouTube to help customers understand our industry and to facilitate more meaningful feedback. Videos can be viewed here.

In the community

We know from our regular engagement activities that customers place a high value on avoiding power cuts. This is especially true for businesses. Our surveys indicate the majority of residential and business respondents regard unexpected outages as worse than planned outages. This customer feedback highlights the importance of addressing asset issues, such as defects, before they result in a failure, even if the work involves a planned shutdown.

Last November, we needed to work on the 26km, 33kV electricity line supplying Whangamata to reduce the likelihood of future power faults in the town. We consulted the community and an eight-hour outage period to Whangamata and surrounding areas, affecting about 6,500 customers, was planned and the work carried out safely by 100 field contractors.

To thank the community for their patience, Powerco and Enterprise Whangamata organised a community social event, 'Power Out Party', a free family event held at a community park. Activities included a snow machine, human foosball and a sausage sizzle. Powerco representatives were also there to answer any questions.

Powerco also came to the party to help the Castlepoint community give a bride a day to remember in February. Electricity line maintenance and tree trimming work had been planned in and around the tiny Wairarapa community the day Christina Booth was to marry Nick Thorburn. Switching off power to about 400 Castlepoint properties was necessary for the work to be completely safely.

After being advised of the clash of the work and the wedding, we talked with the family and the Castlepoint Ratepayers and Residents Association to find a solution. A range of options were considered, including providing a generator for the wedding venue. However this would not have accommodated the many wedding guests who were booked into local baches. In addition, about 130 people were expected to attend the wedding, including Nick's family who live in Western Australia. The only solution was to move the work to another day, something we don't normally do – but the unusual circumstances called for an unusual decision.

"It's just an awesome outcome and relieved so much stress," Christina said.

Accountable

Powerco has a well-developed process to consider issues raised by our customers and any other stakeholders. If a customer has a concern with Powerco's service, a complaint can be lodged in a variety of ways, including through our call centre or our specific customer services email, customerservices@powerco.co.nz.

Powerco's internal complaints process is free for customers and stakeholders to use and we endeavour to fix any problems or reach a solution. If an acceptable solution can not be reached, customers have the option to take the complaint to Utilities Disputes Ltd (UDL), which offers a free and independent disputes resolution service between consumers and utility providers, such as Powerco. We have a team dedicated to analysing and learning from complaints, and we work constructively with UDL and other industry participants to ensure good mutual understanding between us and complainants.

The New Zealand Commerce Commission are an important stakeholder for Powerco because they represent our customers' interests and ensure we are held accountable. We are in frequent contact with the Commerce Commission on a range of issues, assisting them to understand our challenges and those of the industry, and to help them find the best outcomes for the long-term benefit of all our customers.

Back to contents

Governance

Our electricity and gas networks play critical roles for the customers and communities we serve. Our stakeholders expect us to be able to demonstrate our networks are optimally configured, our assets are appropriately utilised, and we operate the business effectively.

Investing to ensure safety, security and resilience

Looking to the future, our analysis showed the condition of our electricity network was declining and the decline was projected to accelerate as our assets aged. Over time, it was predicted this would drive poorer reliability outcomes for electricity customers and reduce the resilience of our network during storms. More importantly it would expose our network during storms.

For these reasons we went to our regulator, the New Zealand Commerce Commission, with an investment plan for the future of our electricity network. In March, the Commission granted us a customised price-quality path (CPP), allowing us to invest $1.27 billion over five years to replace ageing assets and meet growing demand. It will make for a safe, secure, reliable electricity network for the long-term benefit of consumers. Under the investment plan, total electricity bills for the average customer will increase so accountability is rightly expected. We must report each year to the public and the Commission on what has been spent, what has been achieved, and if there have been any major deviations from the proposal.

Powerco has been involved in a number of upgrades and developments in the past year to ensure safety, security and resilience.

- In New Plymouth, an $11 million ducting and electricity cable laying project is underway to secure future supply to western areas of the city. The 9.2km trenching job will connect Powerco's substation at Moturoa to national grid operator Transpower's grid exit point on Carrington St. The new cabling is needed as Transpower plans to decommission its supply point at Port Taranaki by 2020. Moturoa substation will be upgraded as part of the project, including a new transformer pad, new switchgear and oil containment system.
- We are working on a $6.9m substation at Mokoia, south of Hawera. The new substation will replace one built in the 1970s to supply power to the Kiwi Dairies plant (now Fonterra) and the surrounding rural community. While Fonterra's energy needs were being met by power, direct from the national grid, and by gas, Powerco still had 1,650 customers connected to the old substation, which was inside the dairy complex. This caused access and health and safety issues. A separate project involves upgrading the Cambria substation's Glover Rd East feeder, which supplies mostly residential consumers near the Hawera CBD. The work will significantly boost the feeder's capacity and provide a back-up supply.
- In Palmerston North, we are contributing funds towards the new He Ara Kotahi Bridge, a cycle and pedestrian bridge

Below: Powerco is investing in its electricity infrastructure for safety, security and resilience.

Left: We are working to improve the safety, security of supply and network reliability to our Wellington gas customers.

over the Manawatu River, linking Palmerston North city with Massey University and the Linton Military Camp. The bridge will hold four ducts carrying cables to secure the future electricity supply of the city.

- Overhead supply cables that span the Whanganui River are being removed as unstable ground on the southern bank is putting the electricity supply at risk. Removing the overhead lines takes away a potential hazard across the river and will ensure a greater reliability of supply to Whanganui. The cables will be put underground and over a near-by bridge.
- Powerco supplies gas to the capital and is part way through a four-stage project to renew parts of the gas network in central Wellington. The work increases customer capacity allowing for growth, while providing for a more reliable and secure gas network in the city.
- Just north of Wellington, a section of the gas network that supplies the Hutt Valley is going underground. The project will improve the safety, security of supply and network reliability for more than 20,000 gas customers. The result is a safe, modern and much less obtrusive regulating station, reducing safety risks, increasing efficiency and reliability, as well as being easier to maintain.

Managing risk

Risk management is applied at all levels of Powerco – from decisions in the field through to discussion at Board level. The purpose of risk management is to understand the types and extent of risks for our business and operations, and to respond effectively to these through appropriate mitigation.

Our approach is to identify and understand the cause, effect and likelihood of adverse events occurring. We then develop and implement strategies to manage risks to an acceptable level. These efforts are supported by a comprehensive risk monitoring and reporting regime, based on a company-wide set of risk assessment criteria and a risk matrix. These processes encompass all aspects of our business, including health and safety, environmental, asset integrity and performance, operational continuity, regulatory and legal compliance, financial and commercial. We use a risk register to record and monitor risks, with the highest risks reported to senior management on a monthly basis.

The risk of cyber security attacks on essential services, such as ours, has increased. Already cyber attacks have caused electricity network shutdowns in some countries. Powerco actively manages cyber security risks by investing in a cyber security programme and participating in industry-wide forums and exercises, including educating staff on the red flags to look out for in regards to potential security breaches.

Wrongdoing within our organisation is also a risk that is actively managed to ensure Powerco continues to be a safe and enjoyable work place. Powerco has a confidential whistleblower hotline for staff and contractors to report any inappropriate, unethical or unsafe behaviour. We treat all concerns seriously with regards to anyone, in any position and in any office.

Far left: Downer's Ted Glasgow (centre) explains the workings of air brake switching gear to (left to right) Kiana Armstrong (16), Kaia Hoskin (17), Daniel McWatters (17) and Lachlan Young (17).

Left: When Powerco upgraded its computer systems, Devon Intermediate School students benefited.

Future proofing

We understand the importance of attracting and retaining good people to deliver New Zealand's energy future. Powerco is known for being a company that cares for its employees, going over and above what is required to make sure our people have the support, training and resources they need to carry out their work. This is reflected in staff retention, with the company's staff turnover under 10%. As well as competitive salaries and bonuses, we offer a range of development opportunities, including coaching, secondments, training and career planning.

Our graduate programme helps foster graduate engineers. They work alongside experienced industry professionals to assist in planning, designing and maintaining the performance of our electricity network assets. Graduates develop technical competence and work towards becoming an Engineering New Zealand chartered engineer.

Powerco also offers interns the opportunity to work within the business. Weekly visits to Powerco as part of the Taranaki Futures Accelerator Programme, which aims to bridge the gap for students between school and full employment, convinced 17-year-old Cerianne Murray she wanted to pursue engineering as a career.

"It was a bit of a shock initially because so much thought goes in to the different tasks here. But everyone has been so supportive and helpful that it has helped convince me that engineering is what I want to do."

Powerco supports the promotion of the electricity distribution industry as a career option. Alongside electricity field services provider Downer, Powerco sponsored 12 teenagers who were picked by Taranaki Futures to attend the Connexis Line Mechanic competition, which Powerco also sponsored, in Hamilton last year. The games annually test the skills of linesmen from throughout New Zealand.

Attracting and retaining high-quality staff also requires investment in modern work spaces. A 1150sqm Network Operations Centre (NOC) is being built at our New Plymouth Junction St site. It is expected to be one of the most advanced operation centres of any line distributor in Australasia.

The current NOC building has reached staff and workload capacity. The full capabilities of Supervisory Control and Data Acquisition (Scada) and our Outage Management System (OMS) are being held back by the constraints of the facilities. Special features have been incorporated within the planning and construction of the building to create an environment that supports and enhances the work carried out by the Network Operations Team. This includes the construction of a soundproof control room. The need for quiet is vital for operators controlling the electricity network, particularly during storms when there can be multiple field crews working on lines.

Powerco also helps nurture growing minds outside the workplace. When we upgraded our computer systems, pupils at New Plymouth's Devon Intermediate School benefited. The school was given our three-year-old technology, which included an Apple Mac, 18 desktop computers and 12 laptops. The computers were refurbished and installed at no cost to the school.

"It's magic. This gives us a dedicated teaching environment. Being able to take a whole class to one space and have them all on a device at one time is definitely an advantage," principal Jenny Gellen said.

Sustainable beyond 2018

For the past two years Powerco has had its environmental, social and governance (ESG) performance carefully assessed. In 2016, our shareholders asked for the introduction of an annual Global Real Estate Sustainability Benchmark (GRESB) survey to assess Powerco's sustainability performance. Powerco has performed well in the two years it has completed the GRESB survey – coming top in its peer comparison group (Energy Transmission, Distribution and Storage) for two years running.

While examples of our commitment to sustainability are throughout this report – detailing the many projects we undertake for the benefit of our customers, community and environment, as well as through the business decisions we make – sustainability is a process of continuous improvement. The GRESB survey reflects that and evolves each year to mirror the key requirements of institutional investors.

The goal for Powerco is for sustainability to become a part of all decision-making throughout the company. This means being accountable for everything we do.

We are gathering information from throughout Powerco in preparation for this year's GRESB assessment, with the goal of improving on our last benchmarks. This is so we can continue to be 'Your reliable partner, delivering New Zealand's energy future'.

Financial Statements

For the year ended 31 March 2018

Key messages regarding these Financial Statements

How we manage our borrowings and interest rates

Powerco Ltd is a leading New Zealand electricity and gas infrastructure company providing distribution services to more than 446,000 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 instruments based on a fair value basis, which does not reflect the risk mitigation and true economic and financial value to the business on a going concern basis. While current accounting practice does have its merits, it fails to recognise that in most situations these borrowings and hedges will remain in place until maturity.

Reflecting our regulatory environment

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

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

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

Statutory Information

Substantial Security Holders

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

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

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

Equity Security Holder Information

As at 24 May 2018:

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

Directors' Equity Securities

The Directors of Powerco Ltd held no relevant interests in Equity Securities in the Company as at 30 April 2018.

Quoted Security Holder Spread

As at 30 April 2018:

Size of Holding	Number of Holders	Holding Quantity
Ordinary Shares		
Over 100,000	1	369,929,053
Total	**1**	**369,929,053**

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)

Gender composition

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

	As at 31 March 2018		As at 31 March 2017	
	Male	Female	Male	Female
Directors	5	1	6	0
Alternate Directors	1	2	1	1
Officers	6	3	5	3

Companies Act 1993

In accordance with section 211(3) of the Companies Act 1993 (the Act), Powerco NZ Holdings Ltd, as the Company's sole shareholder, has resolved that the Company's annual report for the year ended 31 March 2018 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 24 May 2018 and is signed on behalf of the Board by:

John Loughlin Director

Paul Callow Director

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 $000	2017 $000
Revenue and other income	3	477,081	466,715
Pass-through and recoverable costs		(129,448)	(122,043)
Network operational expenditure		(37,853)	(38,613)
System operations and network support		(15,377)	(13,789)
Business support		(34,709)	(38,091)
Operating expenses		(217,387)	(212,536)
Earnings before finance costs, loss on disposal, taxation, depreciation, amortisation and financial instruments (EBITDAF)		**259,694**	**254,179**
Net loss on disposal of fixed assets		(16,481)	(9,300)
Depreciation and amortisation		(83,022)	(76,450)
Earnings before finance costs, taxation (EBIT) and financial instruments		**160,191**	**168,429**
Finance costs	4	(78,295)	(78,830)
Gain/(loss) on financial instruments	5	9,835	(6,099)
Profit before taxation		**91,731**	**83,500**
Income tax expense	6	(5,051)	(24,990)
Profit for the period after tax		**86,680**	**58,510**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges amortised		677	677
Income tax expense on cash flow hedges		(190)	(190)
Total other comprehensive income		**487**	**487**
Total comprehensive income for the period, net of tax		**87,167**	**58,997**

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 63.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

	Attributable to owners			
	Share capital $000	Retained earnings $000	Hedge reserve $000	Total $000
Balance as at 31 March 2016	**698,165**	**(153,431)**	**(4,116)**	**540,618**
Profit for the period	-	58,510	-	58,510
Cash flow hedges amortised	-	-	677	677
Income tax expense on amortisation of cash flow hedges	-	-	(190)	(190)
Total comprehensive income, net of tax	**-**	**58,510**	**487**	**58,997**
Transactions with owners				
Dividends (15.82 cents per share)	-	(58,523)	-	(58,523)
Balance as at 31 March 2017	**698,165**	**(153,444)**	**(3,629)**	**541,092**
Profit for the period	-	86,680	-	86,680
Cash flow hedges amortised	-	-	677	677
Income tax expense on amortisation of cash flow hedges	-	-	(190)	(190)
Total comprehensive income, net of tax	**-**	**86,680**	**487**	**87,167**
Transactions with owners				
Dividends (15.35 cents per share)	-	(56,784)	-	(56,784)
Balance as at 31 March 2018	**698,165**	**(123,548)**	**(3,142)**	**571,475**

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 63.

Consolidated Statement of Financial Position

As at 31 March 2018

	Notes	2018 $000	2017 $000
Current assets			
Cash and cash equivalents		905	400
Trade and other receivables	12	39,832	38,503
Finance lease receivable	14	-	503
Other financial assets	10	-	6
Inventory	17	2,160	243
Other current assets		203	140
		43,100	39,795
Non-current assets			
Property, plant and equipment	7	2,154,581	2,064,332
Finance lease receivable	14	-	8,504
Other financial assets	10	67,362	94,234
Intangible assets	8	13,184	14,971
		2,235,127	2,182,041
TOTAL ASSETS		**2,278,227**	**2,221,836**
Current liabilities			
Trade and other payables	13	50,882	45,069
Employee benefits	16	5,036	4,723
Other financial liabilities	10	1,799	1,451
Lease liabilities	15	1,399	-
Borrowings	9	244,112	58,192
		303,228	109,435
Non-current liabilities			
Employee benefits	16	1,147	1,892
Other financial liabilities	10	43,725	62,395
Borrowings	9	1,103,982	1,263,882
Lease liabilities	15	6,289	-
Deferred tax liability	6	248,381	243,140
		1,403,524	1,571,309
Equity			
Share capital	20	698,165	698,165
Retained earnings		(123,548)	(153,444)
Hedge reserve	21	(3,142)	(3,629)
		571,475	541,092
TOTAL EQUITY AND LIABILITIES		**2,278,227**	**2,221,836**

John Loughlin
Director for and on behalf of the Board
24 May 2018

Paul Callow
Director for and on behalf of the Board
24 May 2018

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 63.

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	2018 $000	2017 $000
Cash flows from operating activities		
Cash receipts from customers	524,908	508,656
Cash paid to suppliers and employees	(245,285)	(231,649)
	279,623	277,007
GST paid	(17,891)	(19,677)
Interest paid	(77,306)	(77,992)
	(95,197)	(97,669)
Net cash provided by operating activities	**184,426**	**179,338**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	8,461	102
Purchase of property, plant and equipment	(186,977)	(171,892)
Net cash used in investing activities	**(178,516)**	**(171,790)**
Cash flows from financing activities		
Proceeds from borrowings	125,000	290,400
Proceeds from finance leases	9,007	465
Loan establishment costs	(900)	(725)
Repayment of borrowings	(80,000)	(239,399)
Lease liability repayment	(1,728)	-
Dividend paid	(56,784)	(58,523)
Net cash used in financing activities	**(5,405)**	**(7,782)**
Net increase/(decrease) in cash and cash equivalents	**505**	**(234)**
Cash and cash equivalents at the beginning of the period	400	634
Cash and cash equivalents at the end of the period	**905**	**400**
Comprises the following:		
Cash and cash equivalents	**905**	**400**

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

Transactions recorded net in the Financial Statements

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

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 63.

Reconciliation of Profit to Net Cash Flows from Operating Activities

As at 31 March 2018

	Note	2018 $000	2017 $000
Profit after taxation		**86,680**	**58,510**
Add/(less) non-cash items			
Depreciation and amortisation		83,022	76,450
Loss on disposal of assets		16,481	9,402
Non-cash component of finance costs		665	697
Other (gains)/losses on financial instruments	5	(9,835)	6,099
Non-cash items in relation to investing/financing activities		(5,191)	2,539
Non-cash customer contributions		(19,492)	(22,154)
Increase in deferred tax liability		5,052	24,990
Other items			
GST on property, plant and equipment purchases		24,976	20,739
Movements in working capital			
(Increase)/decrease in assets			
Trade and other receivables		(461)	(1,813)
Inventory		(1,918)	12
Other current assets		(67)	(71)
Increase/(decrease) in liabilities			
Trade and other payables		4,945	4,103
Employee entitlements		(431)	(165)
Net cash provided by operating activities		**184,426**	**179,338**

These financial statements should be read in conjunction with the notes to the financial statements on pages 32 to 63.

Notes to the Financial Statements

For the year ended 31 March 2018

1. Basis of accounting

General information

Powerco Ltd (the Company) is a limited liability company incorporated and domiciled in New Zealand. The addresses of its registered office and principal place of business are disclosed in the directory of the Annual Report.

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

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

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

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

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

Basis of preparation

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

The financial statements are prepared in New Zealand dollars, which is the Group's presentation currency and the parent's functional currency. Numbers are rounded to the nearest thousand.

Critical accounting estimates and judgements

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

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

(a) Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In this financial year it was deemed that no change to the estimated useful lives was needed. If the estimated useful lives of network system assets were 10% higher/lower, earnings before finance costs and taxation for the year would have increased/decreased by $8.2 million.

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

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

i) It creates a new asset; or

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

All other expenditure must be expensed in the period concerned.

Significant accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of Powerco Ltd and its subsidiaries, which have been consolidated using the acquisition method.

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

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

The results of subsidiaries acquired or disposed of during the period are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

b) Business combinations

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

Other accounting policies

All other accounting policies are included with the applicable note.

Changes in accounting policies

On 1 April 2017 the following accounting standards were adopted:

i) NZ IFRS 15: Revenue from contracts with customers

ii) NZ IFRS 16: Leases

Both of these standards were adopted early, rather than the mandatory application date of 31 March 2019.

NZ IFRS 15 was adopted applying the cumulative retrospective approach. NZ IFRS 15 provides the principles an entity shall apply to report useful information to users of financial statements, about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Apart from providing more extensive disclosures the adoption of this standard has had no impact on the timing of recognition of all major revenue items and therefore on reported revenue in the current or prior year. Further information in relation to the adoption of NZ IFRS 15: Revenue from contracts with customers is included in note 3.

The transition approach applied for NZ IFRS 16 is the cumulative retrospective approach and as a result no restatement of comparative information is required. Practical expedients have been taken in accordance with NZ IFRS 16 (15) removing the requirement to seperate non-lease components from lease components. This practical expedient has been applied by class of underlying asset. As a result of the transition approach adopted the opening balance of assets and liabilities remains unchanged and as a result there are no adjustments to opening equity. Further information in relation to the adoption of NZ IFRS 16: Leases is included in note 15.

2. Segmental reporting

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

i) Electricity – regulated electricity line distribution

ii) Gas – regulated gas line distribution

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

For the year ended 31 March 2018

	Regulated businesses Electricity $000	Gas $000	Unallocated segment $000	Total $000
External revenue	**392,214**	**52,057**	**32,810**	**477,081**
Pass-through and recoverable costs	(127,560)	(1,886)	(2)	(129,448)
Network operational expenditure	(31,409)	(5,625)	(819)	(37,853)
System operations and network support	(11,566)	(3,654)	(157)	(15,377)
Business support	(29,116)	(5,254)	(339)	(34,709)
Depreciation and amortisation and net loss on disposal of fixed assets	(90,906)	(14,396)	5,799	(99,503)
Segment result	**101,657**	**21,242**	**37,292**	**160,191**
Finance costs				(78,295)
Gains on financial instruments				9,835
Profit before tax				**91,731**
Income tax expense				(5,051)
Net profit for the period				**86,680**
Other information				
Capital additions	(176,562)	(17,730)	(2,415)	(196,707)

For the year ended 31 March 2017

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

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

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

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

Of the total segment revenues, $248.4 million (2017: $243.5 million) came from major customers. The table below outlines the major customers and the segments they have been recorded in.

	Segment	2018 $000	2017 $000
Customer one	Electricity/Gas	111,184	111,173
Customer two	Electricity/Gas	78,504	73,294
Customer three	Electricity/Gas	58,705	59,067
		248,393	**243,534**

Policy

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

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

3. Revenue and other income

	2018 $000	2017 $000
Line revenue	313,148	306,782
Pass-through and recoverable cost revenue	129,448	122,043
Customer contributions	24,305	26,201
Gas metering revenue	5,289	5,022
Total Revenue	**472,190**	**460,048**
Other income	4,891	6,667
Total revenue and other income	**477,081**	**466,715**

Policy

Line revenue, pass-through revenue and recoverable cost revenue is recognised at the fair value of services provided. These revenue streams relate to the provision of distribution services for gas and electricity. Prices are regulated and customers are charged through a mix of fixed charges which are recognised on a straight line basis and variable charges which are recognised based on the volume of distribution services provided. Consistent with NZ IFRS 15 this revenue is recognised over time based on an output method as the service is delivered to match the pattern of consumption. Pass-through and recoverable costs include transmission costs, statutory levies and utility rates.

Customer contribution revenue relates to contributions received from customers towards the costs of reticulating gas and electricity to new subdivisions, constructing uneconomic lines and relocating existing lines. The revenue recognised is the fair value of the asset being constructed. For major works, revenue is recognised over time as a result of control of the asset transferring to the customer over the time and there being no alternative use to the asset without significant economic losses. For contracts with multiple performance obligations revenue is recognised at a point in time when the performance obligation is satisfied.

Gas metering revenue relates to monthly tariffs received from customers for the use of gas meters that the Group owns. Prices are charged on a fixed tariff rate each month. Revenue is recognised over time because the customer receives and consumes the benefit of the gas meters simultaneously as they are provided.

4. Finance costs

	2018 $000	2017 $000
Interest on working capital	1,815	1,713
Interest on senior debt and related derivatives	76,168	76,943
Deferred funding costs and financial instrument fees	2,181	2,310
Interest attributed to funding of capital projects	(2,136)	(2,136)
Interest on lease liabilities	267	-
	78,295	**78,830**

Policy for interest attributed to funding of capital projects

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

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

Interest is attributed to projects expected to have costs exceeding $0.5 million, in which the construction period is expected to be greater than six months. Interest was calculated at 5.48% per annum (2017: 5.23%).

Additional information in relation to the lease liabilities is included in note 15.

5. Gains on financial instruments

	2018 $000	2017 $000
Movement of derivatives held at fair value through profit or loss	(8,557)	(19,234)
Foreign exchange movement on debt held at amortised cost	15,946	8,769
Amortisation of debt previously held at fair value (i)	3,123	5,043
Amortisation of fair value movement on derivatives previously taken to reserves (ii)	(677)	(677)
Other gains/(losses) on financial instruments	**9,835**	**(6,099)**

The movement of derivatives held at fair value through profit or loss includes a gain of $2.9 million attributable to the change in the credit risk of the liabilities (2017: gain of $10.2 million).

De-designation of hedge accounting

In the financial year ended 31 March 2013, the Group made the decision to stop hedge accounting and de-designate its existing hedge relationships. This decision was made for the purpose of reducing complexity and aiding transparency. All movements of derivatives held at fair value and foreign exchange movements on debt are now recorded as other gains/losses on financial instruments in the Statement of Comprehensive Income.

Further information regarding the hedge reserve is provided in note 21.

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

(i) Debt balance resulting from the increase in the fair value of debt which is being amortised to profit or loss over its remaining life. At the end of the period there was a balance of $13.9 million remaining to be amortised over the next 10 years using the effective interest method in line with the debt settlement periods as disclosed in note 9 (2017: $17.0 million remaining to be amortised over 11 years).

(ii) Hedge reserve which contained the fair value movement on derivatives taken to reserves. This is being amortised to profit or loss over the remaining lives of the underlying exposures. At the end of the period there was a balance of $3.1 million remaining to be amortised over the next 10 years (2017: $3.6 million to be amortised over 11 years).

6. Taxation

	2018 $000	2017 $000
Tax expense comprises:		
Deferred tax expense on temporary differences	5,718	24,915
Adjustments recognised in current period in relation to the deferred tax of prior years	(667)	75
Total tax expense	**5,051**	**24,990**

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

	2018 $000	2017 $000
Profit before taxation	91,731	83,500
Tax at the New Zealand income tax rate of 28 per cent	25,685	23,380
Tax effect of losses transferred from Powerco New Zealand Holdings Ltd	(28,946)	(8,155)
Tax effect of revenue items that are not deductible in determining taxable profit	8,979	9,690
	5,718	24,915
Adjustments recognised in current period in relation to the deferred tax of prior years	(667)	75
Total tax expense	**5,051**	**24,990**

For the year ended 31 March 2018

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	243,291	4,771	-	248,062
Derivatives	8,511	(2,586)	190	6,115
Borrowings	(13,735)	7,855	-	(5,880)
Other	5,072	(4,989)	-	83
	243,139	**5,051**	**190**	**248,380**

For the year ended 31 March 2017

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

Policy

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

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

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

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

The measurement of deferred tax assets and liabilities 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.

Notes to the Financial Statements

For the year ended 31 March 2018

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 2016					
Cost	2,735,659	43,229	16,091	40,780	2,835,759
Accumulated depreciation	(820,016)	-	(5,356)	(32,637)	(858,009)
Net book value	1,915,643	43,229	10,735	8,143	1,977,750
Movements in the year ended 31 March 2017					
Opening net book value	1,915,643	43,229	10,735	8,143	1,977,750
Additions	94	165,404	7	1,744	167,249
Transfers	127,982	(131,241)	69	3,190	-
Disposals	(9,415)	-	(12)	(3)	(9,430)
Depreciation expense	(69,147)	-	(512)	(1,578)	(71,237)
Closing net book value	1,965,157	77,392	10,287	11,496	2,064,332
At 31 March 2017					
Cost	2,840,688	77,392	16,121	45,004	2,979,205
Accumulated depreciation	(875,531)	-	(5,834)	(33,508)	(914,873)
Net book value	1,965,157	77,392	10,287	11,496	2,064,332
Movements in the year ended 31 March 2018					
Opening net book value	1,965,157	77,392	10,287	11,496	2,064,332
Additions*	123	183,656	8,493	2,019	194,291
Transfers	154,317	(156,276)	56	1,903	-
Disposals	(25,160)	-	(62)	(1)	(25,223)
Depreciation expense	(74,880)	-	(1,679)	(2,260)	(78,819)
Closing net book value	2,019,557	104,772	17,095	13,157	2,019,557
At 31 March 2018					
Cost	2,946,430	104,772	24,608	48,089	3,123,899
Accumulated depreciation	(926,873)	-	(7,513)	(34,932)	(969,318)
Net book value	2,019,557	104,772	17,095	13,157	2,154,581

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

* Note 15 provides more detail on additions as a result of leased assets on transition to NZ IFRS 16.

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.

Right-of-use assets are included in the property, plant and equipment disclosures above from 1 April 2017. Further information on these assets is provided in Note 15.

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

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

Impairment

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

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

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

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

8. Intangible assets

	Software $000	Easements $000	Total $000
At 31 March 2016			
Cost	41,356	3,941	45,297
Accumulated depreciation	(28,698)	-	(28,698)
Net book value	12,658	3,941	16,599
Movements in the year ended 31 March 2017			
Opening net book value	12,658	3,941	16,599
Additions	3,473	112	3,585
Amortisation expense	(5,213)	-	(5,213)
Closing net book value	10,918	4,053	14,971
At 31 March 2017			
Cost	44,829	4,053	48,882
Accumulated depreciation	(33,911)	-	(33,911)
Net book value	10,918	4,053	14,971
Movements in the year ended 31 March 2018			
Opening net book value	10,918	4,053	14,971
Additions	1,213	1,203	2,416
Amortisation expense	(4,203)	-	(4,203)
Closing net book value	7,928	5,256	13,184
At 31 March 2018			
Cost	46,042	5,256	51,298
Accumulated depreciation	(38,114)	-	(38,114)
Net book value	7,928	5,256	13,184

Policy

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

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

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

The cost of such intangible assets is the fair value at the acquisition date.

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

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

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

9. Borrowings

As at 31 March 2018

Current and non-current liabilities at amortised cost	Face value $000	Fair value adjustment $000	Deferred funding costs $000	Accrued interest $000	Total $000
Wholesale bonds (b)	450,000	-	(647)	2,683	452,036
US dollar private placement notes (c)	438,760	58,741	(1,322)	2,908	499,087
NZ dollar private placement notes (d)	260,000	-	(1,441)	2,456	261,015
Bank debt (e)	135,600	-	(171)	527	135,956
	1,284,360	**58,741**	**(3,581)**	**8,574**	**1,348,094**
Current portion	235,600	-	(62)	8,574	244,112
Non-current portion	1,048,760	58,741	(3,519)	-	1,103,982
	1,284,360	**58,741**	**(3,581)**	**8,574**	**1,348,094**

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As at 31 March 2017

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

The fair value adjustment includes:

– Debt balance resulting from the increase in the fair value of debt which is being amortised to profit or loss over its remaining life. Refer to note 5(i) for further details.

– Valuation of debt as a result of movements in the NZD/USD exchange rate.

Notes to the Financial Statements

For the year ended 31 March 2018

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**					
(b)	**Wholesale bonds**					
	7 year fixed rate bonds	65,000	Dec 2011	6.31% fixed	Dec 2018	Fixed rate
	7 year floating rate bonds	35,000	Dec 2011	BKBM + margin	Dec 2018	Interest rate swaps
	7 year fixed rate bonds	150,000	Sep 2015	4.76% fixed	Sep 2022	Fixed rate
	3.5 year floating rate bonds	100,000	Aug 2016	BKBM + margin	Feb 2020	Interest rate swaps
	7 year fixed rate bonds	100,000	Nov 2016	4.67% fixed	Nov 2024	Fixed rate
(c)	**US dollar private placement notes**					
	9 year notes – 2011 issue	91,371	Jun 2011	4.36% fixed	Jun 2020	Cross currency & interest rate swaps
	12 year notes – 2011 issue	114,213	Jun 2011	4.56% fixed	Jun 2023	Cross currency & interest rate swaps
	15 year notes – 2011 issue	105,330	Jun 2011	4.86% fixed	Jun 2026	Cross currency & interest rate swaps
	12 year notes – 2013 issue	30,440	Jan 2013	3.40% fixed	Jan 2025	Cross currency & interest rate swaps
	15 year notes – 2013 issue	97,407	Jan 2013	3.60% fixed	Jan 2028	Cross currency & interest rate swaps
(d)	**NZ dollar private placement notes**					
	12.5 year notes – 2014 issue	135,000	Oct 2014	6.62% fixed	Apr 2027	Fixed rate
	12 year notes – 2017 issue	125,000	Nov 2017	BKBM + margin	Nov 2029	Interest rate swaps

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

	Amount $000	Issue date	Interest rate	Maturity	Risk mitigated by:
(a) 12 year bonds	50,000	Sep 2005	6.74% fixed	Sep 2017	Fixed rate

Excluded from the comparative period borrowings were the $125 million NZ dollar private placement notes issued during this financial period.

(e) Bank debt

2018	Floating interest rate	Facility amount $000	Amount drawn $000	Issue date	Maturity	Risk mitigated by:
Revolving cash facility 2	BKBM + margin	75,000	75,000	Mar 2015	Mar 2019	Interest rate swaps
Revolving cash facility 3	BKBM + margin	25,000	25,000	Mar 2015	Mar 2019	Interest rate swaps
Revolving cash facility 4	n/a	50,000	-	Mar 2017	Mar 2021	Interest rate swaps
Revolving cash facility 5	n/a	50,000	-	Mar 2017	Mar 2021	Interest rate swaps
Working capital facility	OCR + margin	50,000	35,600	Mar 2017	Mar 2019	Interest rate swaps

In addition, Powerco has a revolving cash facility for $75 million that was issued in March 2015. As at 31 March 2018, no funds were drawn down against this facility (2017: nil).

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

The Group operates a $2 million overdraft facility. As at 31 March 2018, there were no drawings against this facility (2017: no drawings).

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

The scheduled payments of guaranteed bonds and related interest are guaranteed on an unsecured basis by US-based Syncora Guarantee Inc. (Syncora), a specialist financial guaranty organisation. Under a trust document relating to the guaranteed bonds, the Company has covenanted to ensure that, if Syncora defaults on its obligations under the financial guaranty, the Company will procure a sufficient number of its subsidiaries to guarantee its obligations under the guaranteed bonds by signing a subsidiary guarantee so that at all times the total tangible assets of the Company and all guaranteeing subsidiaries exceeds 85% of the total tangible assets of the Group. As at balance date, no default by Syncora had occurred.

Covenants

The Company has covenanted with all counterparties to ensure certain financial criteria are met throughout the term of the debt agreements. These covenants include minimum interest coverage ratios, minimum net worth and maximum gearing or leverage ratios. Covenants also include various comparisons of the Guaranteeing Group earnings and assets under the Security Trust Deed to earnings and assets of the Group. There have been no breaches.

Policy

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

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

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

10. Other financial assets and liabilities

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

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

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

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

	2018 $000	2017 $000
Other current financial assets		
Interest rate swaps	-	-
Foreign exchange contracts	-	6
	-	**6**
Other non-current financial assets		
US cross currency interest rate swap	41,360	74,292
Interest rate swaps	26,002	19,942
	67,362	**94,234**
Other current financial liabilities		
US cross currency interest rate swap	-	-
Interest rate swaps	(1,799)	(1,448)
Foreign exchange contracts	-	(3)
	(1,799)	**(1,451)**
Other non-current financial liabilities		
US cross currency interest rate swap	-	-
Interest rate swaps	(43,725)	(62,395)
	(43,725)	**(62,395)**
Fair value of assets and liabilities	**21,838**	**30,394**

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	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
1 – US cross currency swaps	438,760	438,760	41,361	74,292	(32,931)	(32,541)
2 – Interest rate swaps (pay floating)	385,000	385,000	25,534	16,402	(9,132)	(12,751)
3 – Interest rate swaps (pay fixed)	1,342,000	1,460,000	(45,057)	(60,303)	15,246	26,055
4 – Foreign exchange contracts	-	1,490	-	3	(3)	3
	2,165,760	**2,285,280**	**21,838**	**30,394**	**(8,556)**	**(19,234)**

Policy

Financial assets

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

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

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

i) Financial assets at fair value through profit or loss
Other financial assets relate to derivatives held at period end. All derivative assets are measured at fair value through profit or loss and are classified as held for trading.

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

Impairment

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

Financial liabilities

Financial liabilities are recognised when the entity becomes party to the contractual provisions of the instrument. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expire. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

All derivative liabilities are measured at fair value through profit or loss.

Other financial liabilities

Trade and other payables, borrowings and inter-company accounts/loans are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

11. Financial instruments

a) Capital risk management

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

b) Risk management

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

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

(1) Market risk
(2) Credit risk
(3) Liquidity risk

(1) Market risk

(i) Currency risk

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

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

(ii) Interest rate exposures

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

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

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

(2) Credit risk

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

Credit risk is managed in the following ways:

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

(3) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due. This risk is managed by maintaining sufficient cash and deposits, together with access to committed credit facilities, and forecasting and monitoring liquidity levels on a continuous basis. The Group adheres to a Treasury Policy, which specifies the levels of liquidity that must be maintained to meet short term requirements and further stipulates timeframes for refinancing maturing debt. Note 9 provides details of additional undrawn facilities that the Group has at its disposal to reduce liquidity risk. Refer to note 11(f) for further information.

c) Interest rate swap contracts

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

d) Foreign currency sensitivity analysis

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

e) Interest rate and foreign currency sensitivity analysis

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

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

	Foreign currency sensitivity analysis		Interest rate sensitivity analysis	
	2018 $000	2017 $000	2018 $000	2017 $000
Net profit before tax +100 basis points	(580)	(953)	(2,704)	5,314
Net profit before tax -100 basis points	570	980	3,750	(4,239)
Total equity +100 basis points	(580)	(953)	(2,704)	5,314
Total equity -100 basis points	570	980	3,750	(4,239)

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 derivative instruments, the forecast cash flow is based on the floating rate applicable at the end of the reporting period.

2018	Less than 1 year	1 - 2 years	3 - 5 years	Over 5 years	Total contractual cash flows
Non-derivative financial liabilities					
Trade and other payables	50,882	-	-	-	50,882
Current secured borrowings	244,671	-	-	-	244,671
Non-current secured borrowings	49,745	295,010	233,109	901,491	1,479,355
	345,298	**295,010**	**233,109**	**901,491**	**1,774,908**
Derivative (assets)/liabilities					
Net settled interest rate swaps	23,111	8,720	(4,851)	(10,962)	16,018
Gross settled cross currency interest rate swaps:	-	-	-	-	
– (inflow)	(20,808)	(139,154)	(33,100)	(445,674)	(638,736)
– outflow	17,672	127,611	34,761	399,023	579,067
Gross settled foreign exchange contracts:	-	-	-	-	-
– (inflow)	-	-	-	-	-
– outflow	-	-	-	-	-
Net value of derivative transactions	**19,975**	**(2,823)**	**(3,190)**	**(57,613)**	**(43,651)**

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

g) Fair values

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

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

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

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

	2018 Carrying amount $000	2018 Fair value $000	2017 Carrying amount $000	2017 Fair value $000
Financial liabilities				
Guaranteed bonds	-	-	49,978	50,934
Wholesale bonds	452,036	460,370	451,897	454,175
US dollar private placement notes	499,087	485,212	518,103	501,165
NZD private placement notes	261,015	282,129	136,114	153,505
	1,212,138	**1,227,711**	**1,156,092**	**1,159,779**

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

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

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

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

	NZ Swap rates 2018	NZ Swap rates 2017	US Swap rates 2018	US Swap rates 2017
Reporting date rates				
1 year swap rate	2.06%	2.08%	2.42%	1.39%
2 year swap rate	2.21%	2.32%	2.58%	1.62%
3 year swap rate	2.36%	2.56%	2.66%	1.81%
4 year swap rate	2.49%	2.76%	2.68%	1.95%
5 year swap rate	2.62%	2.93%	2.71%	2.05%
7 year swap rate	2.83%	3.20%	2.73%	2.22%
10 year swap rate	3.06%	3.45%	2.78%	2.38%
15 year swap rate	3.30%	3.77%	2.83%	2.54%

	2018	2017
NZD/USD rate	0.72370	0.70060

The above rates have been sourced from Bloomberg.

Fair value measurements recognised in the Statement of Financial Position

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

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

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

Policy

Derivative financial instruments

Financial derivatives are initially recognised in the Statement of Financial Position at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value on each reporting date. When derivative contracts are are entered into, the Group determines whether it wishes to hedge account or not. If it does not it manages them as either:

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

The fair values of financial derivatives are determined by using market-quoted rates as inputs into valuation models for interest and currency swaps, forwards and options. The risk of non-performance as an input is also required. Changes in fair value of derivatives are recognised:

– For fair value hedges, the movements are recorded in the profit or loss component of the Statement of Comprehensive Income alongside any changes in the fair value of the hedged items; and
– All other movements in the fair value of derivative financial instruments are recorded in the profit or loss component of the Statement of Comprehensive Income.

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12. Trade and other receivables

	2018 $000	2017 $000
Trade receivables	36,835	36,811
Impairment allowance	(300)	(300)
GST receivable	868	-
Prepayments	2,429	1,992
Trade and other receivables	**39,832**	**38,503**

Debtor ageing

	2018 $000	2017 $000
Current	34,352	35,094
Past due 0 to 30 days	676	111
Past due 31 to 120 days	366	192
121+ days	1,441	1,414
	36,835	**36,811**

The average credit or settlement terms are generally up to 30 days depending on the specific contract terms. These terms and other provisions, including recovery of overdue amounts, are stated in the retailer contract and are specified on tax invoices for non-retailer debtors. Retailer contracts provide for an interest rate in the event of payment default of 5% over the bank base rate.

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

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

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

Policy

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

Notes to the Financial Statements

For the year ended 31 March 2018

13. Trade and other payables

	2018 $000	2017 $000
Trade payables and accruals	50,882	44,964
GST payable	-	105
	50,882	**45,069**

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 under NZ IAS 17

	Minimum future lease payments		Present value of minimum future lease payments	
	2018 $000	2017 $000	2018 $000	2017 $000
Amount receivable under finance lease				
Not later than one year	-	1,433	-	503
Later than one year and not later than five years	-	5,904	-	2,468
Later than five years	-	9,902	-	6,036
Minimum future lease payments	-	17,239	-	9,007
Unguaranteed residual value	-	-	-	-
Gross finance lease receivable	-	17,239	-	9,007
Less unearned finance income	-	(8,232)		
	-	**9,007**	**-**	**9,007**
Current portion			-	503
Non-current portion			-	8,504
			-	**9,007**

Powerco Transmission Services Ltd entered into a lease with NZ Windfarms Ltd. The term of the lease was 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 was 10.15% per annum. On 29 September 2017 the finance lease and sub-transmission assets were sold to NZ Windfarms Ltd for $17.3 million.

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. Leases

Right-of-use assets

	Network systems $000	Work in progress $000	Land and buildings $000	Plant and equipment $000	Total $000
Movements in the year ended 31 March 2018					
Opening net book value	-	-	-	-	-
Movements on transition	-	-	8,066	651	8,717
Additions	-	-	370	329	699
Transfers	-	-	-	-	-
Disposals	-	-	(63)	-	(63)
Depreciation expense	-	-	(1,231)	(521)	(1,752)
Closing Net book value	**-**	**-**	**7,142**	**459**	**7,601**
At 31 March 2018					
Cost	-	-	8,351	980	9,331
Accumulated depreciation	-	-	(1,209)	(521)	(1,730)
Net book value	**-**	**-**	**7,142**	**459**	**7,601**

Right-of-use assets are included in property, plant and equipment in the Consolidated Statement of Financial Position and are also included in Note 7 under the categories shown above.

Lease maturity analysis

	Minimum lease payments	Interest	Present value
Due up to one year	1,625	226	1,399
Due between one and five years	4,120	566	3,554
Due after five years	3,038	303	2,735
Total	**8,783**	**1,095**	**7,688**
Current portion			1,399
Non current portion			6,289
Total			**7,688**

Lease expenses included in the statement of profit and loss related to:

	2018 $000	2017 $000
Short-term leases	56	-
Low-value assets	23	-
Expense relating to variable lease payments not included in lease liabilities	-	-

Cashflow

	2018 $000	2017 $000
Total cash outflow in relation to leases	2,016	2,018

Transitional disclosures

	2018 $000	2017 $000
Operating lease commitments disclosed applying NZ IAS 17, discounted at the incremental borrowing rate	-	3,056
Lease liabilities recognised in the statement of financial position	7,688	-
Difference	*4,632*	

The main difference between these amounts is because of the different measurement bases used in each standard. NZ IAS 17 refers to non-cancellable operating leases, whereas NZ IFRS 16 includes right of renewals where the right is likely to be exercised. This is the primary reason for the difference in value shown above. The impact of low value and short term leases is minor, given that these total only $79k in 2018.

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Policy

Leases are entered into by the Group for certain office property leases, substation and radio communication licences and vehicle leases. Property leases are negotiated for terms of one to five years, with rights of renewal on most leases. Substation and radio communication licence terms range from one to 33 years, with rights of renewal on most licences. Vehicle leases are for a term of three years.

Short-term leases and leases related to low-value items are accounted for applying paragraph 6 of NZ IFRS 16. The costs related to these leases are recognised as expenses in the Statement of Comprehensive Income.

Judgement has been used in determining whether it is reasonably certain that an extension or termination option will be exercised. Where it is reasonably certain that an extension option will be fulfilled, this has been included in the calculation of Right-of-use assets and liabilities. Non-lease components of leases have been separated from lease components for all classes of assets except vehicles and office buildings.

The total interest cost associated with leases is outlined in Note 4.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 3.30%.

16. Employee benefits

	2018 $000	2017 $000
Current portion	5,036	4,723
Non-current portion	1,147	1,892
	6,183	**6,615**

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 $38.8 million were incurred during the period (2017: $36.8 million). Employer contributions to defined contribution schemes of $1.3 million were incurred during the period (2017: $1.2 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. Inventory

	2018 $000	2017 $000
Inventory	2,160	243

The cost of inventories includes all costs of purchase, costs of conversion (direct labour and production overhead) and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

18. Auditor remuneration

	2018 $000	2017 $000
Amounts paid or payable to the auditor for:		
Audit of financial statements		
Audit of annual financial statements	195	195
Review of interim financial statements	35	35
Other assurance services		
Regulatory audit services	325	279
Risk advisory	-	31
Quality assurance	35	-
Trustee reporting	5	5
	595	**545**

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

19. Related parties

Related party transactions

	2018 $000	2017 $000
Transactions between Powerco Ltd and PNZHL		
– Dividends paid to PNZHL	56,784	58,523
– Tax losses made available to the Group from PNZHL	103,380	29,124

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

Compensation of key management personnel

	2018 $008	2017 $000
Short-term benefits	3,996	4,271
Long-term benefits	250	381

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.

20. Share capital

Total number of ordinary shares authorised, issued and fully paid at 31 March 2018 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.

21. 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 2018, no swaps were effective cash flow hedges as the Group discontinued hedge accounting in 2013. The remaining hedge reserve balance is being amortised based on the maturity dates of the previously effective cash flow hedges, the last of which will mature in January 2028. For further information refer to note 5.

22. Contingent liabilities and commitments

Contingent assets and liabilities

As at 31 March 2018, the Group had no contingent assets or liabilities (31 March 2017: nil).

Commitments

	2018 $000	2017 $000
Commitments resulting from Electricity and Gas Field Service Agreements and CPP Field Services Foundation Agreement contracts entered into	242,587	56,311
	242,587	**56,311**

The Group is party to six field services contracts with its four key field service providers for capital services.

For the year ending 31 March 2019 the total targeted minimum expenditure under these agreements is $53 million.

23. New and revised Standards and Interpretations

The following are the significant new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 31 March 2018. Management has reviewed NZ IFRS 9 Financial Instruments and has determined that this is unlikely to have a material effect on the results and position of the Group.

Standard/Interpretation

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 9 Financial Instruments	1 January 2018	31 March 2019

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. Refer to notes 1, 3, and 15 for additional information on the early adoption of NZ IFRS 15 and NZ IFRS 16.

24. Subsequent events

There have been no significant subsequent events since 31 March 2018 requiring adjustment to these financial statements and disclosures.

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Independent Auditor's Report

To the Shareholders of Powerco Limited

Opinion

We have audited the consolidated financial statements of Powerco Limited and its subsidiaries (the 'Group' or 'Powerco'), which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 27 to 63, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

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

Audit materiality

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

Based on our professional judgement, we determined the quantitative materiality for our audit of the Group's financial statements as a whole to be $8.3 million.

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter and results
Classification of expenditure between operating expenditure and capital expenditure Powerco carry out a large number of individual network system projects that can be either operational (network maintenance) or capital (asset replacement or network growth) in nature. As described in note 1 and note 7 professional judgement must be exercised about whether costs incurred in bringing assets to working condition for their intended use should be capitalised as part of the cost of the asset, or whether they should be expensed as network maintenance. In the current year, total capital expenditures were $186 million compared to network operational expenditure incurred of $37.7 million. Powerco's business operations are regulated and are subject to maximum allowable revenue limits set by the Commerce Commission. These revenue limits are, in part, determined by the value of Powerco's regulatory asset base which is determined by these expenditure classifications. Therefore, we have included the classification of expenditure between operating and capital as a key audit matter due to the level of judgement involved, extent of costs incurred, and importance of the regulatory asset base to future revenue determination.	We assessed Powerco's capitalisation policy for compliance with NZ IFRS and IFRS. We tested the design and implementation of controls over the application of the policy to expenditure incurred on network system projects. We used analytical procedures to analyse all operating and capital expenditure transactions. We used this software to review expenditure trends throughout the year on a network and regional basis and compared these to historical trends We also compared Powerco's average operating and capital expenditure ratios against industry averages taking into consideration our understanding of Powerco and its operations. Using this analysis we were able to focus our testing procedures on those areas or periods which were not consistent with the trends in the wider population to focus our testing. We tested a sample of costs to invoice or other supporting information to determine whether the expenditure was capital in nature.
Asset lives and depreciation Powerco's asset base, as noted above, is also impacted by depreciation, which requires Powerco to exercise judgement in determining the useful lives of property, plant and equipment, and in particular the network system asset components as described in note 1. Depreciation totalled $78.8 million for the year ended 31 March 2018, as disclosed in note 7. The significant value and geographic spread of Powerco's network system assets means that a small change in the useful life estimates could have a material impact on depreciation expense recorded over these long asset lives. As a result, we consider this to be a key audit matter.	We tested the design and implementation of key controls relating to the application of useful lives to network system assets as they are commissioned. We assessed the appropriateness of the useful lives of the assets through comparison to industry and regulatory benchmarks taking into consideration our understanding of Powerco and its operations. We challenged the Group's on going processes to review the appropriateness of component asset useful life assumptions and the key controls relating to any changes made to useful life information. We reviewed detailed historical information of losses on disposal through the use of analytical procedures to identify which types of assets and what particular regions were responsible for the losses. We considered whether the losses were indicative of inappropriate useful life assumptions. We formed an independent expectation of depreciation and compared it to the amount recorded.

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This audit report relates to the consolidated financial statements of Powerco Limited (the 'Company') for the year ended 31 March 2018 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company'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.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

Trevor Deed, Partner
for Deloitte Limited
Wellington, New Zealand
24 May 2018

Directory

Directors

J Loughlin (Chair)
M Bessell
P Callow (also Alternate to T Parry)
M Cummings (also Alternate to M Bessell)
A Karl (Alternate to L Moorhead)
L Moorhead
T Parry (also Alternate to P Callow)
S Prnjatovic (Alternate to M Cummings)
D Rees (Alternate to M Bessell)

On 21 September 2017

Mr Cummings was appointed as Alternate to Mr Bessell

On 2 March 2018

- Mr Hay resigned from the Board
- Ms Moorhead was appointed to the Board

On 13 March 2018

Ms Prnjatovic was appointed to the Board as Alternate to Mr Cummings

On 16 March 2018

Mr Bessell resigned as Alternate to Mr Cummings

Executive Management Team

N Barbour
Chief Executive

J Birnie
Group Human Resources Manager

B Colombo
Chief Information Officer

S Dickson
General Manager (Gas)

R Fletcher
General Manager Regulation and Corporate Affairs
(Held this position until 5 January 2018)

J McAvoy
Group Health, Safety, Environmental and Quality Manager

A McLeod
General Manager (Electricity)
(Held this position until 14 July 2017)

S Marshall
General Manager Regulation and Commercial
(Began this role 22 December 2017)

I Skipworth
General Manager Service Delivery and Systems Operations
(Began this role 29 January 2018)

C Taylor
Chief Financial Officer

R Verster
General Manager Asset Management and Network Transformation
(Began this role 13 June 2017)

Registered office

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

Auditors

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Bankers

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

Bond Registrar

Computershare Investor Services Ltd
159 Hurstmere Rd
Takapuna
Auckland 0622

Bondholder inquiries

Computershare Investor Services Ltd
Private Bag 92119
Auckland 1142
Telephone +64 9 488 8777
enquiry@computershare.co.nz

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

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

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