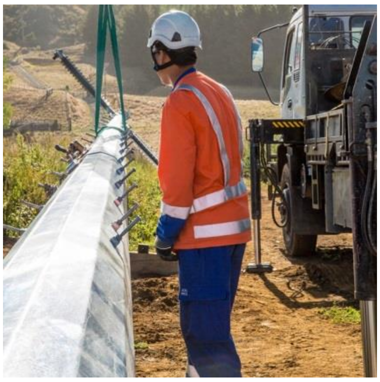

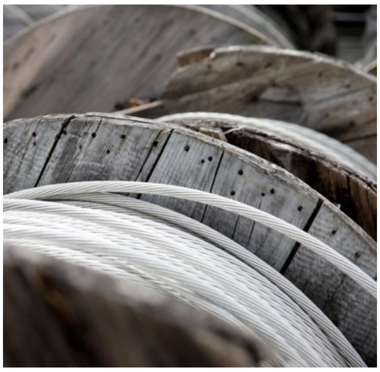

Annual Report

For the year ended 31 March 2016

COUNTIESPOWER

CONTENTS

REPORT OF THE DIRECTORS TO THE SHAREHOLDER

The Board of Directors of the Group authorised these financial statements and the statement of service performance presented on pages 9 to 50 for issue on 22 June 2016.

Activities

Counties Power Limited operates primarily as an electricity lines company within the Franklin, Papakura, Hauraki and Waikato districts. The construction arm of Counties Power Limited undertakes lines and new services work, and the Workshop division undertakes vehicle servicing and light metal fabrication.

Results

The profit or loss after taxation of the Group for the year was $12.6 million (2015: $9.8 million). Customer discounts of $9.6 million exclusive of GST (2015: $9.5 million) were paid to customers.

Changes in accounting policies

There have been no changes in accounting policy during the twelve months ended 31 March 2016.

Impairment

Annually, the directors assess the carrying value of major assets. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment, if any, is recognised in the Statement of Comprehensive Income. No impairment of assets has been identified in 2016 (2015: nil).

Revaluation

Non-network land and buildings were revalued as at 31 March 2014. The revaluation of these assets resulted in an increase of $0.54 million.

Substation land and buildings were revalued as at 31 March 2015. The revaluation of these assets resulted in an increase for land of $0.85 million.

The distribution system assets were subject to an independent valuation as at 31 March 2015. The independent valuation confirmed that these assets were being carried at their fair value and no revaluation adjustment was necessary. The carrying values were reviewed by management at 31 March 2016 and assessed as being materially consistent with fair value.

Donations

During the year Counties Power Limited made no donations (2015: nil).

Changes in capital

There have been no changes in the Group's capital structure during the year.

Dividends

An interim dividend of $300,000 was declared on 26 August 2015, and paid on 28 August 2015. In the preceding year a dividend of $300,000 was paid. No final dividend was declared in either year.

Health and safety

A fundamental priority of the Company is to operate its business with no harm coming to its staff, contractors, consumers, and the community in which it operates. The Board reviews on a monthly basis the Company's performance against a range of lead and lag health and safety metrics, including engagement with staff on safety culture and leadership; effectiveness of safety processes and controls, and governance and improvement opportunities. Members of the Board also attend Company safety related training and education events, as well as participate in safety observations.

Corporate governance

Directors

The board is the governing body of Counties Power Limited. The board as at 31 March 2016 has six members.

The board is appointed by the shareholder to oversee the management of the Group and is responsible for all corporate governance matters. The board endeavours to ensure that the activities undertaken are carried out in the best interests of the shareholders, while respecting the rights of other stakeholders. This includes maintaining clear policies in relation to employees, customers and the environment.

No directors hold executive positions within the Group. The board met for ten regular meetings during the year and several informal "working" meetings. The Audit Committee met four times and the Remuneration Committee met three times during the year.

Operation of the board

Responsibilities

The board is responsible for the management, supervision and direction of the Group. This includes the long-term strategic financial plan, strategic initiatives, budgets and the policy framework. The board delegates the day-to-day management of the Group to the Chief Executive. The board has developed and maintains clear policies which define the individual and collective responsibilities of the board and management.

Conduct

The board ensures that all matters can be discussed openly, frankly and confidentially. The board is obliged to identify any potential conflict of interest directors may have with the Group's affairs. Where there is a conflict, the director affected is not permitted to vote on any matters related to the conflict.

Audit Committee

The Audit Committee is responsible for overseeing, on behalf of the board, the financial accounting and audit activities of the Group, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations to the board on financial and accounting policies. Committee members currently comprise Mr Doug Troon (Audit Committee Chairman), Mr Malcolm Don, Mr Hamish Stevens and Mr David Tompkins.

Remuneration Committee

The Remuneration Committee is scheduled to meet no less than twice a year. It is charged with setting and reviewing the remuneration policies and practices of the Group on behalf of the board. It also sets and reviews the remuneration of the Chief Executive, and if directed by the board, other senior executives. Committee members currently comprise Mr Vernon Dark (Remuneration Committee Chairman), Mr Malcolm Don and Ms Barbara Elliston.

Remuneration of Directors

Directors' remuneration received, or due and receivable during the year were as follows:

	31 March 2016 $'000	31 March 2015 $'000
DN Tompkins	39	-
AM Don	39	37
PW Fitzsimmons	-	19
HW Stevens	55	69
VJ Dark	59	37
EE Oliver	13	37
BL Elliston	39	37
DJ Troon	42	37
	286	273

Remuneration of employees

The number of employees (not including directors) who received remuneration and/or other benefits within the following bands is as follows:

	31 March 2016	31 March 2015
$'000		
100 – 110	5	9
110 – 120	5	2
120 – 130	1	-
130 – 140	2	2
140 – 150	-	-
150 – 160	3	1
160 – 170*	1	-
170 – 180*	1	-
180 – 190	-	-
190 – 200	-	1
200 – 300*	1	3
400 – 500	1	-

*Amounts paid include salary, bonuses and termination entitlements.

Auditor

The Auditor-General is the Auditor of the Group under section 196(1) of the Companies Act 1993, because Counties Power Limited is a Public Entity within the Energy Companies category listed on Schedule 1 of the Public Audit Act 2001. The Auditor-General has appointed Pip Cameron, a Partner of PricewaterhouseCoopers, to conduct the audit on her behalf.

Interests register

The following are transactions recorded in the Interests Register for the year.

General Disclosure of Interest

Several directors are either domestic customers and/or have interests in commercial businesses which utilise line services provided by the Group. Their contractual relationship is with their energy retailer, who in turn has a contractual relationship with Counties Power Limited to provide lines services. All such arrangements are on a normal arms-length basis.

Additional general disclosures of interest, made in writing to the board, of positions held in other named companies or parties are as follows:

Name	Position	Party
AM Don	Chairman	The Lines Company Limited & Subsidiaries
	Director	Angus Holdings (1991) Limited
	Director	Don Nominees Limited
	Partner	AM & GA Don Farm Partnership
HW Stevens	Director	Smart Environmental Limited
	Director	AsureQuality Limited
	Director	Governance and Advisory Limited
	Director	Dairy Technical Services Limited
	Director	Restaurant Brands Limited
	Director	Botany Health Hub Limited
	Director	QSR Pty Limited
	Chairman	East Health Services Limited
	Chairman	The Kennedy's Limited
	Chairman	Audit & Risk Sub-Committee, Waikato Regional Council
VJ Dark	Director	Invivo Wines New Zealand Limited
	Chairman	Northland Polytechnic
BL Elliston	Director	Easy Warm Limited
	Director	Easy Warm (Aust) Pty Limited
	Director	The Solar Hot Water Company Limited
	Director	Solar Power and Renewables Company Limited
	Director	NO 1 Solar Leasing Company Limited
	Director	Hot PV Limited
	Director	Australian Solar Council
	Director	Timeless By Design Limited
	Principal	Elliston Power Consultants Limited
	Board Member	NZ & Pacific Solar Storage Council
	Counties Power electricity consumer	Waiuku

Interests register

DJ Troon	Director	Amtex Services Limited
	Chairman	Doubtless Bay Water Supply Company Limited
	Chairman	TCP Solutions Pte Limited
	Chairman	Skellerns Metal Casings Limited
	Chairman	Project Max Limited
DN Tompkins	Director	Tutukaka Asset Management Limited

Share purchases

There have been no share purchases.

Directors' loans

There were no loans by the Group to the directors.

Directors' insurance

The Group indemnifies all directors named in this report against liabilities, which arise out of the performance of their normal duties as director, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

Related party transactions

The Group had no other related party transactions during the year, other than the dividends, directors' fees and key management remuneration (see note 30).

Directors' responsibility statement

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 March 2016 and its financial performance for the year ended on that date.

The directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The directors have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

For and on behalf of the Board.

VJ Dark
Chairman
22 June 2016

DJ Troon
Deputy Chairman
22 June 2016

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Notes	2016 $'000	2015 $'000
Gross revenue from continuing operations	6	63,181	61,843
Customer discount	6	(9,605)	(9,538)
Net revenue from continuing operations		53,576	52,305
Other income and gains	7	353	115
Expenses, excluding finance costs	8	(36,092)	(38,717)
Finance costs	8	(564)	(178)
Profit before income tax		17,273	13,525
Income tax expense	9	(4,711)	(3,675)
Profit for the year		12,562	9,850
Profit for the year attributable to shareholders		12,562	9,850
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges – net of tax	24	(165)	257
Items that will not be reclassified to profit or loss			
Fair value gain/(loss) on the revaluation of property, plant and equipment	14,24	(48)	856
Deferred tax on revaluation of property, plant and equipment	15	-	(240)
Total other comprehensive income		(213)	873
Total comprehensive income attributable to shareholders		12,349	10,723

STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Notes	2016 $'000	2015 $'000
Assets			
Current assets			
Cash and cash equivalents	10	996	201
Trade and other receivables	11	5,379	6,222
Inventories	12	67	150
Tax receivable		-	206
Construction contracts in progress	13	23	206
Finance lease receivable	17	42	41
Derivative financial instruments	18	-	80
Total current assets		6,507	7,106
Non-current assets			
Property, plant and equipment	14	266,158	257,206
Intangible assets	16	599	541
Finance lease receivable	17	776	821
Total non-current assets		267,533	258,568
Total assets		274,040	265,674
Liabilities			
Current liabilities			
Trade and other payables	19	8,436	9,303
Employee benefits	20	1,576	1,081
Current tax payable		460	-
Derivative financial instruments	18	116	-
Borrowings	21	1,000	-
Total current liabilities		11,588	10,384
Non-current liabilities			
Borrowings	21	14,000	20,850
Deferred tax liabilities	15	38,395	36,432
Total non-current liabilities		52,395	57,282
Total liabilities		63,983	67,666
Net assets		210,057	198,008
Equity			
Share capital	23	30,797	30,797
Retained earnings	24	144,601	132,339
Revaluation reserve	24	34,765	34,813
Cash flow hedge reserve	24	(106)	59
Total equity		210,057	198,008

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Note	Share capital $'000	Revaluation reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total equity $'000
Opening balance as at 1 April 2014		30,797	34,197	(198)	122,789	187,585
Profit for the year		-	-	-	9,850	9,850
Other comprehensive income		-	616	257	-	873
Total comprehensive income		30,797	616	257	9,850	10,723
Transactions with owners in their capacity as owners						
Dividends paid	30	-	-	-	(300)	(300)
Closing balance as at 31 March 2015		30,797	34,813	59	132,339	198,008
Opening balance as at 1 April 2015		30,797	34,813	59	132,339	198,008
Profit for the year		-	-	-	12,562	12,562
Other comprehensive income		-	(48)	(165)	-	(213)
Total comprehensive income		30,797	(48)	(165)	12,562	12,349
Transactions with owners in their capacity as owners						
Dividends paid	30	-	-	-	(300)	(300)
Closing balance as at 31 March 2016		30,797	34,765	(106)	144,601	210,057

STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		63,953	61,259
Payments to suppliers and employees		(32,441)	(35,323)
Net GST paid		(2,996)	(319)
Interest received	7	47	10
Interest paid	8	(564)	(178)
Income taxes paid		(2,050)	(2,171)
Net cash inflows from operating activities	26	25,949	23,278
Cash flows from investing activities			
Purchase of property, plant and equipment		(19,020)	(38,137)
Purchase of intangible assets - computer software	16	(308)	(306)
Proceeds from sale of property, plant & equipment		324	7
Net cash outflows from investing activities		(19,004)	(38,436)
Cash flows from financing activities			
Drawdown of borrowings		35,190	20,850
Repayment of borrowings		(41,040)	(5,400)
Dividends paid to the shareholders	30	(300)	(300)
Net cash increase/(decrease) from financing activities		(6,150)	15,150
Net increase/(decrease) in cash and cash equivalents		795	(8)
Cash and cash equivalents at the beginning of the year		201	209
Cash and cash equivalents at end of the year	10	996	201

For the year ended 31 March 2016

1. General information

Counties Power Limited ('the Group') owns and operates an electricity distribution network for the conveyance of electricity, supplies electrical equipment, and provides electrical contracting services in the Counties region of New Zealand.

The Group consists of limited liability companies incorporated and domiciled in New Zealand. The address of its registered office is 14 Glasgow Road, Pukekohe. These financial statements were approved by the Board of Directors for issue on 22 June 2016.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The general purpose financial statements are prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards as appropriate for profit oriented entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

Entities reporting
The consolidated financial statements for the Group are for Counties Power Limited and its wholly owned non trading subsidiaries (refer Note 29), which have no assets or liabilities.

The Group is designated as a profit oriented entity for financial reporting purposes.

Statutory base
The Group is a company registered under the New Zealand Companies Act 1993. The financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993. As group financial statements are prepared and presented for Counties Power Limited and its subsidiaries, separate financial statements for Counties Power Limited are no longer required to be prepared and presented under the Companies Act 1993.

Historical cost convention
The financial statements are prepared under the historical cost convention, and where appropriate, modified by the revaluation of financial assets and liabilities and certain classes of property, plant and equipment.

For the year ended 31 March 2016

(b) Basis for consolidation

The Consolidated Financial Statements incorporate the financial statements of the Group and its subsidiaries, as listed in note 29.

The Consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of Counties Power Limited at 31 March. Where necessary, adjustments are made to the Financial Statements of Subsidiaries, to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in New Zealand dollars, rounded to the nearest thousand dollars, which is the Group's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services (including lines charges) provided in the normal course of business, net of customer discounts and Goods and Services Tax. Customer discounts are annual power account discounts returned to consumers and recognised when paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

i) Lines revenue and metering revenue
The Group operates electricity distribution networks and sells distribution and metering services to electricity retailers. Lines and metering revenue is recognised when the Group has delivered services to the customer, and collectability of the related receivables is reasonably assured.

For the year ended 31 March 2016

ii) Construction contracting and capital contributions

Construction contracting

The Group uses the 'percentage of completion method' to determine the appropriate amount of revenue to recognise in a given year. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each significant contract. Costs incurred in the year in connection with future activity on a contract are excluded from the contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the year of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Capital Contributions

Contributions from customers in relation to the construction of new lines for the network are accounted for as income when the asset is connected to the network using a 'percentage of completion' method. Where capital contributions are received in advance of the work being performed, this is initially recorded as deferred capital contribution liability and released to revenue as the work is completed.

iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

iv) Rental income

Rental income is recognised on a straight line basis in accordance with the substance of the relevant agreements.

v) Sales of goods

Sales of goods are recognised when the Group has delivered a product to the customer. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in distribution costs.

vi) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(e) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Goods and Services Tax (GST)

The Statement of Comprehensive Income is prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(g) Impairment of non-financial assets

All assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Comprehensive Income.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence, such as default, that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the amount of the provision are recognised in the Statement of Comprehensive Income within 'Expenses'.

(j) Inventories

Raw materials and consumables are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Property, plant and equipment

Land, buildings and distribution assets are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation (excluding land). Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. At the end of each reporting period between the triennial period the valuation is reviewed to ensure that the carrying value of the distribution network is recorded at fair value.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings and distribution assets are credited to revaluation reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same assets are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged against profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve account are transferred to retained earnings.

Land is not depreciated. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using either straight-line (SL) or the diminishing value (DV) method. The following estimated useful lives are used in the calculation of depreciation.

Distribution system	5 - 60 years SL
Buildings	40 - 100 years SL
Meters & relays	10 - 15 years SL
Plant & vehicles	1 - 10 years DV
Fibre network	10 - 11 years SL

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Comprehensive Income. When revalued assets are sold, it is the Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(l) Intangible assets

Computer software
Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis (one to seven years). Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(m) Leases

Operating leases as lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Finance leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessee are classified as finance leases.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned income.

Lease income is recognised over the term of the lease to reflect a constant periodic rate of return.

(n) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily 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. The Group has defined the threshold for capitalising interest as any assets taking longer than three months to construct, or greater than $500,000.

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

(p) Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group accounting policy for borrowing costs.

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 end of the reporting period.

For the year ended 31 March 2016

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(r) Employee benefits

Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the effective interest method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service.

Retirement benefit obligations
For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Bonuses
The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where this is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of NZ IAS 37 and involves the payment of termination benefits.

(s) Share capital

Ordinary shares are classified as equity.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at reporting date.

(u) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date. The Group does not have any held to maturity investments or available for sale financial assets.

i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non current assets. Loans and receivables are included in cash and cash equivalents 'trade and other receivables' and 'finance lease receivables' in the Statement of Financial Position.

(v) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Presently the Group has an interest rate swap that it designates as a hedge relating to variable interest rates on its borrowings. In the prior year the Group also had forward exchange contracts that it designated as hedges.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 18. Movements in the cash flow hedge in shareholders' equity are shown in note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/ (losses) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/ (losses) – net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/ (losses) – net'.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk
The Group manages exposure in forecasted foreign currency exposure arising out of the capital expenditure programme in accordance with treasury policy. The Group treasury risk management policy is to hedge up to 100% of anticipated cash flows, in each major foreign currency for the subsequent 12 months. In this respect, the Group has hedged the forecasted foreign currency exposure arising out of the capital expenditure programme through forward exchange contracts. There is no exposure to foreign currency risk at year end.

ii) Cash flow and fair value interest rate risk
As the Group has no significant variable rate interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Group policy currently, for non-core debt, is to maintain a funding facility that provides the appropriate flexibility for the fluctuating requirements at the lowest cost. Hedging arrangements using swaps, collars or options for up to 70% of the exposure are permitted.

Where operational activities lead to the creation of a core level of borrowings, between 30% and 40% of this debt will be hedged by an interest rate swap with the remainder placed in at least two facilities with maturity periods aligned to optimise risk and value.

Sensitivity analysis
Interest rate swap contracts hedging the forecasted variability in cash flows arising out of variable interest rates on borrowings are treated as cash flow hedges. Any changes in variable interest rates would have no material impact on profit or loss in relation to the portion of borrowings hedged, as changes in the fair value of these interest rate swap contracts are taken through other comprehensive income where the hedge is an effective hedge.

A 100 basis points increase or decrease in interest rates is used for the interest rate sensitivity analysis. The impact of this movement on profit or loss and equity for 2016 is immaterial.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Otherwise, management assesses the credit quality of customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

The maximum exposure to credit risk is best represented by the carrying value of cash and cash equivalents, trade and other receivables and finance lease receivables as indicated in note 22.

The Group incurs credit risk from transactions with trade debtors and financial institutions in the normal course of business. At reporting date the Group had a significant concentration of credit risk relating to the amount receivable from Electricity Retailers. The Group has a programme to manage this risk concentration, including monitoring the credit status of the major debtors, adhering to specific credit policy requirements and having the contractual ability to require security to be provided by these customers under certain circumstances.

One customer comprised 26% of the Group's total trade and other receivables as at 31 March 2016 (2015: 25%). The Group does not expect the non-performance of any material obligations as at reporting date.

The Group does not generally require collateral or security to support financial instruments other than as outlined above, due to the quality of the financial institutions dealt with.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Liquidity risk management has the objective of maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities to meet the short and long term commitments of the Group as they arise in an orderly manner. Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow. The Board of Directors approve all new borrowing facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016				
Trade and other payables	8,436	-	-	-
Bank loans	1,313	14,365	-	-
Derivative financial instruments (fair values)	116	-	-	-
At 31 March 2015				
Trade and other payables	9,303	-	-	-
Bank and loans	-	6,820	22,718	-
Derivative financial instruments (fair values)	(80)	-	-	-

For the year ended 31 March 2016

(d) Fair value estimation

The Group has discounted long term receivables and payables at the implicit rate for finance leases receivable, and at the cost of borrowing for other items.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

NZ IFRS 13, Financial Instruments: Disclosures requires disclosure of the fair value measurements by level from the following fair value hierarchy:

- Level 1 – Quoted price (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted price included within level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – Inputs for assets and liabilities that are not based on observable market data (that is, unobservable inputs).

The only financial instruments held by the Group that are measured at fair value are over the counter derivatives. These derivatives have all been determined to be within level 2 of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable (refer note 3(a) (i)). Credit risk is incorporated into the valuation of derivatives.

Distribution system assets and land & buildings are classified within level 3 of the fair value hierarchy. The valuation techniques and assumptions for distribution system assets and land & buildings measured at fair value are disclosed in note 14.

(e) Capital risk management

The Group manages its capital structure and makes adjustments to it in light of economic conditions. To maintain or adjust the existing structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 31 March 2016 and 2015.

The Group monitors its compliance with banking covenants as required by its bankers, Westpac Banking Corporation and ASB Bank Limited (note 21). There have been no breaches during the year.

The Group monitors equity using a gearing ratio (a non-GAAP measure), which is net debt divided by total equity plus debt. The Group includes within net debt borrowings less cash and cash equivalents.

The gearing ratios are as follows:	**2016** **$'000**	**2015** **$'000**
Borrowings	15,000	20,850
Less: Cash and bank	(996)	(201)
Net debt	14,004	20,649
Equity	210,057	198,008
Equity plus net debt	224,061	218,657
Gearing ratio	6%	9%

4. Critical judgements in applying the entity's accounting policies

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below).

i) Electricity line revenue recognition
Part of the line revenues are based on normalisation, where consumption is estimated to the end of the billing period based on historical actual electricity usage. Occasionally historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue (refer to note 11).

ii) Construction contracting and capital contributions
The Group uses the percentage completion method in accounting for its fixed price contracts to deliver, design and construct assets and provide services as well as capital contributions. Use of the percentage completion method requires the Group to estimate the total cost of the contracts in order to determine the proportion of costs to date to the total costs which it uses as an approximation of the percentage complete.

iii) Valuation of network distribution system
The Group estimates the fair value of the distribution network using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network sale transactions, there is a lack of market-based evidence available to determine fair value. The valuation has therefore been determined using the discounted cash flow method. The major inputs that are used in the valuation model that require management judgement include load growth and pricing, projected capital expenditure profiles and discount and inflation rates as detailed in note 14.

iv) Valuation of buildings and land
In accordance with its accounting policy the Group revalues its properties at least once every three years. The valuations, which are performed by independent valuers, involve estimates as detailed in note 14.

v) Depreciation
Judgements have been made in relation to the Group's depreciation rates as per note 2(k).

5. New standards

No new standards and amendments have been adopted by the Group for the year ended 31 March 2016 which have a material impact on the financial statements.

New standards, amendments and interpretations to existing standards that are not yet effective which the Group has not adopted early include:

NZ IFRS 9: *Financial Instruments* (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39.

For the year ended 31 March 2016

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

NZ IFRS 15: *Revenue from contracts with customers* (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

NZ IFRS 16: '*Leases*' replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers. The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

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6. Revenue

	2016 $'000	2015 $'000
Electricity line revenue – gross	51,911	50,008
Customer discounts	(9,605)	(9,538)
Net electricity line revenue	42,306	40,470
Metering revenue	3,172	2,240
Other sales and service revenue	1,518	1,906
Construction contract revenue	2,270	3,272
Captial contributions	4,310	4,237
Total	53,576	52,305

7. Other income and gains

Gain on disposal of fixed assets	220	3
Interest income	47	10
Rent income	86	102
	353	115

For the year ended 31 March 2016

8. Expenses

	2016 $'000	2015 $'000
Expenses, excluding finance costs, included in the statement of comprehensive income		
Employee benefits expense	12,001	12,122
Depreciation and amortisation expense	10,163	10,050
Transmission costs	10,511	12,029
Other expenses	4,036	4,983
Rental rebates	(619)	(467)
	36,092	38,717
Finance costs - borrowings	564	178
Included in expenses above		
Depreciation (note14)		
Plant & vehicles	1,072	1,376
Buildings	190	180
Distribution system	7,086	7,328
Meters & relays	1,414	682
Fibre network	151	148
Total depreciation	9,913	9,714
Amortisation		
Computer software (note 16)	250	336
Total amortisation	250	336

9. Income tax expense

(a) Income tax expense

	2016 $'000	2015 $'000
Current tax	2,716	1,829
Deferred tax	1,995	1,846
	4,711	3,675

For the year ended 31 March 2016

(b) Numerical reconciliation of income tax expense to prima facie tax payable

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	2016 $'000	2015 $'000
Profit before tax	17,273	13,525
Non-taxable items	(165)	(353)
Taxable profit	17,108	13,172
Income tax expense attributable to taxable profits @ 28% (2015: 28%)	4,790	3,688
Prior year adjustments	(79)	(13)
Income tax expense	4,711	3,675

(c) Imputation credit account

The value of imputation credits available for subsequent reporting periods as at 31 March 2016 is $20.7million (2015: $18.7m).

10. Cash and cash equivalents

	2016 $'000	2015 $'000
Bank balances	996	201

11. Receivables

	2016 $'000	2015 $'000
Trade receivables	703	1,488
Accrued revenue	4,525	4,558
Provision for impairment	(295)	(295)
Net trade receivables	4,933	5,751
Sundry prepayments	446	471
Total receivables	5,379	6,222
Provision for impairment		
Opening balance	295	250
Increase/(decrease) in provision recorded during the year	-	45
Closing balance	295	295

(a) Bad and doubtful trade receivables

The Group has recognised an expense of $172,855 in respect of bad and doubtful trade receivables during the year ended 31 March 2016 (2015: $114,902). The movement has been included in "Expenses" in the Statement of Comprehensive Income.

(b) Fair value

The carrying amount of trade and other receivables approximates fair values because all amounts are due within one month and there are no material amounts where settlement is expected in more than 12 months.

Trade receivables that are less than three months past due are not considered impaired. As at 31 March 2016, trade receivables of $99,761 (2015: $329,370) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of all past due trade receivables is as follows:

	2016 $'000	2015 $'000
1 month overdue	48	157
2 months overdue	51	172
3 months overdue	26	20
Over 3 months	318	409
	443	758

Of the amounts 3 months or more overdue $295,000 (2015: $295,000) has been provided for.

12. Inventories

	2016 $'000	2015 $'000
Raw materials and consumables		
- at the lower of cost and net realisable value	67	150
	67	150

13. Construction contracts in progress

	2016 $'000	2015 $'000
Construction contract costs incurred and recognised	21	192
Recognised surplus on contracts	2	14
Total construction contracts in progress	23	206

For the year ended 31 March 2016

14. Non-current assets - property, plant and equipment

	Land $'000	Buildings $'000	Plant & vehicles $'000	Meters & relays $'000	Distribution system $'000	Fibre network $'000	Total $'000
Year ended 31 March 2015							
Opening net book value	9,428	6,782	4,470	4,675	202,532	526	228,413
Additions	-	586	917	9,195	28,831	13	39,542
WIP	-	-	-	-	(1,281)	-	(1,281)
Revaluation surplus (deficit) (note 24)	856	-	-	-	-	-	856
Disposals	-	-	(270)	(340)	-	-	(610)
Depreciation charge	-	(180)	(1,376)	(682)	(7,328)	(148)	(9,714)
Closing net book value	**10,284**	**7,188**	**3,741**	**12,848**	**222,754**	**391**	**257,206**
At 31 March 2015							
Cost or valuation	10,284	7,824	15,750	15,789	222,754	1,106	273,507
Accumulated depreciation	-	(636)	(12,009)	(2,941)	-	(715)	(16,301)
Net book value	**10,284**	**7,188**	**3,741**	**12,848**	**222,754**	**391**	**257,206**
Year ended 31 March 2016							
Opening net book value	10,284	7,188	3,741	12,848	222,754	391	257,206
Additions	-	58	1,056	2,831	13,513	61	17,519
WIP	-	-	585	-	916	-	1,501
Revaluation surplus (note 24)	-	-	-	-	(48)	-	(48)
Disposals	-	-	(40)	-	(67)	-	(107)
Depreciation charge	-	(190)	(1,072)	(1,414)	(7,086)	(151)	(9,913)
Closing net book value	**10,284**	**7,056**	**4,270**	**14,265**	**229,982**	**301**	**266,158**
At 31 March 2016							
Cost or valuation	10,284	7,423	16,335	18,620	237,054	1,167	290,883
Accumulated depreciation	-	(367)	(12,065)	(4,355)	(7,072)	(866)	(24,725)
Net book value	**10,284**	**7,056**	**4,270**	**14,265**	**229,982**	**301**	**266,158**

The Group's network fibre assets are held under finance lease arrangements as detailed in note 17.

For the year ended 31 March 2016

Distribution system assets

Distribution system assets were subject to an independent valuation as at 31 March 2015. As the fair value of the assets was not able to be reliably determined using market based evidence, the valuation was prepared using discounted cash flow methodology. The valuation was independently prepared by Deloitte and the key assumptions used are shown in the table below. In all cases an element of judgement is required. The valuation was based on revenue and cost assumptions applied against a combination of WACC and CPI inflation rates that are generally in the mid-point of the range.

Assumptions	Valuation assumptions adopted	Low	High	Valuation impact $'m
Domestic load growth	0.8%	0.3%	1.3%	-/+4.6
Capital expenditure	$111.3m[1]	90%	110%	-/+1.3
WACC	6.5%	6.0%	7.0%	-/+9.0
CPI inflation	2.0%	1.5%	2.5%	-/+8.0

[1]This amount represents capital expenditure over ten years, as shown in the Company's asset management plan, excluding terminal capital expenditure.

The valuation range determined by Deloitte was $211m to $228m. The Board adopted a valuation of $223m as a fair value at 31 March 2015. Management has undertaken a review at 31 March 2016 to determine whether the value of the distribution system assets remains materially appropriate. This review indicated that the carrying value of these assets continues to reflect their fair value.

Land and buildings

The network buildings and land were revalued upwards by $0.85 million as at 31 March 2015. These valuations were prepared by Marsh & Irwin Limited, independent valuers and property consultants with local experience. These valuations were carried out in accordance with API and PINZ Professional Practice and International Valuation Standards. The valuations were determined based on notional market rent assessed for the buildings based on rentals for larger commercial/industrial properties throughout South Auckland. The notional rental income was capitalised at a yield or return to reflect the nature of the property, age and conditions of the buildings.

The fair value measurement of land and buildings are considered to be level 3 as they are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

For the year ended 31 March 2016

If distribution network, land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2016 $'000	2015 $'000
Deemed cost – distribution network	259,254	244,825
Accumulated depreciation	(48,893)	(42,488)
Net book value	210,361	202,337
Deemed cost – land	1,638	1,638
Deemed cost – buildings	5,533	5,475
Accumulated depreciation - buildings	(1,223)	(1,033)
Net book value	5,948	6,080

15. Deferred tax liabilities

Movements	2016 $'000	2015 $'000
Opening deferred tax liability	36,432	34,247
Charge to income tax expense	1,995	1,846
Cash flow hedges	(32)	99
Deferred tax recognised on revalued assets	-	240
Closing balance at 31 March	38,395	36,432
Deferred tax assets		
Deferred income tax asset to be recovered after more than 12 months	370	269
Deferred income tax asset to be recovered within 12 months	158	116
Closing balance	528	385
Deferred tax liabilities		
Deferred income tax liability to be recovered after more than 12 months	38,923	36,817
Deferred income tax liabilities (net)	38,395	36,432

For the year ended 31 March 2016

	Revaluation of property, plant and equipment $'000	Depreciation $'000	Other $'000	Total $'000
Deferred tax liabilities				
At 31 March 2014	27,825	6,883	(461)	34,247
Charged/(credit) to profit or loss	-	1,850	(4)	1,846
Cash flow hedges	-	-	99	99
Charged directly to equity	240	-	-	240
At 31 March 2015	28,065	8,733	(366)	36,432
Charged/(credit) to profit or loss	-	2,119	(124)	1,995
Cash flow hedges	-	-	(32)	(32)
Charged directly to equity	-	-	-	-
At 31 March 2016	28,065	10,852	(522)	38,395

16. Intangible assets

	2016 $'000	2015 $'000
Computer software		
Cost	4,452	4,143
Accumulated amortisation	(3,853)	(3,602)
Net book value	599	541
Opening net book value	541	571
Additions	308	306
Amortisation charge	(250)	(336)
Closing net book value	599	541

For the year ended 31 March 2016

17. Finance leases

	2016 $'000	2015 $'000
Current receivables		
Finance leases – gross receivables	72	72
Unearned finance income	(30)	(31)
	42	41
Non-current receivables		
Finance leases – gross receivables	997	1,083
Unearned finance income	(221)	(262)
	776	821
Gross receivables from finance leases		
- No later than 1 year	72	72
- Later than 1 year and no later than 5 years	289	289
- Later than 5 years	708	794
Total gross receivables	1,069	1,155
Unearned future finance income on finance leases	(251)	(293)
Net investment in finance leases	818	862
The net investment in finance leases may be analysed as follows		
- No later than 1 year	42	41
- Later than 1 year and no later than 5 years	256	255
- Later than 5 years	520	566
	818	862

The Group has leased capacity on its fibre network over the next 20 years.

For the year ended 31 March 2016

18. Derivative financial instruments

	2016 $'000	2015 $'000
Forward exchange contracts	-	80
Interest rate swap	(116)	-
Net derivative financial instruments	(116)	80

All derivatives were designated as cash flow hedges.

The principal amount of the interest rate swaps was $4,000,000 (2015: $4,000,000). This is for the three year period ending 19 March 2018, at a fixed rate of 3.73%.

The Group had no outstanding forward foreign exchange contracts at 31 March 2016 (2015: $1,811,134).

The hedged highly probable forecast transactions denominated in foreign currency at 31 March 2015 occurred at various dates during the year. Gains and losses recognised in the hedging reserve in equity (note 24) on forward foreign exchange contracts as of 31 March 2015 were included in the initial amount recognised for the purchase of plant and equipment, in which case recognition is over the lifetime of the asset.

19. Trade and other payables

	2016 $'000	2015 $'000
Trade payables	2,781	2,595
Sundry accruals	2,151	3,556
Deferred capital contributions liability	2,435	1,997
	7,367	8,148
Finance lease – deferred income	1,069	1,155
Total payables	8,436	9,303

20. Employee benefits

	2016 $'000	2015 $'000
Employee benefits	41	41
Retirement benefit obligations	285	283
Holiday pay	750	757
Unpaid leave	500	-
Total provisions	1,576	1,081

For the year ended 31 March 2016

Provision is made for annual leave, bonuses and superannuation payments due to employees.

The unpaid leave provision relates to liabilities for the incorrect calculation of historical leave payments under the Holiday Pay Act 2003.

21. Borrowings

	2016 $'000	2015 $'000
Unsecured – interest bearing		
Bank loan – current	1,000	-
Bank loan – non-current	14,000	20,850
Total borrowings	15,000	20,850

(a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on interest bearing liabilities are set out in Note 3.

(b) Financing arrangements

Unrestricted access was available at reporting date to the following lines of credit:

	2016 $'000	2015 $'000
Credit standby arrangements		
Total facilities		
Bank loans	45,000	45,000
Used at reporting date		
Bank loans	15,000	20,850
Unused at reporting date		
Bank loans	30,000	24,150

The revolving credit bank loan facilities may be drawn down at any time. The Westpac banking loan facility limit is $15.0 million (2015: $15.0 million), where $1.0 million has been drawn down as of balance date and expires on 20 November 2016. The ASB banking loan facility limit is $30.0 million and expires on 1 December 2017. There have been no breaches of debt covenants during the year (2015: nil) and the Group forecasts it will continue to comply with covenants. Borrowings are subject to restrictive covenants imposed by Westpac and ASB. The principal covenants are as follows:

- The ratio of EBIT to interest in respect of each period of 12 months ending on an annual or half-yearly balance date of the Group shall not be less than 12 times.

- Shareholder's funds are not less than 50% of adjusted total tangible assets at any time during the continuance of the facility.

The weighted average interest rate on borrowings was 3.91% (2015: 5.01%). The Distribution System and Metering assets include capitalised borrowing costs of $178,000 (2015: $368,000).

(c) Fair value

The fair value of current borrowings equals their carrying amount, as all borrowings are at floating interest rates.

(d) Foreign currency risk exposure

All of the Group's borrowings are denominated in New Zealand dollars.

22. Financial instruments by category

Assets as per Statement of Financial Position	Held at fair value through the profit and loss $'000	Loans and receivables $'000	Total $'000
At 31 March 2016			
Finance lease receivable	-	818	818
Trade and other receivables	-	4,933	4,933
Cash and cash equivalents	-	996	996
	-	6,747	6,747
At 31 March 2015			
Derivative financial instruments	80	-	80
Finance lease receivable	-	862	862
Trade and other receivables	-	5,751	5,751
Cash and cash equivalents	-	201	201
	80	6,814	6,894

Liabilities as per Statement of Financial Position	Derivatives used for Hedging $'000	Financial liabilities at amortised cost $'000	Total $'000
At 31 March 2016			
Derivative financial instruments	116	-	116
Borrowings	-	15,000	15,000
Finance lease liabilities	-	1,069	1,069
Trade and other payables	-	7,367	7,367
	116	23,436	23,552
At 31 March 2015			
Borrowings	-	20,850	20,850
Finance lease liabilities	-	1,155	1,155
Trade and other payables	-	8,148	8,148
	-	30,153	30,153

For the year ended 31 March 2016

23. Share capital

	2016 $'000	2015 $'000
Share capital		
Ordinary shares	30,797	30,797
Total share capital	30,797	30,797

Ordinary shares

At 31 March 2016 there were 15,000,000 fully paid ordinary shares. (2015: 15,000,000).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share. All shares have no par value.

24. Reserves

	2016 $'000	2015 $'000
Retained earnings		
Opening balance	132,339	122,789
Net surplus for the year	12,562	9,850
Dividends paid (2 cents per share)	(300)	(300)
	144,601	132,339
Asset revaluation reserve		
Opening balance	34,813	34,197
Revaluations (note 14)	(48)	856
Deferred tax	-	(240)
Closing balance	34,765	34,813
Cash flow hedge reserve		
Opening balance	59	(198)
Derivative contracts taken into equity	(197)	356
Deferred tax	32	(99)
Closing balance	(106)	59
Total retained earnings and reserves	179,472	167,211

For the year ended 31 March 2016

25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the entity, its related practices and non-related audit firms:

	2016 $'000	2015 $'000
Audit services		
Auditing the Financial Statements	91	98
Audit of Regulatory Statements	34	32
Total audit services	125	130
Other services		
Revenue process review	20	-
Regulatory – advice	9	6
Total auditors' remuneration	154	136

The revenue process review relates to work performed by our auditors to assess the Group's electricity distribution revenue management processes. Regulatory advice comprises submissions to the Commerce Commission on behalf of a group of electricity distribution business, of which Counties Power is a member.

26. Reconciliation of profit after income tax to net cash inflows from operating activities

	2016 $'000	2015 $'000
Profit after tax	12,562	9,850
Depreciation and amortisation	10,163	10,050
Changes in deferred tax	1,995	1,846
Net loss /(profit) on sale of assets	(217)	479
	11,941	12,375
Increase in trade debtors	686	(883)
Decrease in inventories	83	164
Increase in trade creditors	(667)	2,312
Decrease in construction contracts	183	(144)
Decrease/(increase) in income tax payable	665	(344)
Decrease/(increase) in employee benefits	496	(52)
	1,446	1,053
Net cash inflows from operating activities	25,949	23,278

For the year ended 31 March 2016

27. Contingent liabilities

The Group had no contingent liabilities at 31 March 2016 (2015: nil).

28. Commitments

(a) Capital commitments

The Group had $279,000 committed for property, plant and equipment at 31 March 2016 (2015: $57,000).

(b) Operating lease commitments

The Group has a lease agreement with Transpower New Zealand which commenced in July 2005, and terminates in 2025.

	2016 $'000	2015 $'000
Operating lease commitments		
No later than 1 year	102	102
Later than 1 year and no later than 5 years	410	410
Later than 5 years	410	513
	922	1,025

29. Other registered holdings

Name of entity	Interest held by entity 2016	Interest held by entity 2015
Subsidiaries		
Awhitu Land Holdings Limited	100%	100%
Counties Power Lines Limited	100%	100%
New Zealand Relay Limited	100%	100%
Investment		
SmartCo Limited	14.29%	12.33%

All Companies have a balance date of 31 March and are incorporated in New Zealand. The Companies are non-trading in both the current and comparative years.

30. Related party transactions

(a) Parent

The Group is 100% owned by the Counties Power Consumer Trust.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2016 $'000	2015 $'000
Dividends paid	300	300

Counties Power owns 14.29% of SmartCo Limited and benefits from the group buying benefits of SmartCo in relation to smart meters and related equipment. The Group paid a contribution of $6,000 to the operating costs of SmartCo Limited during the year (2015: $6,000).

The Group had no other related party transactions during the year.

(c) Outstanding balances

The Group had no outstanding balances with related parties at balance date (2015: nil).

(d) Key management personnel compensation

	2016 $'000	2015 $'000
Directors' fees	286	273
Salaries and short term employee benefits	2,711	2,486
Termination payments	68	95
Total salaries abd short term employee benefits	3,065	2,854

31. Events occurring after the reporting date

The Group had no events occurring after reporting date which require recognition or disclosure in the financial statements.

For the year ended 31 March 2016

The table below sets out the performance targets included in the Statement of Corporate Intent for 2015/16.

	2016		2015	
	Target	Actual	Target	Actual
Earnings before customer discounts, interest and tax expressed as a percentage of total average capital employed	11.5%	12.3%	10.7%	11.3%
Profit or loss before customer discounts and after tax expressed as a percentage of average consolidated shareholders' funds	8.9 %	9.4 %	8.2 %	8.7 %
Average minutes without electricity per customer: (SAIDI)				
• Unplanned outages	70	99.24	70	99.17
• Planned	25	19.07	35	20.91
Average number of faults per customer (11kV and above) (SAIFI)	2.55	2.70	2.65	2.58

Unplanned outages, as measured by SAIDI, (average minutes without electricity per customer), exceeded the target by 29.24 minutes (41% unfavourable). Adverse weather events in the first quarter, along with vegetation (25.6 minutes), overhead equipment failure (25.2 minutes) and a high number of car versus pole incidents (19.5 minutes) contributed to the unplanned SAIDI during the year.

Planned SAIDI was 5.93 minutes below the target (23% favourable) for the year due to the application of the new Commerce Commission calculation methodology which halves the impact of planned outages.

SAIFI performance was unfavourable against the target due to the nature of unplanned outages which occurred during the year, including zone substation outages affecting large numbers of customers, although only for short durations.

The impact of normalisation on the 2016 performance results reduced Unplanned SAIDI from 103.5 minutes to 99.24 minutes, and Planned SAIDI from 38.14 minutes to 19.07 minutes. Normalisation of SAIFI reduced the result from 3.49 to 2.70. Normalisation had no impact on 2015 SAIDI and SAIFI.

The SAIDI and SAIFI results were calculated using information from the Company's non-financial systems, which includes the manual recording of some outage types, which affects the completeness of interruption data, and in some cases the accuracy of installation control point (ICP) numbers included in the SAIDI and SAIFI calculations.

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Independent Auditor's Report

To the readers of Counties Power Limited and Group's financial statements and statement of service performance for the year ended 31 March 2016.

The Auditor-General is the auditor of Counties Power Limited (the company) and group. The Auditor-General has appointed me, Pip Cameron, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

Opinion on the financial statements and statement of service performance

We have audited:

- the financial statements of the company and group on pages 8 to 46, that comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company and group on page 47.

Unmodified opinion on the financial statements

In our opinion, the financial statements of the company and group on pages 8 to 46:

- present fairly, in all material respects:
  - its financial position as at 31 March 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

Disclaimer of opinion on the SAIDI and SAIFI performance measures in the statement of service performance

Reason for our disclaimer of opinion

Our audit was limited because we could not confirm the completeness and accuracy of all the SAIDI and SAIFI outage data due to:

- no independent evidence being available to support the completeness and accuracy of the recorded faults used to measure the company and group's achievement against the SAIDI and SAIFI performance targets adopted; and
- limited control over the completeness and accuracy of interconnection point ('ICP') data representing individual customer connections to the network included in the SAIDI and SAIFI calculations throughout the period.

There are no practical audit procedures to determine the effect of these limitations in independent evidence and controls. As a result we are unable to form an opinion as to whether the amounts and details set out in the SAIDI and SAIFI performance information, of which the outage and ICP data are integral elements, in the company and group's performance targets gives a true and fair view of the company and group's achievements.

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Disclaimer of opinion
Because of the significance of the matters described in the "reason for our disclaimer of opinion" paragraph above, we are unable to form an opinion as to whether the SAIDI and SAIFI performance measures adopted for the year ended 31 March 2016 which are reflected in the statement of service performance of the company and group on page 47:

- present fairly, in all material respects, the company's achievements measured against the SAIDI and SAIFI performance targets adopted for the year ended 31 March 2016.

Attention is drawn to the fact that we issued a disclaimer of opinion on the company and group's 31 March 2015 SAIDI and SAIFI outage data due to no independent evidence being available to support the completeness and accuracy of the recorded faults used to measure the company and group's achievement against the SAIDI and SAIFI performance targets, and because there was limited control over the completeness and accuracy of interconnection point ('ICP') data representing individual customer connections to the network included in the SAIDI and SAIFI calculations throughout the period. As a consequence, no assurance can be provided in relation to this limitation on the comparative information presented in the 31 March 2016 statement of service performance.

Unmodified opinion on the other performance measures in the statement of service performance
In our opinion, the other performance measures (that is the measures other than the SAIDI and SAIFI performance measures) in the statement of service performance:

- present fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 31 March 2016.

Our audit was completed on 29 June 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion
We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. We are unable to determine whether there are material misstatements because the scope of our work was limited, as we referred to in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the statement of service performance within the company and group's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements in accordance with NZ IFRS and generally accepted accounting practice and for the preparation and fair presentation of the statement of service performance for the group.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012. We have also provided regulatory compliance advice and other advisory services to the company and group. These assignments were compatible with the Auditor-General's independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.

Pip Cameron
On behalf of the Auditor-General
Auckland, New Zealand

PricewaterhouseCoopers