# INTERIM REPORT AND FINANCIAL STATEMENTS

Six Months Ended
30 September 2016

mainpower

# CHAIR'S REVIEW

## This Review covers the operations of MainPower New Zealand Limited Group for the six months ended 30 September 2016.

While this Review covers the operations of the Company for the 6 months ended 30 September 2016, it would be inappropriate not to take this opportunity to address the impact of the 7.8 magnitude earthquake that occurred in our region on 14 November 2016 and the subsequent and continuing aftershocks. By far the most tragic consequence of this event was the loss of two lives and our deepest sympathy is extended to those who have suffered loss of family and friends. We are also mindful of the personal loss suffered by many in terms of assets and lifestyle.

Damage to the MainPower network resulted in almost 7000 homes and businesses in Kaikoura, Hanmer Springs, Culverden, Cheviot, Greta Valley and their surrounding areas being without electricity. Initial emergency response resulted in the majority being reconnected within hours – our priority being to ensure safety and security of supply to these customers.

It is once again testament to the commitment, expertise and training of all at MainPower that we were able to respond in such a timely manner, albeit that we are still facing numerous challenges to rebuild the resilience of our entire network in the region. In seeking long term solutions to these challenges MainPower intends to initiate discussions with both customers and the wider community.

While the total cost to MainPower of responding to this event will not be known with certainty until some time into the future, it is currently estimated that the Distribution System Asset Management Investment Fund of $3m held by the Company will adequately cover the cost of anticipated remedial work.

## Performance

For the 6 months ended 30 September 2016 the Group earned revenue of $41.4m, $2.2m lower than for the same period in the previous year. This was due principally to a reduction in both revenues earned by our subsidiary, Vircom ($1.6m), and capital contributions from customers ($.5m).

While Group profit after tax for the 6 months ended 30 September 2016 is $1.5m lower than the corresponding period in 2015, customer rebates for the period amounted to $4.4m – marginally above the level of rebates paid in the same period last year. The profit for the period was lower principally due to the Company's decision not to pass on to customers Transpower's price increase of $.7m, and increased network maintenance of $.8m.

The Group has generated a healthy cash surplus of $8m from operations for the period, which together with modest increased borrowings, has allowed further investment in the network and other assets of $9m during the 6 month period.

Group equity has increased during the 6 months by $1.5m (reflecting the net profit after tax and rebates), with total assets increasing by $2m to $313.9m, and total liabilities increasing by $.5m to $94.1m. This reflects the very strong financial position of the Group.

As we look ahead to the second 6 months of our current financial year (ie the period ending 31 March 2017) I am mindful of the ongoing impacts of the North Canterbury/Kaikoura earthquakes, and the unpredictability of our climate. While I have referred earlier to the devastating earthquakes impacting our region, it is worth noting that the uncertainties of climate also play a large part in determining the financial performance of the Group for any given year. Currently we have experienced an unexpectedly moist and warm spring/early summer which is reflecting in a much lower than anticipated irrigation demand – thereby impacting on lines revenue being earned by MainPower. Whether this climate pattern will continue in future months is unknown, however what we have experienced in recent months serves to highlight the real challenge in forecasting the major revenue stream in our business.

Striving to improve customer service performance is a priority for MainPower, however this is always with an imperative of "safety first" for both our people and our community, a factor that was foremost in the minds of all of our people involved in the North Canterbury/Kaikoura earthquake response.

The following is a summary of both financial performance and service performance of the Group for the 6 months ended 30 September 2016.

| Financial Performance | 6 Months 30.09.16 $000 | 6 Months 30.09.15 $000 | Yr Ended 31.03.16 $000 |
|---|---|---|---|
| Operating revenue | 41,352 | 43,552 | 91,218 |
| Tax expense | 611 | 1,338 | 2,304 |
| Qualifying Customer Rebates | 4,374 | 4,356 | 9,827 |
| Profit for the period | 1,540 | 3,029 | 5,980 |
| Equity | 219,818 | 215,440 | 218,278 |
| Liabilities | 94,060 | 95,172 | 93,591 |
| Assets | 313,878 | 310,612 | 311,869 |
| **Net Cash Flows** | | | |
| From operating activities | 7,957 | 7,997 | 21,408 |
| Investment in Network and Other Developments | (9,032) | (13,728) | (23,298) |
| From financing activities | 900 | 6,370 | 3,387 |
| Net increase/(decrease) in cash held | (175) | 639 | 1,497 |
| Closing cash balance | 1,572 | 889 | 1,747 |

| Customer Service Statistics | | | |
|---|---|---|---|
| Average Number of Minutes that a customer has been without power because of planned and unplanned outages | 130.16 | 116.41 | 264.00 |
| Average Number of Interruptions experienced by a customer during the six months because of planned and unplanned outages | 0.69 | 0.63 | 2.09 |
| Total Units Delivered to Customers (GWhs) | 287 | 301 | 630 |
| Units Lost Ratio | 5.89% | 3.75% | 5.69% |

## Directors as at 30 September 2016

Gill Cox (Chairman)
Peter Cox (Deputy Chairman)
Trevor Burt
Stephen Lewis
Judith Hoban
Janice Fredric
Tony King
Graeme Abbot

A detailed copy of MainPower's Interim Report and Financial Statements for the period ended 30 September 2016 can be obtained by contacting MainPower on (03) 311 8300, or via the Company's website: **www.mainpower.co.nz**

W G Cox
**Chairman**

# CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended:

| This statement has not been audited | 6 months 30.09.16 $000 | 6 months 30.09.15 $000 | 12 months 31.03.16 $000 |
|---|---|---|---|
| Operating revenue | 41,352 | 43,552 | 91,218 |
| Operating expenses | 27,220 | 27,153 | 57,797 |
| Depreciation and amortisation | 6,071 | 5,885 | 11,890 |
| Finance expenses | 1,536 | 1,791 | 3,420 |
| Rebates | 4,374 | 4,356 | 9,827 |
| **Profit before income tax expense** | 2,151 | 4,367 | 8,284 |
| Income tax expense | 611 | 1,338 | 2,304 |
| **Profit for the period** | 1,540 | 3,029 | 5,980 |
| **Other comprehensive income** | | | |
| Other comprehensive income | - | - | - |
| **Profit and Total Comprehensive Income** | 1,540 | 3,029 | 5,980 |
| Comprehensive income attributable to: | | | |
| Shareholders of Parent | 1,387 | 2,880 | 5,878 |
| Minority interest | 153 | 149 | 102 |
| | 1,540 | 3,029 | 5,980 |

# CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended:

| This statement has not been audited | 6 months 30.09.16 $000 | 6 months 30.09.15 $000 | 12 months 31.03.16 $000 |
|---|---|---|---|
| Equity at start of period | 218,278 | 212,411 | 212,411 |
| Comprehensive income attributable to Parent equity holders | 1,387 | 2,880 | 5,878 |
| Profit attributable to minority interests | 153 | 149 | 102 |
| **Total recognised revenues and expenses** | 1,540 | 3,029 | 5,980 |
| Dividends paid to subsidiary minority shareholders | - | - | (113) |
| **Equity at end of period** | 219,818 | 215,440 | 218,278 |

*The accompanying notes form part of, and should be read in conjunction with these financial statements.*

# CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION

| This statement has not been audited | As at 30.09.16 $000 | As at 30.09.15 $000 | As at 31.03.16 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 1,572 | 889 | 1,747 |
| Trade and other receivables | 8,903 | 9,262 | 9,684 |
| Inventories | 2,247 | 4,764 | 3,095 |
| Other current assets | 316 | 100 | 181 |
| Current tax asset | 729 | 336 | - |
| Other financial assets | 2,000 | 2,750 | 3,000 |
| Total current assets | 15,767 | 18,101 | 17,707 |
| **Non-current assets** | | | |
| Property, plant and equipment | 283,211 | 274,477 | 286,477 |
| Capital works under construction | 12,248 | 16,422 | 6,185 |
| Goodwill | 713 | 713 | 713 |
| Computer software | 889 | 899 | 787 |
| Other financial assets | 1,050 | - | - |
| Total non-current assets | 298,111 | 292,511 | 294,162 |
| **Total assets** | 313,878 | 310,612 | 311,869 |
| **Current liabilities** | | | |
| Trade and other payables | 8,074 | 8,341 | 9,043 |
| Current tax liability | - | - | 63 |
| Borrowings | 25,000 | - | 25,000 |
| Total current liabilities | 33,074 | 8,341 | 34,106 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 43,786 | 43,581 | 43,617 |
| Term borrowings | 13,300 | 40,270 | 12,400 |
| Interest Rate Swaps | 3,006 | 1,959 | 2,574 |
| Other financial liabilities | 6 | 7 | 6 |
| Non-current provisions | 888 | 1,014 | 888 |
| Total non-current liabilities | 60,986 | 86,831 | 59,485 |
| **Equity** | | | |
| Share capital | 56,774 | 56,774 | 56,774 |
| Reserves | 38,002 | 38,002 | 38,002 |
| Retained earnings | 123,736 | 119,464 | 122,349 |
| **Attributable to Parent equity holders** | 218,512 | 214,240 | 217,125 |
| Minority interest | 1,306 | 1,200 | 1,153 |
| **Total equity** | 219,818 | 215,440 | 218,278 |
| **Total equity and liabilities** | 313,878 | 310,612 | 311,869 |

*The accompanying notes form part of, and should be read in conjunction with these financial statements.*

# CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

For the periods ended:

| This statement has not been audited | 6 months 30.09.16 $000 | 6 months 30.09.15 $000 | 12 months 31.03.16 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash inflows | 37,548 | 40,820 | 82,571 |
| Cash outflows | (29,591) | (32,823) | (61,163) |
| Net cash flows from operating activities | 7,957 | 7,997 | 21,408 |
| **Cash flows from investing activities** | | | |
| Cash inflows | 71 | 77 | 176 |
| Cash outflows | (9,103) | (13,805) | (23,474) |
| Net cash flows from investing activities | (9,032) | (13,728) | (23,298) |
| **Cash flows from financing activities** | | | |
| Cash inflows | 900 | 6,370 | 3,500 |
| Cash outflows | - | - | (113) |
| Net cash flows from financing activities | 900 | 6,370 | 3,387 |
| **Net increase/(decrease) in cash held** | (175) | 639 | 1,497 |
| Opening cash balance | 1,747 | 250 | 250 |
| **Closing cash balance** | 1,572 | 889 | 1,747 |

*The accompanying notes form part of, and should be read in conjunction with these financial statements.*

# CONSOLIDATED RECONCILIATION OF OPERATING CASH FLOWS

For the periods ended:

| This statement has not been audited | **6 months 30.09.16 $000** | **6 months 30.09.15 $000** | **12 months 31.03.16 $000** |
|---|---|---|---|
| Profit for the period | 1,540 | 3,029 | 5,980 |
| Adjustments: | | | |
| Depreciation and amortisation | 6,071 | 5,885 | 11,890 |
| (Gain)/Loss on sale of fixed assets | - | - | 1,664 |
| Movement in provisions/fixed asset adjustments | 12 | - | (1) |
| | 6,083 | 5,885 | 13,553 |
| Changes in net assets and liabilities: | | | |
| Increase/(decrease) in current tax liability | (792) | (581) | (182) |
| Deferred tax | 169 | 239 | 275 |
| | (623) | (342) | 93 |
| Movements in working capital: | | | |
| Trade receivables and current assets | 646 | 1,861 | 1,358 |
| Inventories | 848 | (524) | 1,145 |
| Trade payables and provisions | (969) | (1,912) | (721) |
| Non-current provisions | 432 | - | - |
| | 957 | (575) | 1,782 |
| **Net cash flows from operating activities** | 7,957 | 7,997 | 21,408 |

*The accompanying notes form part of, and should be read in conjunction with these financial statements.*

## 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 New Zealand 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 2016.

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 and has applied disclosure concessions.

The financial statements for the six months ended 30 September 2016 and the six months ended 30 September 2015 are unaudited.

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

### Significant Accounting Policies

The accounting policies set out in the 2016 Annual Report have been applied consistently to all periods presented in these financial statements. There have been no changes in accounting policies from those applied in MainPower's 2016 Annual Report.

### 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 2016 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 13 December 2016.

## 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 $25m will expire on 31 December 2016 and $20m on 31 December 2017. At 30 September 2016 MainPower had drawn down $38.3m which is unsecured, but subject to a negative pledge arrangement (2014: $40.22m).

MainPower have tendered their funding facility and in doing so have reappointed Westpac as their funding provider. The Westpac multi option credit facility going forward is $27m maturing 31 December 2019 and $18m maturing 31 December 2020.

Interest rate swap contracts

At 30 September 2016, MainPower had entered into five interest rate swap contracts with Westpac New Zealand Limited totalling $27m with maturity periods of 2.5 to 8 years at rates of 4.55% 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 2016; the change in fair value of these instruments is $0.432m loss which has been charged to the Consolidated Condensed Statement of Comprehensive Income, within Finance expenses (2015: $0.653m 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 2016 and 2015, and the twelve months ended 31 March 2016, as well as balances with related parties.

| | 30.09.16 $000 | 30.09.15 $000 | 31.03.16 $000 |
|---|---|---|---|
| **Transactions during the period** | | | |
| Revenues from subsidiary | 70 | 203 | 110 |
| Interest paid by subsidiary to parent | - | 7 | 8 |
| Purchases from subsidiary | 18 | 26 | 43 |
| Dividends from subsidiary | - | - | 387 |
| **Outstanding balances** | | | |
| Accounts receivable from subsidiary | 5 | 25 | 5 |
| Accounts payable to subsidiary | 2 | 2 | 4 |

## 6. Commitments and Contingent Liabilities

Estimated capital commitments through to March 2017 not yet incurred are forecast to be $5m but will be influenced by the costs associated with the recent Kaikoura earthquake.

Apart from the above there are no other significant contracted capital commitments or contingent liabilities as at 30 September 2016.

## 7. Capital Additions

| | 30.09.16 $000 | 30.09.15 $000 | 31.03.16 $000 |
|---|---|---|---|
| Electricity Distribution Network | 8,583 | 12,277 | 23,205 |
| Land and Buildings | 48 | 15 | 15 |
| Plant, Equipment, Motor Vehicles | 263 | 1,234 | 2,289 |
| Computer Software | 159 | 29 | 184 |

## 8. Kaikoura Earthquake

On 14 November 2016, North Canterbury experienced a major earthquake resulting in wide spread damage to the region. The earthquake and subsequent aftershocks caused significant damage to MainPower's infrastructure assets, mainly in the northern part of MainPower's area, particularly the Kaikoura region resulting in disruption to MainPower's line network.

The cost of remedial work arising from the earthquake is expected to be substantial and as at 30 November 2016 MainPower had incurred $0.625m primarily around making the network system safe.

As part of MainPower's risk management policies a Distribution System Asset Management Investment Fund of $3m had been reserved to cover the cost of such an eventually as an earthquake. It is expected that MainPower will draw down extensively on the fund during the coming twelve months but it is anticipated that the $3m fund will be more than adequate to cover the costs associated with the earthquake.

## 9. Subsidiaries Investment

At 31 March 2016 MainPower New Zealand Limited was the majority shareholder (77.4%) in Vircom Energy Management Services Limited. On 2 November 2016, MainPower acquired the balance of the shares in Vircom Energy Management Services Limited from the minority shareholder Energy Management Services Limited.

## 10. New Standards and Amendments

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2016.

MainPower is not aware of any other standards in issue but not yet effective which would materially impact on the amounts recognised or disclosed in these financial statements.