mainpower

2018
Interim Report & Financial Statements

Six months ended 30 September 2018

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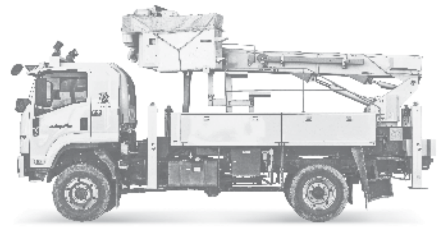
Notes to and forming part of the Financial Statements for the period ended 30 September 2018

Chairman's Review



This review covers the operations of the MainPower New Zealand Limited Group for the six months ended 30 September 2018.

MainPower is responsible for providing a safe, secure and sustainable network for current and future generations. We play a crucial role in powering our communities and ensuring the sustainability of a vibrant and prosperous region.

We're consumer owned – our customers are also our shareholders, which means that the people we deliver electricity to are even more important to us.

During this reporting period, MainPower has cemented our new values within the organisation. These are:

- Do what's right;
- Work together;
- Make it better; and
- Make it happen.

Alongside these values we have reinforced our commitment to empowering our people and the community. This has been reflected in the recent strategic planning process. We have developed priorities to strengthen our core business for the future as well as setting growth objectives. This will position us to take advantage of future opportunities.

The electricity distribution sector is experiencing significant change. We want to embrace this change to shift our focus from being a Distribution Network Operator to the more ambitious goal of becoming a more wide-ranging Distribution System Operator. Technology is advancing at unprecedented rates and we are committed to implementing and leveraging new technologies in that new energy future.

Performance Summary

On 28 September 2018 MainPower sold the business assets (including the company name) of our subsidiary Vircom Energy Management Services Limited to Vector Limited. The sale price of the business closely matched the value of the investment in the company's books.

For the six months ended 30 September 2018, MainPower earned revenues of $28.3M from continuing operations.

This is down on the corresponding period last year as included in the 30 September 2017 and 31 March 2018 operating revenue figures was income related to Vircom ($9.3M and $17.1M respectively). For the six months ended 30 September 2018, Vircom is treated as a discontinued operation; the details of which are disclosed in Note 8 to the accounts.

The profitability from the continuing operations of MainPower amounted to $2.1M, some $1.4M above budget. After considering subsidiary operations and the write off associated with consolidated goodwill; the Group net profit after rebates and taxation amounted to $1.0M.

Customer rebates for the period amounted to $4.7M.

The Group has continued to generate a healthy cash surplus from operations in the past six months. The operating cash surplus of $7.3M has allowed the company to further reinvest $4.8M in the expansion of network and other assets to meet the future needs of our region. Debt was reduced by $0.9M.

The following is a summary of both the financial performance and financial position of the MainPower Group for the six months ended 30 September 2018, and the service performance of the network for that period.

This Statement Has Not been Audited

	6 Months 30.09.18 $000	6 Months 30.09.17 $000	Year Ended 31.03.18 $000
Operating Revenue Continuing Operations	28,292	38,049	78,196
Tax Expense	316	977	2,274
Qualifying Customer Rebates	4,721	4,729	9,833
Profit for the Period	2,054	2,168	6,030
Equity	228,431	223,568	227,430
Liabilities	75,066	83,288	78,019
Assets	303,497	306,856	305,449
Net Cash Flows			
From Operating Activities	7,332	9,574	21,180
Investment in Network and Other Developments	(1,768)	(3,926)	(8,889)
From financing Activities	(900)	(5,350)	(11,800)
Net Increase/(Decrease) in cash held	4,664	298	491
Closing cash balance	5,817	960	1,153
Customer Service Statistics			
Average Number of Minutes that a Customer has been without power because of planned and unplanned outages	98.10	77.15	174.20
Average Number of Interruptions experienced by a Customer during the six months because of planned and unplanned outages	0.73	0.49	1.60
Total Units Delivered to Customers (GWhs)	291	295	604
Units Lost Ratio	7.03%	5.08%	4.13%

Directors as at 30 September 2018
Tony King (Chairman), Janice Fredric, Stephen Lewis, Graeme Abbot, Brian Wood, and Fraser Jonker.

A detailed copy of MainPower's Interim Report and Financial Statements for the period ended 30 September 2018 can be obtained by contacting MainPower on (03) 311 8300, or via the Company's website www.mainpower.co.nz.

A C King
Chairman

Consolidated Condensed Statement of Comprehensive Income

For the periods ended:

This Statement Has Not been Audited	6 Months 30.09.18 $000	6 Months 30.09.17 $000	Year Ended 31.03.18 $000
Continuing Operations			
Operating Revenue	28,292	38,049	78,196
Operating Expenses	18,376	27,214	54,747
Depreciation and Amortisation	6,700	6,713	13,220
Finance Expenses	846	977	1,925
Profit before Income Tax Expense	2,370	3,145	8,304
Income Tax Expense	316	977	2,274
Profit from Continuing operations	2,054	2,168	6,030
Loss from Discontinued operations	1,053	-	-
Profit and Total Comprehensive Income	**1,001**	2,168	6,030
Comprehensive Income Attributable to:			
Continuing operations	2,054	2,168	6,030
Discontinued operations	(1,053)	-	-
Profit and Total Comprehensive Income	1,001	2,168	6,030

Consolidated Condensed Statement of Changes in Equity

For the periods ended:

This Statement Has Not been Audited	6 Months 30.09.18 $000	6 Months 30.09.17 $000	Year Ended 31.03.18 $000
Equity at start of period	227,430	221,400	221,400
Comprehensive income attributable to Parent equity holders	1,001	2,168	6,030
Total recognised revenues and expenses	1,001	2,168	6,030
Equity at end of period	228,431	223,568	227,430

Consolidated Condensed Statement of Financial Position

This Statement Has Not been Audited	6 Months 30.09.18 $000	6 Months 30.09.17 $000	Year Ended 31.03.18 $000
Current Assets			
Cash and Cash Equivalents	5,817	960	1,153
Trade and Other Receivables	7,771	8,839	8,922
Inventories	2,937	2,478	2,367
Other Current Assets	861	463	852
Other Financial Assets	3,000	3,000	300
Total Current Assets	20,386	15,740	13,594
Non-Current Assets			
Property, Plant and Equipment	275,452	284,050	283,839
Capital Works Under Construction	6,512	5,223	3,230
Goodwill	-	713	713
Computer Software	847	830	1,073
Other Financial Assets	300	300	3,000
Total Non-Current Assets	283,111	291,116	291,855
Total Assets	303,497	306,856	305,449
Current Liabilities			
Trade and Other Payables	6,228	6,945	7,661
Current Tax Liability	106	83	328
Interest Rate Swaps	-	89	-
Total Current Liabilities	6,334	7,117	7,989
Non-Current Liabilities			
Deferred Tax Liabilities	43,972	44,191	44,428
Term Borrowings	22,000	29,350	22,900
Interest Rate Swaps	2,166	1,859	2,055
Other Financial Liabilities	4	5	4
Non-Current Provisions	590	766	643
Total Non-Current Liabilities	68,732	76,171	70,030
Equity			
Share Capital	56,774	56,774	56,774
Reserves	38,002	38,002	38,002
Retained Earnings	133,655	128,792	132,654
Total Equity	228,431	223,568	227,430
Total Equity and Liabilities	303,497	306,856	305,449

Consolidated Condensed Statement of Cash Flows

For the periods ended:

This Statement Has Not been Audited	6 Months 30.09.18 $000	6 Months 30.09.17 $000	Year Ended 31.03.18 $000
Cash Flows from Operating Activities			
Receipts from Customers	36,281	39,656	79,587
Interest received	58	2	84
Payments to Suppliers and Employees	(27,302)	(28,607)	(55,394)
Interest and Other Finance Costs paid	(846)	(893)	(1,697)
Income Tax paid	(859)	(584)	(1,400)
Net Cash Flows from Operating Activities	7,332	9,574	21,180
Cash Flows from Investing Activities			
Proceeds from sale of Vircom assets and business	3,000	-	-
(Payments) / Proceeds to Associate Company	-	(250)	(250)
Proceeds / (Payments) from Investment Securities	-	(1,000)	(1,000)
Payment for Property, Plant and Equipment	(4,808)	(4,739)	(9,045)
Proceeds from sale of Property, Plant and Equipment	80	2,194	2,273
Payment for Intangible Assets	(40)	(131)	(867)
Net Cash Flows from Investing Activities	(1,768)	(3,926)	(8,889)
Cash flows from Financing Activities			
(Repayment) / Proceeds of Borrowings	(900)	(5,350)	(11,800)
Net Cash Flows from Financing Activities	(900)	(5,350)	(11,800)
Net Increase / (Decrease) in Cash Held	**4,664**	**298**	**491**
Opening Cash Balance	1,153	662	662
Closing Cash Balance	**5,817**	**960**	**1,153**

Notes to and forming part of the Financial Statements for the period ended 30 September 2018

1. Summary of Significant Accounting Policies

Basis of Preparation

MainPower New Zealand Limited (the Company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993. The Group consists of MainPower New Zealand Limited and its subsidiaries.

These consolidated condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice as applicable to interim financial statements and as appropriate to profit oriented entities.

These consolidated condensed interim financial statements comply with NZ IAS 34 *Interim Financial Reporting*. As the consolidated condensed interim financial statements do not include all of the information required for full annual financial statements they should be read in conjunction with the consolidated financial statements and related notes included in MainPower's Annual Report for the year ended 31 March 2018.

The Group has adopted External Reporting Board Standard A1 'Accounting Standards Framework (For profit-Entities Update)' ('XRB A1'). For the purposes of complying with NZ GAAP, the Group was eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards- Reduced Disclosure Regime ('NZ IFRS RDR') on the basis that it does not have public accountability and it is not a large for profit public sector entity. The Group has elected to report in accordance with NZ IFRS RDR.

The financial statements for the six months ended 30 September 2018 and the six months ended 30 September 2017 are unaudited.

The financial statements are expressed in New Zealand dollars ($) rounded to the nearest thousand, unless otherwise stated.

Changes in Accounting Policies

IFRS 9 – Financial Instruments (effective on or after 1 January 2018)

IFRS 15- Revenue from contracts with customers (effective on or after 1 January 2018)

NZ IFRS 9 Financial Instruments includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39. The Group's assessment of adopting NZ IFRS 9 is that it will not have a material impact on the financial statements or any required restatement or accounting treatment to the Financial Instruments of the group.

NZ IFRS 15 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.

Electricity Line Revenue is recognised at the fair value of services provided. These revenue streams relate to the provision of Electricity distribution services. 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. Customer contribution revenue relates to contributions received from customers towards the costs of electricity supply to new subdivisions, constructing uneconomic lines and relocating existing lines. The revenue recognised is the fair value of the asset being constructed.

For contracts with multiple performance obligations, revenue is recognised at a point in time when the performance obligation is satisfied.

Measurement Base

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in the 2018 Annual Report, Statement of Accounting Policies, notes 1(e) and 1(j). Cost is based on the fair value of the consideration given in exchange for assets.

2. Approval of Financial Statements

The Interim Financial Statements were approved by the Board of Directors on 28 November 2018.

3. Seasonality of Operations

MainPower New Zealand Limited operates in the electricity industry and its business activities are seasonally affected by demand for electricity during periods of cold weather requiring heating, and dry conditions during the summer requiring cooling and irrigation. Accordingly, the financial results for the first half of the financial year reflect the winter period, while the latter half of the year is expected to be more profitable due to forecast climatic conditions.

4. Financial Instruments

Exposure to interest rates, foreign currency and credit risk arises in the normal course of the Group's business.

Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values. The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

Borrowings

Multi option facility

MainPower has a multi option credit facility with Westpac New Zealand Limited of $45M of which $27M will expire on 31 December 2019 and $18M on 31 December 2020. At 30 September 2018 MainPower had drawn down $22M which is unsecured, but subject to a negative pledge arrangement (September 2017: $29.35M).

Interest rate swap contracts

At 30 September 2018, MainPower had entered into five interest rate swap contracts with Westpac New Zealand Limited totalling $27M with maturity periods of 3.5 to 5.5 years at rates of 4.50% to 4.98%.

The fair value of the interest rate swap contracts is based on market values of equivalent instruments. MainPower has not adopted hedge accounting for its interest rate swaps and in determining market values at September 2018; the change in fair value of these instruments is $0.111M loss which has been charged to the Consolidated Condensed Statement of Comprehensive Income, within Finance expenses (2017: $0.097M loss).

5. Related Party Transactions

The following table details the transactions that have been entered into with related parties during the six months ended 30 September 2018 and 2017, and the twelve months ended 31 March 2018, as well as balances with related parties.

	30.09.18 $000	30.09.17 $000	31.03.18 $000
Transactions during the period			
Revenues from Subsidiary	48	51	39
Purchases from Subsidiary	28	21	38
Outstanding balances			
Accounts Receivable from Subsidiary	3	9	21
Accounts Payable to Subsidiary	4	3	8

6. Commitments and Contingent Liabilities

Estimated capital commitments through to March 2019 not yet incurred are forecast to be $11.171M.

Apart from the above there are no other significant contracted capital commitments or contingent liabilities as at 30 September 2018.

7. Capital Additions

	30.09.18 $000	30.09.17 $000	31.03.18 $000
Electricity Distribution Network	4,266	4,215	8,391
Land and Buildings	-	377	387
Plant, Equipment, Motor Vehicles	542	147	315
Computer Software	40	131	867

8. Subsidiaries Investment

Vircom Energy Management Services Limited

Vircom Energy management Services Limited was a field services business focusing on core metering, solar, battery, and electrical installation and maintenance services. On 28 September 2018 Vector Limited acquired the Business Assets including the company name of Vircom Energy Management Services Limited.

Vircom Energy Management Services Limited was renamed MPNZ Investments Limited and holds the proceeds from the sale of the business which closely approximates the investment recoded in the accounts of the parent MainPower New Zealand Limited.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

	30.09.18 $000	30.09.17 $000	31.03.18 $000
Revenue	6,760	9,338	17,105
Expenses	7,235	9,347	17,685
(Loss) / Profit before income tax expense	(475)	(9)	(580)
Income tax benefit / (expense)	135	-	181
(Loss) / Profit after income tax expense	(340)	(9)	(399)
Goodwill write off on sale of business	(713)	-	-
(Loss) from discontinued operations	(1,053)	(9)	(399)

Notes to and forming part of the Financial Statements for the period ended 30 September 2018 ~ continued

9. New Standards and Amendments

The Group has adopted NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customer. The Group is currently reviewing the impact of NZ IFRS 16 Leases, and this has not yet been adopted.

NZ IFRS 15 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.

NZ IFRS 9 Financial Instruments includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39. The Group's assessment of adopting NZ IFRS 9 is that it will not have a material impact on the financial statements or any required restatement or accounting treatment to the Financial Instruments of the group.

The adoption of the new standards above has not had a material impact on the financial statements or any required restatement or accounting treatment to the Revenue or Financial Instruments of the group.

mainpower

2018
Interim Report & Financial Statements

Six months ended 30 September 2018