mainpower

SIX MONTHS ENDED
30 SEPTEMBER 2017

INTERIM REPORT & FINANCIAL STATEMENTS

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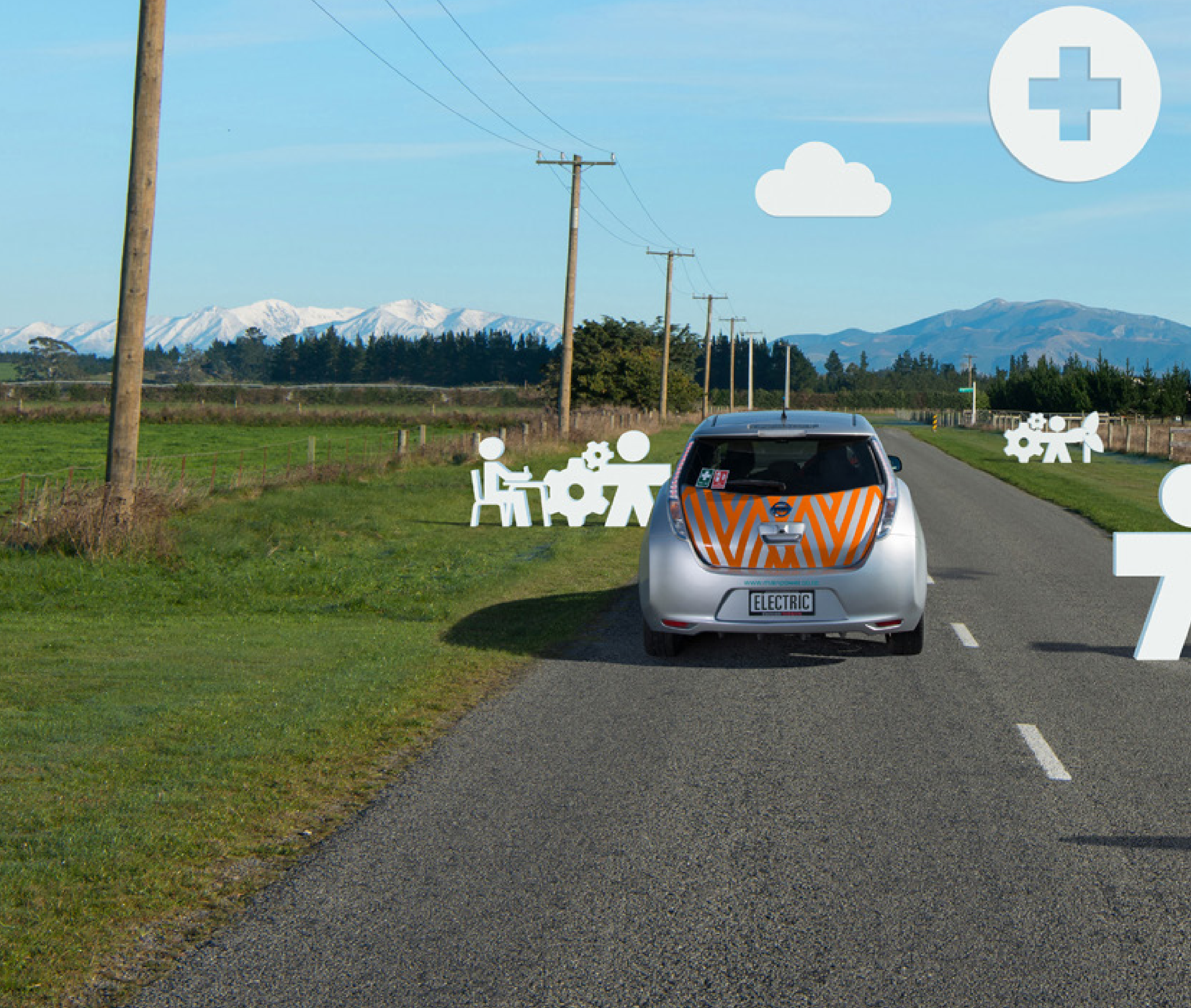

Notes to and forming part of the Financial Statements for the period ended 30 September 2017

This review covers the operations of MainPower New Zealand Limited Group for the six months ended 30 September 2017.

MainPower is responsible for providing a safe, secure and reliable electricity supply to homes and businesses in the North Canterbury and Kaikoura region. 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 continued its focus on meeting changing customer expectations which requires a new approach and refreshed thinking of its strategic direction. Work on the strategic review of our businesses priorities continues and is nearing completion.

The challenges and opportunities that the electricity distribution sector is experiencing are part of a new world of ongoing change. This has resulted in a number of changes to our business and the way we deliver our services. It's all about moving to improve the way we interact with our customers, community and business partners.

Performance Summary

In the six months ended 30 September 2017, the MainPower Group earned revenues of $42.96M, up $1.61M on the corresponding period last year. This was principally due to increased revenue from lines charges, reflecting a cooler winter, partly offset by a reduction in revenue from the subsidiary operations. The higher revenues have flowed through to higher earnings.

Customer rebates for the period amounted to $4.73M. The Group net profit after rebates and taxation of $2.17M is up $0.63M on this time last year.

The Group has continued to generate a healthy cash surplus from operations in the past six months. The operating cash surplus of $9.57M has allowed the company to further reinvest $3.93M in the expansion of the network, noncurrent and financial assets to meet the future needs of our region while at the same time paying down debt of $5.35M.

In the balance sheet some short term debt has been moved to term debt and reduced overall, resulting in an increase in net equity of nearly $2.17M.

Improving the customer experience and our customer service performance indicators, are a priority for MainPower. We have taken steps over the period to re-engineer our organisational structure which will deliver on improved value for our customers. These changes will align our organisation with the opportunities that are ahead whilst also ensuring that we continue to improve on key performance deliverables such as network reliability.

Safety for our staff and community continues to be an absolute priority for MainPower. Our focus is not just contained to everyday operational activity but also in our coordinated response to emergency events, such as last year's Kaikoura earthquake.

The following is a summary of both the financial performance and financial position of the MainPower Group for the six months ended 30 September 2017, and the service performance of the network for that period.

	6 Months 30.09.17 $000	6 Months 30.09.16 $000	Year Ended 31.03.17 $000
Operating Revenue	42,778	41,352	85,522
Tax Expense	977	611	1,788
Qualifying Customer Rebates	4,729	4,374	9,206
Profit for the Period	2,168	1,540	4,122
Equity	223,568	219,818	221,400
Liabilities	83,288	94,060	89,519
Assets	306,856	313,878	310,919
Net Cash Flows			
From Operating Activities	9,574	7,957	16,271
Investment in Network and Other Developments	(3,926)	(9,032)	(13,656)
From financing Activities	(5,350)	900	(3,700)
Net Increase/(Decrease) in cash held	298	(175)	(1,085)
Closing cash balance	960	1,572	662
Customer Service Statistics			
Average Number of Minutes that a Customer has been without power because of planned and unplanned outages	77.15	130.16	213.40
Average Number of Interruptions experienced by a Customer during the six months because of planned and unplanned outages	0.49	0.69	1.44
Total Units Delivered to Customers (GWhs)	295	287	600
Units Lost Ratio	5.08%	5.89%	5.50%

Directors as at 30 September 2017

Tony King (Chairman) Judith Hoban Janice Fredric

Stephen Lewis Graeme Abbot

A detailed copy of MainPower's Interim Report and Financial Statements for the period ended 30 September 2017 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	**Six months 30.09.17 $000**	**Six months 30.09.16 $000**	**12 months 31.03.17 $000**
Operating Revenue	42,778	41,352	85,522
Operating Expenses	27,214	27,220	55,917
Depreciation and Amortisation	6,713	6,071	13,201
Finance Expenses	977	1,536	1,288
Rebates	4,729	4,374	9,206
Profit before Income Tax Expense	3,145	2,151	5,910
Income Tax Expense	977	611	1,788
Profit for the Period	**2,168**	**1,540**	**4,122**
Other comprehensive income			
Other comprehensive income	-	-	-
Profit and Total Comprehensive Income	**2,168**	**1,540**	**4,122**
Comprehensive Income Attributable to:			
Shareholders of Parent	2,168	1,387	3,969
Minority Interest	-	153	153
	2,168	**1,540**	**4,122**

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

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended:

This Statement Has Not been Audited	**Six months 30.09.17 $000**	**Six months 30.09.16 $000**	**12 months 31.03.17 $000**
Equity at start of period	221,400	218,278	218,278
Comprehensive income attributable to Parent equity holders	2,168	1,387	3,969
Profit attributable to minority interests	-	153	153
Total recognised revenues and expenses	2,168	1,540	4,122
Minority Shareholder Buyout	-	-	(1,000)
Equity at end of period	223,568	219,818	221,400

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 30.09.17 $000	As at 30.09.16 $000	As at 31.03.17 $000
Current Assets			
Cash and Cash Equivalents	960	1,572	662
Trade and Other Receivables	8,839	8,903	10,694
Inventories	2,478	2,247	2,319
Other Current Assets	463	316	285
Current Tax Asset	-	729	80
Other Financial Assets	3,000	2,000	2,050
Total Current Assets	15,740	15,767	16,090
Non-Current Assets			
Property, Plant and Equipment	284,050	283,211	290,139
Capital Works Under Construction	5,223	12,248	3,278
Goodwill	713	713	713
Computer Software	830	889	699
Other Financial Assets	300	1,050	-
Total Non-Current Assets	291,116	298,111	294,829
Total Assets	306,856	313,878	310,919
Current Liabilities			
Trade and Other Payables	6,945	8,074	8,236
Current Tax Liability	83	-	-
Interest Rate Swaps	89	-	170
Borrowings	-	25,000	-
Total Current Liabilities	7,117	33,074	8,406
Non-Current Liabilities			
Deferred Tax Liabilities	44,191	43,786	43,961
Term Borrowings	29,350	13,300	34,700
Interest Rate Swaps	1,859	3,006	1,681
Other Financial Liabilities	5	6	5
Non Current Provisions	766	888	766
Total Non Current Liabilities	76,171	60,986	81,113
Equity			
Share Capital	56,774	56,774	56,774
Reserves	38,002	38,002	38,002
Retained Earnings	128,792	123,736	126,624
Attributable to Parent equity holders	223,568	218,512	221,400
Minority Interest	-	1,306	-
Total Equity	223,568	219,818	221,400
Total Equity and Liabilities	306,856	313,878	310,919

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	Six months 30.09.17 $000	Six months 30.09.16 $000	12 months 31.03.17 $000
Cash Flows from Operating Activities			
Receipts from Customers	39,656	37,433	75,264
Interest received	2	115	181
Payments to Suppliers and Employees	(28,607)	(26,927)	(55,600)
Interest and Other Finance Costs paid	(893)	(1,429)	(1,987)
Income Tax paid	(584)	(1,235)	(1,587)
Net Cash Flows from Operating Activities	9,574	7,957	16,271
Cash Flows from Investing Activities			
(Payments) \ Proceeds to Associate Company	(250)	(50)	(50)
Proceeds / (Payments) from Investment Securities	(1,000)	-	1,000
Payment for Property, Plant and Equipment	(4,739)	(8,894)	(14,562)
Proceeds from sale of Property, Plant and Equipment	2,194	71	125
Payment for Intangible Assets	(131)	(159)	(169)
Net Cash Flows from Investing Activities	(3,926)	(9,032)	(13,656)
Cash flows from Financing Activities			
Dividends paid	-	-	-
Buy Out Minority Shareholder	-	-	(1,000)
(Repayment) / Proceeds of Borrowings	(5,350)	900	(2,700)
Net Cash Flows from Financing Activities	(5,350)	900	(3,700)
Net Increase/(Decrease) in Cash Held	**298**	**(175)**	**(1,085)**
Opening Cash Balance	662	1,747	1,747
Closing Cash Balance	**960**	**1,572**	**662**

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	**Six months 30.09.17 $000**	**Six months 30.09.16 $000**	**12 months 31.03.17 $000**
Profit for the Period	**2,168**	**1,540**	**4,122**
Adjustments:			
Depreciation and Amortisation	6,713	6,071	13,201
(Gain)/Loss on Sale of Fixed Assets	(560)	-	738
Current Provisions – Swaps	97	-	(723)
Movement in Provisions/Fixed Asset Adjustments	536	12	(1)
	6,786	6,083	13,215
Changes in Net Assets and Liabilities:			
Increase /(Decrease) in Current Tax Liability	163	(792)	(143)
Deferred Tax	230	169	344
	393	(623)	201
Movements in Working Capital:			
Trade Receivables and other receivables	1,855	646	(1,010)
Inventories	(159)	848	776
Other Current Assets	(178)	-	(104)
Trade and other Payables	(1,291)	(969)	(807)
Non-Current Provisions	-	432	(122)
	227	957	(1,267)
Net Cash Flows from Operating Activities	**9,574**	**7,957**	**16,271**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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 2017.

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 2017 and the six months ended 30 September 2016 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 2017 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 2017 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 2017 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 6 December 2017.

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 2017 MainPower had drawn down $29.35M which is unsecured, but subject to a negative pledge arrangement (September 2016: $38.30M).

Interest rate swap contracts

At 30 September 2017, MainPower had entered into five interest rate swap contracts with Westpac New Zealand Limited totalling $27M with maturity periods of 0.5 to 6.5 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 2017; the change in fair value of these instruments is $0.097M loss which has been charged to the Consolidated Condensed Statement of Comprehensive Income, within Finance expenses (2016: $0.45M 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 2017 and 2016, and the twelve months ended 31 March 2017, as well as balances with related parties.

	30.09.17 $000	30.09.16 $000	31.03.17 $000
Transactions during the period			
Revenues from Subsidiary	51	70	107
Interest paid by Subsidiary to parent	-	-	-
Purchases from Subsidiary	21	18	118
Dividends from Subsidiary	-	-	1,000
Outstanding balances			
Accounts Receivable from Subsidiary	9	5	8
Accounts Payable to Subsidiary	3	2	84
Taxation Owing to Subsidiaries	-	323	323

6. Commitments and Contingent Liabilities

Estimated capital commitments through to March 2018 not yet incurred are forecast to be $4.5M.

Apart from the above there are no other significant contracted capital commitments or contingent liabilities as at 30 September 2017.

7. Capital Additions

	30.09.17 $000	30.09.16 $000	31.03.17 $000
Electricity Distribution Network	2,271	2,520	16,735
Land and Buildings	377	48	153
Plant, Equipment, Motor Vehicles	147	263	580
Computer Software	131	159	169
Work Under Construction	1,944	6,063	(2,907)

8. Kaikoura Earthquake November 2016

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 was significant, at 31 March 2017 MainPower had incurred just over $1M primarily around making the network system safe while a further $0.185M has being spent on further remedial work during the last six months.

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. During the financial year ended 31 March 2017 MainPower drew down $1M from the fund to meet the initial costs of the earthquake. Following an independent review of MainPower catastrophe risk profile during September 2017 the Board have replenished the Distribution System Asset Management Investment Fund back to $3M.

9. Subsidiaries Investment

Initially MainPower New Zealand Limited was the majority shareholder (77.4%) in Vircom Energy Management Services Limited however on the 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 2017.

MainPower is not aware of any other standards in addition to those outlined in the 2017 Annual Report which would materially impact on the amounts recognised or disclosed in these financial statements.

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