

Northpower

Annual Report

2013-2014



Northpower Transmission Line Mechanic Lenny Goodwin.

Northpower Annual Report 2013-2014

The Board of Directors is pleased to present the Annual Report of Northpower Ltd and its subsidiaries (West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd) for the year ended 31 March 2014.



Warren Moyes (Chairman)



David Ballard



Russell Black



Nikki Davies-Colley



Ken Hames



Michael James



John Ward

For and on behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read 'W Moyes'.

Warren Moyes
Chairman

A handwritten signature in black ink, appearing to read 'Nikki Davies-Colley'.

Nikki Davies-Colley
Director

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CHAIRMAN'S REPORT



It's not often you can reflect on a career role spanning 21 years but as I look back on Northpower's success over the past 12 months there is plenty to contemplate.

I became a Deputy Chairperson of Northpower in 1990 and was elected Chairperson in 1993, remaining in the role since.

In 1991, when solely an electricity network company, Northpower had an asset value of \$52m and annual revenue of \$54m. Those figures have risen dramatically in the decades since - to \$423m and \$308m respectively at the close of the 2013/2014 financial year. Two successive years of record group revenue and group profit suggest the company is on a solid foundation.

Northpower is now a leader in its field, from contracting and fibre communications to innovation and the best in service delivery.

I see six key areas that have led to this positive growth and success – the maturing of our Australian subsidiary, West Coast Energy; the Whangarei Ultra-Fast Fibre network; the numerous awards collected by (mainly) individuals and the company as a whole; the consolidation of our New Zealand Contracting; the ongoing drive for the highest of safety standards in the company; and the unique culture created and cultivated by everyone within Northpower – under the leadership of Chief Executive Mark Gatland.

Few New Zealand businesses survive when embarking on an Australian expansion. For the Northpower Directors, much like the expansion into the contracting marketing in the New Zealand electricity sector in the late 1990s, the Australian move was a strategic goal that had to succeed. We launched in Australia in 2007. The Global Financial Crisis hit the following year and while many more established companies folded around us, we held on. It was not easy. Over the past two years we have turned these tough times into a cash flow positive operation. So many years after stepping out of our comfort zone, we began to hit our straps as we believed we would always do.

We have a long way to go but we are now a valued player in the Australian electricity sector with many established contracts amongst some of Australia's largest electricity lines companies.

Having recently opened our new depot in Perth, I see our growth only strengthening. We have put a stake in the ground and will continue to service our clients well while growing our profitability. Without the well considered support of the Northpower Electric Power Trust this would not have been possible.

And under the leadership of Chief Executive Sean Horgan, WCE is well-positioned to prosper in the years ahead. The opening of a new head office in Perth is a significant move that emphasises our readiness for longevity. We have clearly put a stake in the ground as a long term and solid contractor of choice for Australian electricity networks.

Northpower has a culture of integrity, hassle free service, and transparency; WCE shares this vision and ethos and as a result has established some very solid relationships in the tough Australian market which is positive after putting ourselves so far out of our comfort zone with the expansion of our contracting division there seven years ago. With risk comes reward and this is a prime example of just that.

Similarly, the Board of Directors openly encouraged the expansion into fibre communications in 2007 and what a remarkable journey that has been. We were awarded one of the first Ultra-Fast Broadband contracts in 2010 which saw Northpower take on the Whangarei UFB fibre network.

It has taken only three years to build a greenfields network to 19,117 Whangarei homes, businesses, healthcare and education facilities. We finished ahead of time to a high standard, which prompted a very complimentary response from Prime Minister John Key.

I am so proud of our fibre team for the drive, enthusiasm, passion and innovation they have shown to complete, in such a short space of time, New Zealand's first and fastest UFB fibre network. Don't get me wrong, it was by no means easy but our people and contractors made the sacrifices because they believed in the outcome. We will look back in history at this infrastructure build and realise how immense its impact has been on our society – not just for Whangarei but the wider areas of Northland. We can't fathom the reach at this stage – just as we couldn't with electricity a century ago – but what it will enable in our community will surprise.

I look also at the number of industry awards we continue to collect. This is a source of satisfaction. So many of these are down to individuals excelling in their professions, yet much of what they do is of benefit to

CHAIRMAN'S REPORT

the wider electricity sector. And much of the backbone of these awards is a backbone of safety. That is the Northpower way.

I look at Business Support general Manager Barbara Harrison winning a Prime Ministerial Scholarship and Field Services Safety and HR Manager Vern Rosieur being recognised as follows: 2014: Safeguard NZ Workplace Health & Safety Awards - Most influential Employee. They are both genuinely good people driven to do their best in their professions but always with an eye to helping others.

And of course such recognition comes on the back of Northpower being voted New Zealand's best lines company of the year in 2013, due to the fact we have such high levels of network reliability and customer service. The Northpower Network business, under the management of Graham Dawson, continues to strengthen its performance by planning well and investing prudently to ensure customers have little to worry about. Even in storm conditions the power restoration times are impressive.

Around the same time, Northpower collected the 2013 Electrical Engineers' Association Workplace Safety Award for a display of mannequins dressed in burnt PPE following flashover incidents.

This display has been extensively toured around New Zealand and has drawn an overwhelmingly positive response from our industry and, more latterly, government, for the impact it has by showing the implicit dangers of our industry. Like other electricity network companies, we want our staff going home safely to their families every day. Ultimately we don't want any injuries to our people and we will continue working towards that goal. Safety is what drives the very essence of Northpower's New Zealand Contracting operation – by far the largest business unit in the company. The business has consolidated well this financial year as clients value the service we provide and our people continue to provide a great end result.

What we should not forget is where we came from and that is a small local electricity company operating our own network in Northland. Attitude is everything and when we were forced out of electricity retailing in the late 1990s, we leapt at contacting – a leap of faith that is paying off handsomely, I believe, for our local community and the wider industry, as we relentlessly seek to set the pace (for health and safety and customer service) under the remarkable leadership of our New Zealand Contracting General Manager Lloyd Richards.

Northpower has transformed itself from a Power Board of old to a multi-disciplinary infrastructure specialist with a culture that I can only describe as unique. The positivity in the business runs true in every employee I have ever come across and there is genuine excitement as to the current achievements, future challenges and looming opportunities.

Former Chief Executive John Ward set the standard and, when he handed the mantle to Mark Gatland in 1998, the journey continued. John once told me the best business decision he ever made was to appoint Mark as his successor and what Mark has done in leading the business, and empowering employees and colleagues is outstanding. While he is often reticent at accepting accolades, he is deserving of many.

Northpower recognises the needs of its clients and takes them on its own journey. A key to this future state continuing is to have leaders the equal of Mark who are willing to push boundaries and believe. Mark himself believes the greatest achievement of any Chief Executive is when his people succeed. Again, that is shown in the multitude of awards the company has collected over the years.

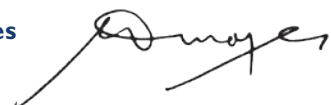
For over two decades Northpower has kept my mind challenged and busy and for a man who gets bored easily, it has been the ultimate company to lead.

So as the longest challenge and perhaps the biggest chapter in my professional directorship career comes to a close, I am proud to reflect on 21 years of achievement as Chairman – thanks to the backing of various governance and executive management teams – and a company that has matured from a local electricity lines business to an international, multi-disciplinary business.

I am stepping aside to allow another future leader to steer an exciting future for Northpower and that is good news for the consumer owners of Kaipara and Whangarei.

I look forward to the company's continued growth as I now embark on other endeavours to enhance Northland's economic and social prospects.

Warren Moyes
Chairman



CHIEF EXECUTIVE'S REPORT



Of all the things achieved this year, the most significant by far is our continued improvement in safety performance. That we achieved our targeted reduction in our 'total injury frequency rate' is great but, more

importantly, we are seeing the attitude and behavioural changes throughout our business – from the work-face to the board room and many of our clients. Several of our work groups have been independently assessed as performing in the top 'culture generative' range of the DuPont safety culture model. It is notable that these particular groups are operating in a competitive and commercially tough environment. They have come together as a group to 'live safely', knowing that it also makes them better service providers despite the pressures to take expedient shortcuts, something we don't want happening.

One of the reasons they feel confident to do this is our staff regularly see the commitment Northpower's Directors have to safety. It is not just high level lip service; they see a genuine (warts and all) presence of the Directors in the field, personal conversations and the consistent focus on safety at Board level. It further adds to their resolve when they clearly see the CEOs of their client companies showing safety leadership.

That said, in our business there is still potential to hurt people. We have had lucky escapes and people saved from serious injury by protective clothing (Personal Protective Equipment), perhaps not surprising considering we work more than two million hours per year – most of them in potentially dangerous situations. Our most critical risks include: falling from heights (or something falling on you), intense burns from electrical explosions, electrocution and injury through vehicle accidents. We carry out heavy construction work in streets and other places where public and consumer safety remains paramount. Our business is defined by its safety culture and performance every day. We can't survive on luck or by being nearly good enough. In too many situations we still end up one human error away from injury. Our goal is Zero Harm. It is firstly about believing that all significant injuries can, and must be, eliminated. Secondly, it is about understanding what is required to achieve this. Our company safety aspiration "Safe, Well & Happy" captures the elements of Zero Harm.

We have discovered through our contracting experience that everyone in our business, along with our clients and the industry - through their decisions and actions - either adds to, or detracts from, the safety outcomes in the field. Every time this aspect is ignored the opportunity is lost and often the field gets tilted against Zero Harm

rather than for it. The critical risks, particularly, require full industry focus. Boards, managers and staff of every organisation in the delivery chain need to knowledgeably assess the health and safety impact of every decision and action, just as they might consider financial, strategic and own operational impact. While we have to manage the last lines of defence, this is about achieving Zero Harm without serious disruption. Empowerment increases accountability by taking away any excuses. Clients who have grasped this are seeing the benefits in safety outcomes and increased productivity. Only a well-run business and industry can hope to achieve Zero Harm.

Northpower's most widely publicised achievement for the year is the completion of our Whangarei Ultra-Fast Broadband fibre network – ahead of schedule and to a very high standard of performance. In conjunction with our very helpful partner, Crown Fibre Holdings, we have spent the past three years proving the best way to provide a cost-effective, world class, open access ultra-fast fibre network to the home is to build it on the electricity network. We have broken new ground with this network. It has been exciting and demanding for our staff and key civil contractor, Drill Tech. As more people in Whangarei connect (in most cases at no cost!) and realise the immense benefits Northpower Fibre brings, I am sure they will join in my thanks to our fibre team and Drill Tech for their commitment.

While the \$30m, three year fibre project got the positive attention of the Prime Minister, over that same period Northpower completed some \$600m of other construction works for (mainly) electricity network clients in New Zealand, the Pacific Islands and Australia. We have spread and grown our capability. I like to think it is because of Northpower's culture to give all our clients the same levels of commitment, capability, energy, innovation and delivery that we have so publicly been recognised for in the Whangarei UFB project.

Overall, the Northpower Group had a solid financial performance in 2013/2014 while continuing growth to achieve record revenues.

Revenue for the Northpower Group for the 2013/2014 financial year lifted 9% to \$308m and Net Profit \$15.9m - a 41% increase on 2012/2013 (\$283m revenue and \$11.3m profit). At the same time Northpower paid electricity consumers in Kaipara and Whangarei connected to the Northpower electricity network \$5.4m (GST incl.) in a line holiday, just two months after the Northpower Electric Power Trust paid consumers a distribution of \$3.8m in December 2013. Yet due to the nature of contracting, challenges remain with the work being so specialised and even small jobs requiring lots of planning. We need to fill our work schedule a minimum of three months ahead throughout the year in order to get both well planned (safe) jobs and efficient utilisation of staff.

CHIEF EXECUTIVE'S REPORT

To be really productive and optimise safety, the industry should target to issue a full year's work by the start of every financial year. This is a great opportunity to improve productivity in the industry.

Much of Northpower New Zealand Contracting's improving performance is the result of an ongoing drive for a lift in leadership throughout the business and we have seen our level of client service also improve. We have outstandingly committed and capable people in this business keen to pick up on any new learning. This is supported by a major contracting-led process and systems project which, combined with the above, will put Northpower at the forefront of client service and contracting services delivery capability. It is currently a significant cost impacting on financial results but we see increasing benefits from 2015 on. We have also made great progress in our transmission work where our client has worked very actively to help us prove our competence, greatly develop our capability and introduce innovations to solve issues.

West Coast Energy, our Australian contracting subsidiary grew revenue 20% and EBIT 70% (off a low base) despite some expensive operational challenges and investment in improving systems and the health and safety culture. This focus delivered results with a 50% reduction in the total injury frequency rate and a further year free of lost time injury. WCE strongly contributes to Northpower's increased capability and is a key component of the Northpower Group's growth strategy. It will also benefit greatly from the new contracting service delivery systems from 2016.

Operationally, the Northpower Network did well, culminating in being voted in 2013 as New Zealand's best lines company thanks to it driving innovation, diversity and strong performance across many aspects of its business. Northpower was also honoured with an international fibre innovation award in Las Vegas in 2013 in recognition of our UFB build.

Northpower's electricity distribution network is where our business started and it remains the heart and soul of the Northpower Group, along with the culture of providing a hassle free service to clients. We have gained great capability through the growth of our contracting business. We are also blessed with highly experienced, capable, committed people in our network team. Even more satisfying to me is the high calibre and energy of the younger engineers coming through to further drive the business. In addition to Northpower's network, they get to apply themselves to challenging development projects throughout the Pacific islands.

Northpower's achievements like the UFB completion are a result of long term strategies. We plan for challenges and opportunities on the horizon and beyond.

For over 20 years we have been tasked to find ways to improve the efficiency of energy use and to provide safe, reliable, sustainable electricity distribution services cost efficiently. Much effort has been in promoting the insulation of homes, the adoption of vastly more efficient products such as compact fluorescent and LED lighting, heat pumps and more efficient versions of just about every electric appliance - together with ongoing education in the community on the safe and efficient use of electricity. These have been effective as we see household electricity consumption fall over the past five years. Yet many homes in Northland still need insulation and moisture control, so it is great to see the continued success of the Healthy Homes initiative which we are also involved in.

Other technology advances in the efficient use and renewable generation of electricity are also being driven rapidly through economic and carbon reduction imperatives. Two notable ones for households are the electric car and roof top solar generation. House roof top solar generation popular in many countries, is seen by many as an attractive way to reduce their electricity costs and socially a good thing. Unfortunately in most New Zealand situations this is simply not correct. Solar power is still very expensive and only seems an okay investment to some householders because all the other consumers are unwittingly subsidising the electricity bill savings this person sees.

Northpower has its own solar installation and its own small hydroelectric power station which produces enough power to supply 3,000 homes. From this we know that a typical 3kW solar installation on a house roof on Northpower's Network produces electricity currently worth about 75 cents per day or \$275 per year. No one would logically spend even \$8,000 for this return and yet these installations are increasingly being installed on Northpower's network because people get to save three times that amount off their electricity bills. The situation arises because the household with solar power reduces its consumption when the sun is shining but takes a full load from the network on a cold winter day and evening.

As network costs (and a large part of renewable generation costs) are determined by the capacity that has to be built, it costs just as much for our network to service the house with solar generation as it would without the solar generation. But currently, we receive a lot less income from that customer which increases the charges to all other consumers. Solar power will have its day but there is no sound reason to subsidise it in New Zealand. We already have a predominant level of renewable generation most countries can only dream of and much lower cost options to extend that if consumption increases.

CHIEF EXECUTIVE'S REPORT

On the other hand, electric cars for commuting make great environmental sense in NZ and are an affordable way to reduce carbon emissions and pollution. Many NZ households have a car for everyday commuting. Currently it might cost an additional \$8,000 to replace it with an electric car but your "fuel" costs will drop to around \$3 per 100km and no more oil changes are required. This is a much better deal for the environment, you and the community.

Our network can cope with thousands of electric vehicles being charged at home overnight with a standard three point plug on off peak control.

The only problem is our electricity pricing structures have not kept up with technology and use average costs instead of reflecting cost drivers. Consumers with the solar panels are rewarded a lot more than what the output is worth and others are likely paying more to charge their electric car than they should. The result is the wrong investment decision gets made and the other electricity consumers pay the cost.

The great thing about the rapidly developing energy technologies is they give people opportunity to make choices. To be fair and enable people to make good decisions, we must reflect cost drivers in our network pricing to electricity retailers. This has to happen within a year or two because with rapidly advancing technology, consumers can make significant investment decisions about their electricity supply which will have far reaching consequences for other consumers. Solar power may be a better option in some circumstances but only if consumers have accurate cost information.

This isn't where enabling our community ends for now. For Northpower, the UFB was always a stepping stone. The greatest benefit would be if everyone on Northpower's electricity network (i.e. all those in the Kaipara and Whangarei Districts) had full access to the fibre network at the same prices as city folk. We have the technology to do this now. For that to be a completed reality in ten years, planning must start now. While for the most part it is a matter of adding the fibre cable, which looks very similar to an electricity conductor to our existing powerlines, there are challenges to overcome, but if we can get a community understanding of the difference such an ubiquitous fibre network across our region would make to the wellbeing of the region, then these will be relatively straightforward. We have to think how it will feel not having it.

It will also need customer commitment to use the network. Before we can build to any street or rural town we would require at least 50% up front commitment. The proactive communities would receive fibre first. We could then connect customers as we build, thus

reducing the financing costs. One day people will expect nothing less than urban UFB speeds in rural New Zealand. There is a fundamental need for it and we will be working closely with our community, local and national authorities to help make it happen.

The support of the trustees who make up the NEPT, the Northpower Board of Directors and my Executive Management team is integral to this. In line with our growth initiatives, we have added additional resource to our Board and Executive Management Team and this is having a positive impact on the business.

I will conclude by now paying tribute to our outgoing Chairman, Warren Moyes, after 21 years in the role. When I was appointed Chief Executive in 1998 Warren and his Board told me they wanted me to lead Northpower to achieve its growth strategy and asked me to tell them what they needed to do so I (Northpower) would be successful. This approach has left me with no excuses and really helped set the tone of the business from the top. Along the way I have seen certain traits in Warren that have never wavered. He has always been absolute on integrity and doing right by people. Warren himself has such a clear view on these fundamental values. He also believes if you are open and honest about everything then that de-stresses the business.

He is one of those people who wants transparency at all times and who does not like surprises, yet he has always been there if I have needed him and is always very encouraging. He has not been one to push himself. Instead he has given me, and others, the room to grow and achieve. Warren has always stated success in business is delivered through people and that we should always ensure that customers have nothing to complain about.

Away from his Chairmanship role, Warren is a deer farmer. I have no hesitation in acknowledging that, just as he would manage the outcome of a stag that misbehaved, had I not measured up during his tenure, my fate would have been similar. I am pleased the business has stayed on the right side of the ledger and that Warren and the various Board members over the years have backed our push on safety. His impact on steering Northpower from its humble origins of small, local lines company in the early 1990s, to a multi-national business that is internationally recognised and respected (in little over 20 years), is far greater than many people will ever realise. It is quite remarkable.

I could not have wished for a better Chairman and I wish Warren well for his next adventures.

Mark Gatland
Chief Executive



FINANCIAL OVERVIEW

Group net profit after tax for the year ended 31 March 2014 was \$15.9m, an increase of 41% on the previous year. The improved performance was driven by a strong improvement in the New Zealand Contracting business and further improvement in the Network Division and West Coast Energy Pty Limited performance. These gains were partially offset by an increase in corporate overheads which reflected the significant investment Northpower is putting into systems and the business transformation project. The line holiday rebate to all consumers was \$4.7m – unchanged from 2013 and the dividend to the Northpower Electric Power Trust was \$5.5m – up 38% on last year.

Network

Earnings before interest and tax (EBIT) for the Network Division increased by 23% over last year. The increase in EBIT was driven by an increase in net revenue of \$2.6m or 4% over prior year revenue coupled with overhead and operating costs control. This was achieved despite largely stagnant consumption and low connection growth and in part due to the acquisition of transmission assets.

Connection growth was around 0.9% in FY14 whilst average consumption per customer declined by 1.7%. In fact the trend over the past five years has been very similar, with average connection growth of only 0.8% per annum whilst average consumption per customer has seen a continuous declining trend.

Fibre Build

Northpower has constructed a fibre network to more than 19,000 premises in Whangarei as part of the Government's Ultra-Fast Broadband initiative. This construction was completed in May 2014 ahead of schedule. The network is owned and operated by Northpower Fibre Ltd (NFL), a joint venture between Northpower and the Crown.

connections increases, Northpower's shareholding in NFL will increase and the Crown's shareholding will decrease. As at 31 March 2014 our total investment in NFL stood at \$9.1m and our shareholding in NFL was 28% (FY13: 23%).

The UFB programme was designed so that the Crown holds the uptake risk. Northpower builds the fibre network in a series of 40 stages. As each stage is completed and tested, we sell it to NFL, which funds the purchase by issuing shares to the Crown. Northpower is required to repurchase NFL shares from the Crown as customers connect. Hence, as the number of

Uptake on the fibre network is currently sitting at just over 8.2% and has grown from 7% over the last year. This is lower than we had hoped but the momentum that is currently building, which is being driven by retailers, will soon result in connections being ahead of plan. Furthermore, the level of connections is the highest of any Local Fibre Company across the country. The ongoing challenge for fibre will be to keep up with the increasing level of demand for connections.

Northpower New Zealand Contracting

FY14 was a busy and challenging year for the NZ Contracting division. Revenue grew by 10% and EBIT also increased over the prior year, reflecting the resolution of issues that impacted on the division during the prior year. These issues included significant downtime incurred whilst training and qualifying staff, regulatory uncertainty impacting on the spend of key customers; and declining efficiencies as our systems and processes struggled to keep pace with the requirements of a diversified customer base.

Transpower. In addition, the NZ Contracting division undertakes all the construction and maintenance on our own electricity network and is responsible for executing the technically and logistically demanding fibre build in Whangarei. NZ Contracting also continues to significantly invest in safety, training, management resource, processes, vehicles and tools.

The NZ Contracting division continues to have a strong foothold in the North Island electricity distribution and transmission maintenance sector, and has long term contracts with Vector, Wellington Electricity and

During FY15 we will continue our significant investment in contracting systems and processes. This, together with our health, safety and lift in leadership programmes, are the three key platforms for NZ Contracting's operational improvement strategy in FY15 and beyond to support our delivery to existing clients and continued growth opportunities.

FINANCIAL OVERVIEW

Australian Contracting

West Coast Energy Pty Ltd performance continued to improve in FY14 with revenue increasing by 20% to A\$62.6m and Net Profit after Tax increasing by 70% to A\$421k.

The significant turnaround over the past year has been due to improvements in utilisation, growth in field service staffing levels and improved commercial conditions with new and existing contracts.

We are heartened by the progress made by West Coast Energy from FY12. We acknowledge however that the business has a long way to go before it is generating an acceptable return on investment. We are confident the three-year strategic plan for West Coast Energy will deliver this outcome.

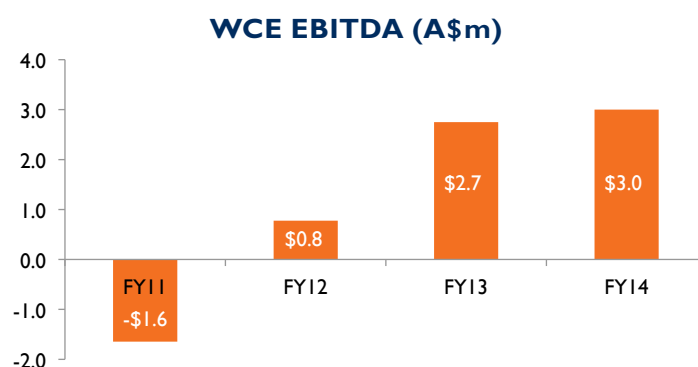
The business continues on a firm footing with more than 80% of our revenue derived from long term contracts with leading Australian electricity networks. While the business clearly has a long journey to consistently generate a strong return on investment, it is certainly tracking in the right direction after many years of challenges.

Thanks to strong levels of forward work for our major customer in Western Australia, we envisage larger revenue and profit increases in the years ahead. The market remains buoyant with spend continuing on electricity network upgrades (driven by pole replacements and bushfire mitigation projects) and network extensions.

The business in Victoria, whilst much smaller, has now secured work on five major networks. We intend to grow the Victorian business in a controlled fashion over the next three years, with a view to securing multi-year distribution maintenance contracts in due course.

The strategic aim for WCE over the next year is continued profitable growth, with a major focus on safety, and additional investment in processes and systems to provide a stable foundation to move forward. Growth in the near term will come through scale and providing complementary services to our existing customers in Western Australia and Victoria.

The 2014/2015 financial year will be a challenging and exciting period for WCE.



FINANCIAL OVERVIEW

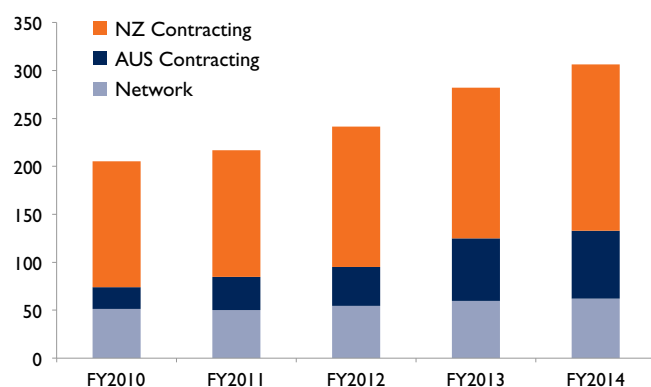
Key financial highlights

(\$m)	FY2014	FY2013	% Change
Revenue	308	283	9%
EBITDAF ¹	37.8	34.4	10%
EBIT	24.3	19.5	25%
NPAT	15.9	11.3	41%
Dividend + Discount	10.2	8.7	17%
Equity	256	249	3%
Assets	424	421	1%
Net Debt	67.5	71.6	-6%
Capital Expenditure	20.1	21.4	-4%
EBITDA/Revenue	12%	12%	
EBIT/Revenue	8%	7%	
Gearing ²	21%	22%	
EBIT Interest Cover	6.5 x	4.8 x	

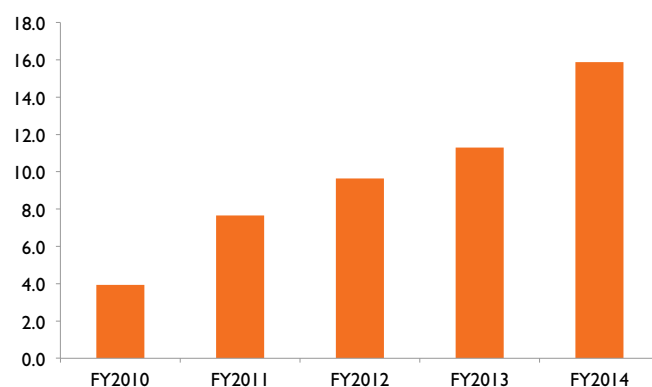
¹ Earnings before interest, tax, depreciation and fair value movements in derivatives

² Net debt / Net debt + Equity

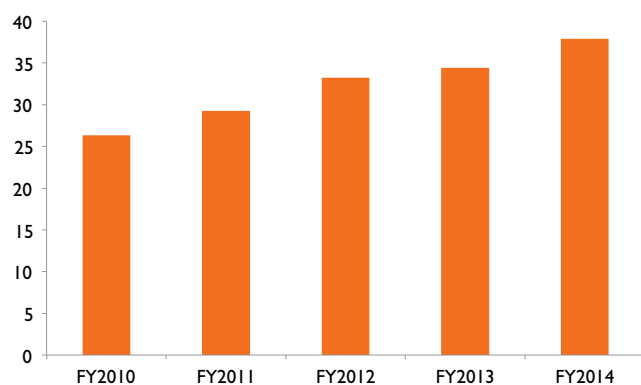
Revenue



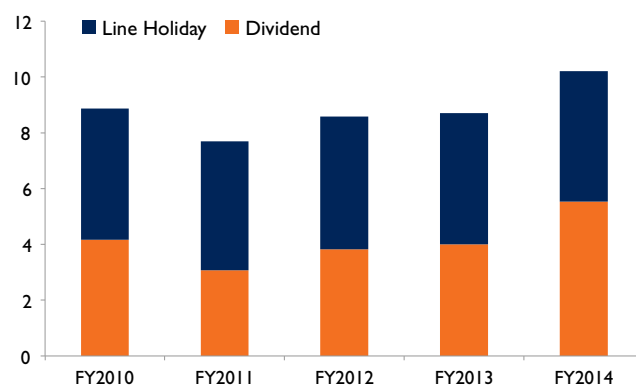
Net Profit After Tax



EBITDA



Dividends + Discounts



NORTHPOWER'S NETWORK

Line holiday for Northpower consumers

Around 55,000 Northpower consumers received yet another cash injection in February 2014 – this time totalling more than \$5 million.

The line holiday resulted in \$5.4m (GST incl.) being returned to Northpower consumers throughout Kaipara and Whangarei districts.

In just 14 months, Northpower consumers received four separate credits worth more than \$19m (over \$11m in line holidays and \$8m in Northpower Electric Power Trust distributions). Since 1993, \$187m has been returned directly to Northpower consumers by the company and the NEPT – \$99.7m in line holidays and \$88m in NEPT distributions.

Electricity consumers connected to the Northpower electricity network at 6am on February 12, 2014, received credits of between \$35 and \$145 on their power accounts issued by electricity retailers. The credits were based on energy consumption for the previous 12 months. The payout was broken into three tiers:

- \$145 for people who used more than 15,000 units
- \$95 for consumers who used between 2,000 and 15,000 units
- \$35 for those who used less than 2000 units.

At the time of the line holiday, 55,605 power installation control points (ICPs) were connected to the Northpower network, although some properties (such as dairy farms) have more than one ICP.

Chairman Warren Moyes said Northpower's financial performance was very pleasing.

"We are still reinvesting in the business and growing as a company," said Mr Moyes.

"Our Australian business is profitable and the performance of the Northpower electricity network has been very impressive for many years now – as signified by being voted New Zealand's Lines Company of the Year in 2013."

Northpower Network General Manager Graham Dawson believed Northpower was on track for a strong year in 2014.

"We are constantly looking at ways to improve our performance and keep costs under control, while empowering the community through technology leadership in projects such as the electric vehicle initiative and our Whangarei fibre network. Our aim is to always enable our community to progress and keep up with the rest of the world," said Mr Dawson.

More than \$5m is headed the way of around 50,000 Northpower consumers over the next few weeks.

5 MILLION
Line Holiday

The graphic features the Northpower logo on the left, a blue background with a sunburst pattern, and a field of green grass at the bottom. The text '5 MILLION' is in large, bold, yellow letters with a white outline, and 'Line Holiday' is in a red, cursive font.

NORTHPOWER'S NETWORK

Whangarei to be EV capital

Northpower plans to make Whangarei the electric vehicle capital of the country. It is only a month since the company had Environment Minister Amy Adams open New Zealand's first fast-charge station in Alexander Street – just off Rust Avenue. It is at the site of Northpower's Alexander Street substation.

For the foreseeable future the charger will be free to use, with the fast charger capable of providing 80% charge capacity within 30 minutes. The standard charger takes closer to eight hours for a full charge.

Northpower's EV charge station is even powered by Northland water, courtesy of Northpower's Wairua Hydro Power Station at Titoki – with the Chademo standard-based fast charger using local power generation to charge EV batteries.

Two other SAE J1772 standard chargers are available and three more will be added later if required. Northpower also has three standard EV chargers at its head office, just five minutes away from its Whangarei CBD fast-charge station.

With daily running costs 75% cheaper than petrol and diesel vehicles, the move to EVs could prove an economic boost to Whangarei and surrounding townships, while also benefiting the environment.

And as with ultra-fast broadband networks, Northpower CEO Mark Gatland has a wider vision for EVs.

He says at around \$2 a day for 50-100km of mileage, the running costs on EVs are considerably cheaper than \$8 a day for traditional motoring with diesel and petrol vehicles.

"Apart from changing tyres every 40-odd thousand kilometres, there are very minimal servicing costs. People can simply drive them to work, head home and re-charge overnight on a standard three-point plug," says Mr Gatland.



Left to right: Northpower Chairman Warren Moyes, Environment Minister Amy Adams, Northpower Network General Manager Graham Dawson.

Northpower has completed a study which proved its electricity network can comfortably handle tens of thousands of EVs charging overnight. In fact, it makes the network more efficient which should reduce network charges over time.

Similarly, an Auckland University study has revealed that the national grid has ample capacity for charging EVs.

"What makes EVs so logical for New Zealand is that the majority of power generation is renewable ... we are very similar to Norway in that respect. Electric vehicles are a far better investment than solar photo-voltaics." Northpower Network General Manager Graham Dawson says the excess availability of electricity for re-charging EVs should be taken advantage of.

"Historically, the cost of electric vehicles has prevented widespread adoption, but the importation of low cost, low mileage, used electric vehicles from Japan has drastically changed the situation and has given Northpower the confidence to launch this initiative," says Mr Dawson.

"Recent cost reductions in the pricing of NZ new electric vehicles and realistic pricing of the new Plug-in Hybrid SUV have added to this.

"I've no doubt that New Zealanders in close proximity to cities like Whangarei will benefit immensely from adopting electric vehicle technology. Being able to do 100km round trips before the need to re-charge means people can charge-up overnight at home. It's the way of the future."

NORTHPOWER'S NETWORK

Northpower Network lifts the bar

Being named New Zealand's best electricity lines company in 2013 is the most significant highlight in Northpower's recent history.

However, this could not have happened without many years of meticulous planning and an unwavering commitment to keeping Northpower's electricity network in Kaipara and Whangarei well maintained.

We have continued a targeted overhead line replacement where we have identified some conductor types as potential areas of failure due to corrosion. To ensure expenditure is targeted where needed, Northpower developed a tensile strength test machine to cost-effectively determine the remaining life of the conductor. Since the inception of the replacement project, the Network business has identified and replaced 140km of near end-of-life conductors. The project has continued through the 2013/2014 financial year, resulting in almost 30km of overhead conductor being replaced.

Replacement of overhead air-break high-voltage switches has continued and we are nearing the end of a substantial project to replace all overhead air-break switches on our network.

During the 2013/2014 financial year, 73 manually-operated overhead enclosed switches were installed, leaving us just 29 switches to be replaced to complete this project.

Further to this, Northpower linesmen have replaced 3,872 33kV insulators over the last few financial years. This replacement programme was started due to the criticality of these key circuits and has seen a high failure rate of removed insulators being 4.4%. The programme looks set for completion in the 2014/2015 financial year

We are thankful to members of the public for so willingly working with us on our pragmatic tree trimming policy. As a result, we go the extra mile by providing an initial (and free) clear/fell service to customers in a systematic approach across all feeders. In the financial year 2013/2014 Northpower cleared 1,900km of network lines of vegetation. So when we encounter storms and high winds, our network is not unduly impacted by major outages due to us largely removing the potential causes of faults – namely, branches striking lines or trees falling on lines.

We had two big storms in relatively quick succession in 2014 – including Cyclone Lusi – which caused hundreds of outages on our network yet the impact was minor compared with previous storms of that intensity due to Northpower's targeted maintenance and vegetation control programme. This assisted our crews, who worked incredibly hard to bring power back to our consumers on each occasion within 48 hours.

The recent annual PWC Electricity Line Business 2013 Information Disclosure Compendium ranks Northpower 11th out of the lines companies for SAIDI performance which, when taking the total circuit length into account, shows Northpower's excellent performance to date.

Completing the Whangarei Ultra-Fast Broadband network has been a massive achievement for the Northpower Network. This critical communications network infrastructure will gradually come back into the ownership of Northpower's consumer owners.



The total number of unplanned faults increased in the previous financial year from 319 to 329, due largely to 38 unplanned faults during the month of March 2014 due to heavy storms.

NORTHPOWER NEW ZEALAND CONTRACTING

Bhutanese electricity leaders in Whangarei

Northpower in July hosted a delegation from the Bhutan Power Corporation Limited (BPC). The visitors travelled to New Zealand to study best practice in the electricity sector and spent time at Northpower's head office in Whangarei as well as at its Auckland depots.

Northpower Chief Executive Mark Gatland said it was pleasing to host BPC's leaders and the tour sponsor, the Tokyo Electric Power Company (TEPCO).

"Northpower has worked with TEPCO previously and learnt from its experience in the electricity sector so it

is pleasing to be able to pass on our electricity network knowledge to representatives of BPC. The challenges BPC faces in maintaining its network are immense, with men having to walk for days in very steep terrain to attend to maintenance. Anything we can share that helps them is positive."

The Northpower tour included an overview of the New Zealand electricity sector, Northpower's history and current business set up, safety, subcontractor management, employee recognition, and management of electricity peaks and troughs.



The Bhutanese delegation with Northpower executives

Transformation by evolution

In 2013 Northpower embarked on an ambitious project to transform its business. Project Evolution ("EVO"), as it is known, will transform Northpower's Contracting Group works management practices into a more streamlined, consistent and efficient delivery service for our clients. The proposed solution will centralise Northpower's approach to managing works and scheduling and increase the business's capability to meet the needs of our customers - in particular for receiving high quality data in a timely fashion.

The focus of the project is on optimising and standardising the end to end process for works management with standardised processes and systems that provide results of increased quality and greater throughput and efficiency.

JD Edwards will provide the Works Management system's backbone integrated with ClickSoftware as the core scheduling and field mobility device platform, building on Northpower's mobility initiatives already in place. It will be available to all field personnel for effective communication and exchange of information and data with our customers.

The project is designed to be rolled out over two and a half years and is an operations-led project with a combined team of internal and external resources working on delivering the required outcomes. Full implementation/go live will be phased, with the final solution anticipated to be implemented across all New Zealand and Australian depots by early 2016.

NORTHPOWER NEW ZEALAND CONTRACTING

New Zealand Contracting reaches a new level

In the 2013/14 financial year Northpower's New Zealand Contracting business has worked hard on improving the organisation's health and safety performance and its EBIT performance. A significant contributor to this was the operational ownership of health and safety and the lift in focus on works planning and scheduling. Through the improvements in scheduling and smarter planning the New Zealand Contracting operation was able to reduce non-chargeable hours and increase chargeable hours.

A growing maturity in our approach to health and safety has seen us move from a culture of fixing the symptoms to one of identifying root causes and then focusing on robust systemic solutions. This has been aided by a focus on 'high potential incidents'. This initiative has been strongly supported by our customers and has removed organisational clutter.

The increased safety focus has been embraced by the leadership and field staff. An example of staff taking responsibility is when an integrated support leg for a truck mounted hydraulic crane slid out while the vehicle was in transit – this was the second time the incident had occurred in three years. Following a thorough investigation, Northpower replaced the affected vehicles within the fleet to ensure that the problem was eliminated – giving us and our clients peace of mind that we were making the right decisions.

A further example of safety leadership occurred when our field crews shut down a work site in which a few minor incidents had occurred. The crews took action to halt our works on a client's site, assess what was going wrong and ensure the safety of our staff, the public and the client's assets. The following day, client representatives met with Northpower to communicate their full support for our handling of the situation. They said the behaviours shown by Northpower were exactly what they had been wanting from their contractors. In essence, our actions gave them trust in our work ethic, judgment and professionalism.

The 'lift in leadership' programme which commenced in 2012/13 has now been well embedded in the business. This year standardised work instructions have been completed and the use of iPads has been expanded across our field operations.

On a region by region basis, our results are particularly encouraging – contributing to our overall success. In Wellington we have strengthened our core relationship by working more closely with our client on the right things

and as a result, our electricity field services contract has been extended. The Wellington region experienced some extreme storms over the past year. Our field staff worked tirelessly to repair the storm damaged electricity network. Our storm response capability was further supported by the wider Northpower business as field resources were deployed from as far afield as Whangarei to ensure that the network was returned to safe operating condition as soon as possible.

Following an unsuccessful bid for the Powerco electricity field services contract, Northpower has turned its focus to delivering planned services, customer initiated works and capital works projects for our central region customers. We aim to maintain a strong delivery team across the region and are committed to maintaining a high level of service delivery in this area.

Northpower continues to strengthen its relationship with Transpower, delivering maintenance services across an area of their lines and distribution assets. Northpower is focused on providing innovative solutions to Transpower to assist in the delivery of its asset management strategies. An example of this is our recent success in the refurbishment of 110kV transmission cross-arms using live line techniques.

We have worked closely with the Northpower Network division over the past three years to complete New Zealand's first UFB network in Whangarei. The team has done exceptionally well to build this network on time and in only three years. The level of knowledge gained throughout this process is invaluable to our business and the wider telecommunications industry.

During the last 12 months, the Whangarei region has been undertaking a significant project in the Solomon Islands to construct and fit out a new substation in Honiara. The project build is going well, although Cyclone Lusi has provided challenges.

Northpower actively works with clients to help deliver their goals through pro-active engagement to find solutions. Embedded throughout the organisation are openness and honesty. We don't seek to look for excuses. As a result, our customers respond favourably.

In the 2014/15 year we are focused on creating a safer work environment, further improving planning and scheduling, and lifting the commercial maturity of the operations team through focusing on achieving an improved balance between maintenance and capital works.

NORTHPOWER NEW ZEALAND CONTRACTING

Northpower iPad roll-out - improving efficiency, saving money

Northpower's iPad roll-out to its contracting field workers has helped increase savings and streamline work efficiency.

One of the bigger hidden benefits of the project has been the achievement of having one version of the truth. No longer do teams rely on outdated network standards, forms, check sheets or work instructions. Everyone knows now that the iPad is the master.

When company information is updated, lines staff receive a notification on their tablet when they connect to wi-fi, and they can update from there.

Each tablet is synchronised with the company's main hub. Northpower's General Manager of New Zealand Contracting, Lloyd Richards, says when workers drive into the depot, the tablets instantly connect to the wi-fi and search for any updates.

Providing information digitally means workers can access as much or as little as they need. The information has also been organised so that the most important or regularly-used pages are readily available at their fingertips.

The company has distributed 300 iPads to field staff (with every crew having access to at least one) since 2013. Field staff in Wellington, Hamilton, Tauranga, Rotorua and Matamata now use them. By the end of 2014, every Northpower field worker will be equipped with an iPad, meaning around 450 will be in the field by late 2014. The tablets replace the paper-based reports and guidelines that staff previously needed with them on the job.

"Now they've got iPads instead of fishing boxes full of folders in the back of their ute," says Richards.

"What we've seen from it is a lift in the quality of work. They take longer on a project than before because they can access more detail and do a more thorough job. It has resulted in fewer re-visits to a site."

Initial savings from using iPads – instead of printing new reports as they are updated – are around \$100,000 a year and this is expected to increase.

The new technology is part of a drive to create more consistency in service delivery, which is critical due to the fact contracting accounts for the majority of Northpower's revenue, and work is spread across the North Island.

Feedback from field staff can also be logged and utilised more efficiently through the iPads, he says.

"We're collecting all the good ideas that come from the field staff. We're prioritising them and going through the list, working out when to make the changes."

Key achievements:

- 300 iPads delivered to field staff with every crew having access to at least one
- Wireless infrastructure available throughout every Northpower depot
- Email and internet access deployed to every iPad
- There are 380 iPads in total use through Northpower.



Foreman Line Mechanic Sam Drake

NORTHPOWER NEW ZEALAND CONTRACTING

Rapid Overhead Line Patrols using Ultrasonic Inspection Technology

Routine asset patrols and asset condition monitoring are becoming increasingly important practices to ensure electricity network safety, reliability and security in New Zealand.

Since April 2013, Vector and Northpower have worked together to introduce new ultrasonic technology for the condition monitoring of overhead lines in New Zealand.

After Vector introduced the technology to Northpower, Northpower proceeded to test it extensively on Vector's Auckland network (10,000 power poles initially).

The companies have now successfully trialed and introduced a new type of ultrasonic inspection, and in less than a year it has been tested on more than 60,000 poles on the Vector and Northpower networks.

Northpower has inspected a further 20,000 poles in other networks across New Zealand. This is the first time that we have been able to positively identify electrical defects at an early stage and at a rapid speed. A two person crew can inspect more than 300 poles and associated lines per day. Northpower has now built a business model around this service.

Northpower has undertaken field trials using this new ultrasonic technology that is capable of significantly enhanced detection and reporting of defects on high voltage lines and equipment when compared to traditional overhead line patrol and visual inspection methods.

Northpower has also aligned with a Korean engineering company that has extensive experience in the ultrasonic inspection method and we believe that the introduction of the inspection regime into asset management frameworks will be a game changer for improving the health and reliability of New Zealand's electricity networks.

The technology is based around a directional ultrasound sensor which detects the electro-mechanical noise emitted by a piece of equipment under electrical stress. The emitted noise level (dB reading) and waveform is dependent upon the type of stress (degree of degradation of the component). The ultrasound information is supported by high definition photography of the component. An analysis of the sound information and the photographs is undertaken to provide a condition assessment of the component – currently classified as “fault” (replace immediately) or “caution” (monitor for further degradation).

This technology has potential to:

- Significantly reduce faults by finding defective equipment before it fails
- Challenge the way in which planned visual inspections are undertaken
- Assist in the determination of intermittent faults
- Be used to proactively survey a feeder following fault restoration to identify any further overhead equipment that may have come under electrical stress as a result of the initial fault
- Reduce accidents by identifying faulty components before they are worked on (e.g. glass insulators)
- Lift professionalism with improved build quality, installation practices and safe work practices by better understanding defect causes and effects.

Northpower has the capacity and expertise to utilise this new technology for both planned and reactive inspections of overhead distribution and transmission networks. This was illustrated when we were asked by a lines company to help identify the cause of an intermittent fault on a 33kV overhead feeder. Within an hour of using this technology we were able to successfully locate several different defects across 43 poles which contributed to the intermittent fault.

Benefits:

- Early detection of electrical defects and pre-fault condition
- Improved SAIDI and customer satisfaction
- Additional tool for use within CBRM
- Enhanced inspection of overhead network
- Improved management (prioritisation and scheduling of remedial works)
- Improve the quality of post-fault inspection patrols
- Feedback tool to facilitate the review and continuous improvement of current design and work practices
- A tool to determine the cause of some intermittent faults
- Pre-commissioning tool.

WEST COAST ENERGY

Northpower booms in Western Australia

Northpower's Australian businesses, based in Western Australia and Victoria, continued to grow in the 2013-2014 financial year, despite challenges in both states.

Profitability again improved compared with the preceding year, while debt reduced and the businesses operated within the funding cap set by the parent company.

During the year the business made a significant investment in safety training and development which yielded positive results. The business remains lost-time incident-free while the total injury frequency rate fell by close to 50% over the twelve months. West Coast Energy's focus on safety also extended to the completion of an international safety benchmarking study which, while acknowledging those areas that the business does well, also highlighted areas for improvement so that the business can adopt best practice.

Western Australia remained the cornerstone of the business, with strong growth and good profitability throughout the year. Although the Western Australian operation is focused on one customer, growth potential with that customer remains strong as there are high work volumes and an improving competitive landscape. During the third and fourth quarters of the year, the

Western Australian operation faced challenges with bad weather and difficult ground conditions. Both of those factors impacted on productivity in the field yet crews remained vigilant in their efforts – always with an eye to safety.

The Victorian operation, despite increasing revenue by 10% and field staff numbers by 25%, incurred a loss for the financial year - a result of operational challenges mid year. During the year, West Coast Energy worked across three distribution networks in Victoria. The business will become a preferred vendor to a fourth network in the middle of 2014.

West Coast Energy's focus for 2015 can be summarised as profitable, safe growth. The further development of our safety culture remains key while many core business processes and systems will also be refined through the 'EVO' project. At the same time as investing in safety and systems, West Coast will seek to grow its customer base through ongoing engagement and proven project outcomes. It will explore opportunities interstate, as well as investigating the potential to diversify further in Western Australia and Victoria.

Australian linesmen assist fire-devastated homeowners

Families devastated by the Australian Perth Hill fires in January 2014 received a helping hand from workers at Northpower's Australian subsidiary, West Coast Energy PTY Ltd. The linesmen were called out to help restore power after the devastating blazes, which razed more than 50 homes.

As family men and fellow homeowners, the employees were deeply affected by what they saw. The damage they witnessed had a lasting impact and they decided to help out on a personal level by collecting donations for the affected families.

The workers raised A\$5000 and the money was presented to Perth Lord Mayor Lisa Scaffidi on February 27. West Coast Energy Chief Executive, Sean Horgan, said it was pleasing to help the community.

“Our line mechanics were working with Western Power crews on power restoration following the fires and saw the devastation, so their gesture is a very genuine one. They really wanted to help out and, although this is a very sad situation, it's times like these when we're very proud to have great staff working for us.”

Mr Horgan said seeing everyone working together as one team to support the community within which we work was incredibly rewarding.



Robert Thomas, a Glove and Barrier Distribution Lineworker, for Northpower's Australian subsidiary West Coast Energy.

OUR FIBRE NETWORK

Game changer for Whangarei

In May 2014, Northpower became the first company in New Zealand to finish a government backed UFB build – the Whangarei UFB network.

Northpower built the network past 19,000 premises in under three years – finishing two months early – along the way laying enough fibre to stretch the distance between New Zealand and Australia 13 times.

The network has New Zealand's fastest broadband speeds, as proved by two independent, international benchmark speed tests. At the media conference following the official launch of the network Prime Minister John Key had this to say of Northpower:

"I think [the fact it's been pulled off and finished early] shows you what a quality organisation they are, and how some of the other organisations from around the country could learn a thing or two from them.

"They have really taken up the challenge, and they've been committed and dedicated to it. They've done a really good job."

Northpower operated an open-access system based on the same commercial principles as its electricity lines business.

Passive Optical Network (PON) technology allowed Northpower to develop an innovative construction method on its overhead lines using a lean fibre design with reduced fibre count, putting the optical splitters on poles close to the customers and enabling the rollout of fibre to follow a similar topology to its electrical network. This design, which utilised Northpower's existing assets, enabled its fibre system to be competitive on cost with copper but with, of course, a far superior technical performance.

Likewise, for underground areas, Northpower developed a unique architecture using blown fibre technology with the optical splitters located close to customers in small cabinets serving up to 32 premises, again reducing the fibre count and allowing for fast, cost-effective construction.

As our expected take-up over a period of years would top at approximately 60%, we did not want to incur the additional expense - and in 40% of the cases wasted expense - of having to break out to each property with duct to the boundary and the associated reinstatement costs.

The Government UFB project required that ducts be installed to the boundary at the construction phase to enable a four day SLA for providing services. Northpower negotiated with the local Council and then with Crown Fibre Holdings for instantaneous road opening notices to be used to allow a four day SLA to be achieved, which saved a very significant amount in the initial cost of the build.

These unique but very pragmatic design features have allowed Northpower to keep within budget for its layer 1 build and complete it two months ahead of schedule.

In summary, the operating model of the Northpower Fibre roll-out differs from competitors in a number of areas, including:

- The fibre business can co-locate essential central office equipment at electricity zone substation sites. This reduces the fibre count and amount of ducting required in the build.
- The fibre business can leverage the overhead electricity network to deliver fibre faster, cheaper and more reliably than traditional copper-based telecommunication monopoly models to customers.
- The system design located optical splitters close to the customers, significantly reducing the fibre count and jointing requirements and allowing for very cost-effective and visually-unobtrusive design on existing overhead powerlines.
- The fibre business has provided increased speeds and reliability to Northpower's existing electricity communications and control systems.
- Service lines are installed as and when they are needed, to better assist with customer needs.

On behalf of Northpower Fibre, the Northpower Network was tasked with undertaking all the project management of the fibre network's physical infrastructure construction, design and reporting. It also operates the network.

Within a fortnight of the May 8 launch of the network, uptake had increased by 400% and at publication of the 2013/2014 Annual Report, connection requests were still on the rise.



PACIFIC ISLANDS



Fiaga 20MW Diesel Generation Station

Northpower completes Samoa Fiaga contract

Anzac Day of 2013 marked the completion of Northpower's largest contract yet in the Pacific, a project funded by the Asian Development Bank at a cost of US\$32m.

The occasion also doubled as the official opening of the new Fiaga 20MW diesel generation station for the Electric Power Corporation in Samoa.

Importantly, EPC wanted increased stability of energy supply to the residential and industrial/commercial consumers on its network. Brown-outs have been a common occurrence to date due to lack of a stable energy supply. The station now provides 75% of Samoa's energy requirements.

Northpower was responsible for the design, procurement, installation and commissioning of the electrical balance of plant. We also designed and engineered a protection scheme which allows other generation on the network to interface with the Fiaga generation.

From a technical perspective this included 2 x 15/20MVA 11/33kV, 1 x 10MVA 33/22kV, 3 x 5MVA 6.6/11kV and 2 x 1,500kVA 11/0.4kV transformers, standby generator and 11kV, 22kV and 33kV GIS Switchboard & LV switchboards, equipment, protection and communications systems.

A critical part was the installation and commissioning of the interface connections with the four principal supplied Mitsubishi Heavy Industries 5.78MW generators. This was the culmination of a tremendous team effort from the project management, technicians, fitters and

engineering teams from across Northpower's regions. Each of the four 5.78MW engines has a mass of 132 tonnes and consumes 60,000 litres of diesel per day.

The project was led by Northpower's Central region with Mike Peace (Senior Project Manager) taking the lead. Although all members of the team made tremendous contributions, those of Raj Singh (Electrical Engineer Stations), Stuart Reid (Electrical Technician) and Hannes Wagner (Electrician/Electrical Fitter) were especially valuable. A special mention should also be made about Gary Ihaka who, at very short notice, hopped on a plane to Samoa to help resolve some critical issues in the final stages of commissioning.

The official opening by the Prime Minister of Samoa was attended by approximately 150 people, including Northpower's Chief Executive, Mark Gatland, and others from the Northpower team.



NORTHPOWER ELECTRIC POWER TRUST (NEPT)

Angelo to lead NEPT again



Erc Angelo was re-elected as Chairman of the Northpower Electric Power Trust (NEPT), racking up his seventh term in the position after he was first elected to the role in 1993. His former Deputy Chairman, Richard Drake, was also re-elected at an NEPT meeting in December.

Mr Angelo and Mr Drake will sit alongside Ross Provan, Bill Rossiter, Sheena McKenzie, Irene Durham and Tony Davies-Colley as NEPT Trustees.

Mr Angelo said it was a privilege to hold the governance position and he looked forward to continuing to assist in the growth of the company – one which has increased its asset value \$249 million in 2013.

\$3.8m returned to Northpower consumers

For the second year running, Northpower consumers received a pre-Christmas gift from the Northpower Electric Power Trust.

All electricity consumers connected to the Northpower lines network in Kaipara and Whangarei found a \$70 tax free credit on their December power accounts.

The distribution totalled \$3.8 million and was allocated to the 55,605 power installation control points (ICPs) connected to the Northpower network at 6am, December 4, 2013.

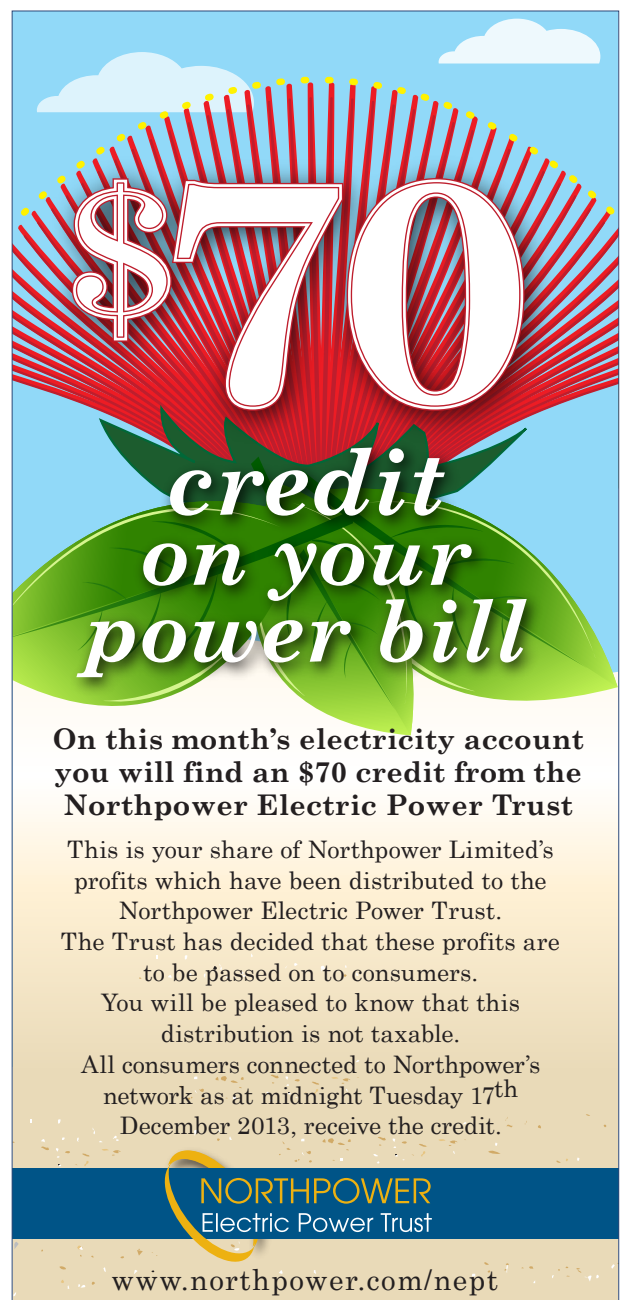
Northpower Public Affairs Manager Steve Macmillan said over the past 20 years, Northpower consumers had received more than \$182 million through the NEPT distributions and Northpower line holidays.

“This is the second distribution from the NEPT in 12 months and it is always satisfying for the Trust to be able to pass on profits from Northpower, as this is a sign of a successful and growing company,” said Mr Macmillan.

“2013 has been a strong year for Northpower after reporting a group net profit after tax of \$11.3 million for the 2012/1013 financial year. It was voted New Zealand’s ‘Lines Company of The Year’, made great progress on the Northpower Fibre Ultra-Fast Broadband build in Whangarei and received the 2013 Calix Innovation award for ‘Fibre Transformation’.

“West Coast Energy is performing well in Australia, Northpower’s New Zealand Contracting business remains strong and the company continues to secure project work in the Pacific Islands,” he said.

The NEPT owns Northpower on behalf of the electricity consumers of the Kaipara and Whangarei Districts and this 2013 distribution is the customer’s share of Northpower’s profits paid to the Trust by Northpower.



\$70
credit on your power bill

On this month’s electricity account you will find an \$70 credit from the Northpower Electric Power Trust

This is your share of Northpower Limited’s profits which have been distributed to the Northpower Electric Power Trust. The Trust has decided that these profits are to be passed on to consumers. You will be pleased to know that this distribution is not taxable. All consumers connected to Northpower’s network as at midnight Tuesday 17th December 2013, receive the credit.

NORTHPOWER
Electric Power Trust

www.northpower.com/nept

SAFETY AND ACHIEVEMENTS

Northpower voted New Zealand's best electricity lines company

Northpower won the "Lines Company of the Year" title at the Deloitte Energy Excellence Awards. Freeman Media, the company behind the awards, said Northpower was a winner across the board.

"It was Northpower's all-round excellence in the past year that saw it take out this award, with the judges particularly commending its focus on cost control and delivery. Recording one of its most successful years to date, highlights include higher operating earnings, a huge improvement in system reliability, significant gains made by the company's contracting arm, and the success of the company's fibre rollout."

Northpower CEO Mark Gatland said the win was a result of the hard work of everyone in the company.

"A result like this starts with our men and women out in the field working in stormy weather in the middle of the night, helping out the people who are ultimately our owners – those consumers connected to Northpower's electricity network in Kaipara and Whangarei."

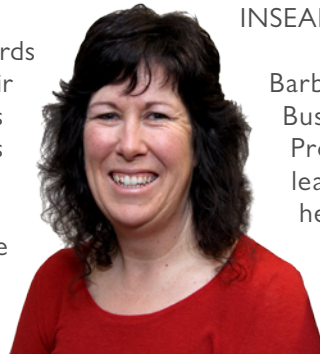
Says Northpower Network General Manager Graham Dawson: "Our network reliability (unplanned outages) has improved almost 40% over the past year alone, and that was on top of a 19% improvement the previous year. We are consistently keeping the power on."

Northpower executive wins prestigious scholarship

Northpower's General Manager Business Support, Barbara Harrison, won one of only ten Prime Minister's Business Scholarships awarded annually.

Prime Minister John Key said the awards would enable the recipients to increase their business knowledge and gain important skills which would have positive, flow-on effects for New Zealand businesses.

"I am very pleased to be able to give these outstanding people the opportunity to study at some of the world's very best learning institutions."



The scholarships were launched in 2010 and enable recipients to study at institutions such as Stanford Business School, London Business School and the INSEAD Business School.

Barbara elected to study at the Wharton Business School Advanced Management Program with the goal of honing her leadership capability and developing her ability to drive business strategy. The course brings extensive business knowledge, research and expertise to bear on all aspects of the thought leader training programme.

2013 - Calix Innovation Award

In 2013 Northpower edged out companies from around the world in being presented with a major broadband accolade - the 2013 Calix Innovation Award for 'Fibre Transformation' - at a ceremony in Las Vegas, USA.

In summarising the rationale for selecting Northpower, Andy Lockhart – Calix Senior Vice President of International Sales and Marketing - labelled Northpower a leader in the fibre field internationally.



Geoff Burke - Calix Senior Director of Corporate Marketing (left), Steve Macmillan – Northpower Public Affairs Manager, John Colvin – Calix Senior Vice President, North American Sales and Marketing.

"With its history as a utility company, Northpower Fibre is the perfect embodiment of a Calix Innovation Award winner, a service provider that has leveraged the Calix Unified Access portfolio to transform both their business and the connectivity of their local community," said Mr Lockhart.

"We would like to congratulate Northpower Fibre on their Innovation Award and impressive UFB fibre build. We are looking forward to working with them as they continue to expand the reach of broadband in New Zealand."

Countries worldwide showed interest in Northpower Fibre's cost-effective and innovative build model.

SAFETY AND ACHIEVEMENTS

Brothers in Arms still having an impact

Northpower developed an award-winning visual display of how Personal Protective Equipment (PPE) has saved many of our staff from receiving more serious injury. Northpower's 'Brother in Arms' display gained national recognition for our leadership in safety, including being awarded the 2013 EEA Safety Award.

The display tours around the Northpower branches and depots and is used for training and as an important reminder of the benefits of PPE. The display and associated presentation are also being used by others in the wider industry.

The use of the PPE display has proved to be an invaluable tool in communicating the importance of PPE and the necessity of wearing PPE to provide that last line of defence in the event that something goes wrong. Staff have been highly engaged in the discussions and there has been an improved attitude towards compliance with our PPE standards as a result of the Brothers in Arms initiative.

The display has even made its way into government circles and has been extremely well received.



Vern Rosieur recognised for industry contribution

In May 2014, Northpower's Health and Safety Field Services Manager, Vern Rosieur, was a finalist for the Safeguard NZ Health & Safety Awards 2014.

In front of a sell-out crowd of 500, Vern received the award for the Most Influential Employee. This award recognises Vern's work as a champion of health and safety and his significant influence on the safety culture of Northpower and the electricity sector.

Vern subsequently delivered a safety presentation to the conference outlining his vision of how to work with people and take them on a safety journey.

Safety is the foundation of all that we do and is equally, and vitally, important not only to Northpower but to individuals and their families.

His accolade prompted Northpower Chief Executive Mark Gatland to label the achievement a well-deserved result due to the very special work Vern undertakes around delivering compelling safety messages.



SAFETY AND ACHIEVEMENTS

Women winners in electrical trades

Women brought different skills to traditionally male-dominated roles, according to research by electricity supply training organisation, ESITO. The research, carried out by Heathrose, followed nine women trainees employed in the electricity supply industry as line mechanics and cable jointers.

ESITO's National Operations Manager Doug Pouwhare said the project had much to teach employers, industry training organisations and others. The key findings of the study were that the women made a significant contribution to the health and safety aspects of their work and provided improved communication and interpersonal skills. The research also showed that good human resource practices by employers made a significant difference to the way women integrated with their work colleagues. The women's work motivations differed somewhat from those of their male colleagues. Rather than expecting women to become "one of the boys," the study found that the teams they worked with needed to change how they operated.

Mr Pouwhare said ESITO was keen to attract more women to such roles. He said the fact that women made up 51% of the population suggested it made good sense for employers to make more effort to attract females to non-traditional roles.

Mr Pouwhare noted that ESITO had had a number of women trainees in line mechanic and cable jointing roles since 2010. They were now qualified and continuing to perform well as they gained more experience and sought to add extra qualifications to their skill-sets.

Dargaville's Robyn Dawes and Whangarei's Aroha McLean were the first women in New Zealand to qualify as cable jointers in the electricity sector. Both women are now based in Auckland and completed their training under ESITO's academic guidance.

ESITO in August 2012 launched Ultimit, a collaborative energy sector initiative opening pathways for women into the traditionally male-dominated industry. Northpower and Electrix are founding partners.

PowerCon – Northland fitness and wellness programme

80 employees, 16 months of hard slog, dedication and commitment ... and hundreds of kilos lost.

That's the most obvious visual result from Northpower's latest regional fitness and wellness programme – PowerCon – where (mainly) male staff members are armed with exercise regimes and dietary options.

Northpower's drive for wellness has gone to a new level in 2013/2014 as the company continues to take staff on a journey to better health. The impact on its Northland-based workforce has been immensely positive with employees saying it has changed their view on life – not to mention their work performance.

From acknowledging a new perspective on life, clarity of mind, a feeling of wellbeing, substantial weight loss, greatly improved fitness and strength, greater attention to detail – participants are growing with the programme.

Northpower has invested tens of thousands of dollars into PowerCon to ensure staff in Whangarei, Dargaville and Maungaturoto have the best guidance on and access to dietary and fitness advice. Miss two classes and participants are out.

For a company that prides itself on the best in Health and Safety performance, but which is always striving to be better, self-motivation is where the safety journey begins.

This was firmly endorsed by Sport Northland CEO Brent Eastwood, who said the outcomes achieved are outstanding.

His thoughts were backed by those of Sharon Adams, from Sport Northland's Active Workplace Programme:

"Northpower is a firm that understands the commitment it takes to be successful to increase workplace wellness. Initiatives included nutritional education/support, activity opportunities both internal/external, stress busters, team building and their very own Biggest Loser.

"The Biggest Loser competition was set over a three month period with 52 participants opting to come on board. Hard data showed that 100% of staff had increased their fitness levels, weight loss targets were met by most and individual goals had increased staff wellbeing/morale. Northpower is certainly turning up the heat with setting a great pace to increase workplace wellness/health and safety. Northpower is a dedicated innovative team that has a sustainable ongoing commitment to health and safety and workplace wellness."

COMMUNITY AND SPONSORSHIP

25th anniversary sees famous faces help helicopters to soar high



Famous New Zealand faces gave a boost to Northland's air ambulances and to the fundraising appeal aimed at keeping the helicopters flying in 2013 and into the future. TVNZ news anchor Simon Dallow and reporter Helen Castles, as well as All Blacks' selector Grant Fox and Westie comedian Ewen Gilmour, lent their profiles to the rescue service to make last year's fundraising drive one of the most successful ever.

2013 saw a year of celebrations to mark the 25th anniversary of the Northland Electricity Rescue Helicopter Service, which flew its first mercy mission on November 12 1988. Since then, the Northland Emergency Services Trust (NEST) has clocked up more than 15,000 flights in and around Northland.

The 2013 Electricity Rescue Helicopter Appeal was run in conjunction with the anniversary celebrations. Although the official appeal campaign ran only from October until December, public support saw money continuing to pour in well into 2014. More than \$220,000 was donated by the public, a clear indication of the widespread support for the service and also of Northlanders' appreciation of the countless lives saved by the helicopters.

Mr Fox said that, while it was clear that the people behind the rescue helicopters gave selflessly, the stark reality was that public donations were needed to keep the service operating.

"They do a great job. You never know when you might need it. This service and the people who operate it, and are inside it, give selflessly and service their community. I think the least we can do is support them by making donations because they need financial support."

Northpower contributed an additional \$100,000 to the funding drive while Top Energy put in \$50,000.

The New Zealand Motor Caravan Association Northland presented a cheque for \$1400 to NEST following two helicopter callouts to injured campervan enthusiasts. One man walking to a trig station fell and broke his leg and had to be airlifted out because of the remote location. In another incident, a woman fractured her ankle in three places and was also rescued by helicopter.



NEST's three rescue helicopters are among the best-equipped in the country for long-distance flights. They can complete 720km round trips and, with auxiliary fuel tanks, extend their reach by a further 300kms.

Mark Gatland and Russell Shaw, Chief Executives for Northpower and Top Energy respectively, said that they were pleased to be supporting Northland's Electricity Rescue Helicopters after 25 years and looked forward to continuing to back the vital services they provided to Northlanders.

NEST Chairman John Bain said that at least 20% of the service's flights over the past 25 years had saved lives by reaching patients in the crucial golden hour and platinum half hour after life-threatening events.

"The Northland Electricity Rescue Helicopter Service is the only 24-hour IFR (Instrument Flight Rule) service in New Zealand and we have the most highly-trained paramedics in the country.

"Regardless of what we do we are always trying to improve someone's life and the whole reason we established this service – with a dedicated team alongside us – was to help people. We are proud of what we have got now – nine pilots, a host of talented paramedics and great staff."

Mr Bain said that NEST's unique operating model had been copied by other services around the world, a fact which the team behind the helicopters should be proud of.

"Northlanders have been immensely generous to us over the years. We need that goodwill to continue to allow us to keep saving lives and bringing happiness and hope to people in times of need."

COMMUNITY AND SPONSORSHIP

Northpower bosses take up the tools

Northpower's executives put their bodies on the line during a house-build work day as part of Northpower's sponsorship of Habitat for Humanity. Northpower's executive management team members swapped their desks and keyboards for hammers and nails as they added their sweat to the financial contribution the company made to the charity.

Habitat for Humanity aims to provide families with quality housing by building, renovating and selling basic homes to them at affordable prices. More than 390 families have been helped into homes in New Zealand since the charity opened its doors here in 1993. Habitat for Humanity started its Northland branch in 1995, recognising that many Northland families live in substandard housing.

Northpower also resumed its sponsorship of the Healthy Homes Tai Tokerau project, which aims to insulate thousands of Northland homes. Healthy Homes has been involved with the Warm Up New Zealand Programme since it began, retrofitting insulation into more than 5000 Northland homes.

Most of those homes have been insulated for free as a result of sponsorship by Northpower and others.

Healthy Homes is Northland's largest insulator in the Whangarei and Far North areas. It provides insulation and energy-efficient solutions for homes, starting with free home energy assessments. Six teams of installers cover all of Northland, using local skilled labour and high-quality, New Zealand-manufactured polyester insulation products.

Huanui College first-timers sail to victory

Huanui College's first-time entrants in the 2013 Tai Tokerau Tall Ship Challenge aboard the R. Tucker Thompson sailing ship won a fiercely-contested race which went right down to the wire.

14-year-old students Emma Wickham and Samantha McBeth battled all the way to the end of the course, with four teams still in contention on the final evening of the week-long event. But when the points were tallied, the Huanui College girls were the clear winners.

Emma said that she had the time of her life and loved every minute of the challenge. Samantha described the week at sea as the best experience she had ever had. She said that she had learnt many new skills and made new friendships, as well as being challenged in a range of ways.

Bream Bay College's team of Cruz Flavell and Seyerus Miller put on a good show to sail to second place. During the event, they cooked up homemade bread in an anchor shape to provide contestants with an appropriately-nautical breakfast.

Northpower Public Affairs Manager Steve Macmillan presented the trophy to the winners at Marsden Cove Marina. He said that Northpower's backing for the challenge supported young people and showed the company regarded them as the future. He hoped that more Northland young people would be inspired to compete in the 2014 challenge.

Mr Macmillan said the event was about competition but also about growing as individuals and experiencing camaraderie. He described the 2013 challenge as the strongest event to date, with a record number of entrants and an extremely high calibre of participants.

The annual sailing challenge sponsored by Northpower and Top Energy is a competition to find out which school team can demonstrate that it has what it takes in terms of leadership, initiative and teamwork. Challenges set during the week-long event are based on activities including sailing, physical activity, daily drills and duties, and positive interactions with others.



Tai Tokerau Tall Ship Challenge winners for 2013, Huanui College's Emma Wickham, left, and Samantha McBeth with R Tucker Thompson Skipper Steve Mackay.

COMMUNITY AND SPONSORSHIP

Northland Bird Recovery Centre – keeping feathers flying

Successfully hatching out seven kiwi chicks for release into the wild was one of the highlights of a busy 2013 for the Whangarei Native Bird Recovery Centre. Northpower is a long-term sponsor of the centre, which rescues around 1300 native birds every year.

Founder Robert Webb said that visitor numbers were well up in 2013 and that was continuing in 2014, with emails coming in every day from both New Zealanders and overseas people keen to visit. In September, a number of groups of visitors from Germany toured the centre.

Robert said that the centre in October was sent seven kiwi eggs from Kerikeri. They were placed in the Bayer incubation unit to hatch. After seven healthy chicks emerged, they were given blood tests and microchips the size of rice grains were placed under the birds' skins. The hatchlings were then returned to Kerikeri for release. If they are later found by Department of Conservation rangers, running a scanner over the birds will mean that information can be extracted from the microchips. This will tell the rangers about the individual birds and add to the store of data about Northland's kiwis.

Robert said that strong winds in Northland last spring saw many chicks blown out of their nests. Rescuers brought them to the centre for recovery and recuperation before the healthy birds were released back into the wild.

Novel guests at the centre were a group of young pied stilts. 20 eggs were displaced when a field was ploughed. The eggs were sent to the centre and placed in the Bayer incubation unit to hatch.

Robert said he had previously hatched penguins and spur-winged plovers but the pied stilts were a first. He and Robyn were pleased with their success in saving the chicks.

In September, Sparky the kiwi and Robert went to Hamilton to visit four schools. Over two days, more than a thousand children got up close and personal with the famous bird. Many of the children had never seen a kiwi before and the opportunity to see and touch Sparky was a rare treat.

The Webbs are the only people in New Zealand with permission to keep a kiwi. Sparky plays an important role in educating children and has met and enchanted thousands of pupils in places as far away as New Plymouth.

The Whangarei Native Bird Recovery Centre was founded in 1992 by Robert and Robyn. It is run with the help of a small band of dedicated volunteers. The centre is entirely funded by sponsorship and donations, including Northpower's ongoing backing.





Northpower Line Mechanic, Eric Wilson,
working on Auckland's low voltage electricity network.

Northpower frontline staff in action





FINANCIALS FOR THE YEAR ENDED 31 MARCH 2014

Independent auditor's report

To the readers of Northpower Limited and Group's financial statements and statement of service performance for the year ended 31 March 2014

The Auditor-General is the auditor of Northpower Limited (the company) and group. The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 35 to 78, that comprise the balance sheet as at 31 March 2014, the comprehensive income statement, statement of changes in equity and cash flow statement 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 34.

Opinion

Financial statements and the statement of service performance

In our opinion:

- the financial statements of the company and group on pages 35 to 78:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the company and group's:
 - financial position as at 31 March 2014; and
 - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company and group on page 34:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company and group's achievements measured against the performance targets adopted for the year ended 31 March 2014.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 12 June 2014. 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. If we had found material misstatements that were not corrected, we would have referred to them 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.

Independent auditor's report

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 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.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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 preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

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.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements 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 of the annual financial statements we have carried out other audit assignments for the company and group. This involved issuing audit certificates pursuant to the Electricity Information Disclosure Requirements 2012. This assignment is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the company or any of its subsidiaries.

Leon Pieterse

Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Board of Directors' report

The Board of Directors is appointed by the Northpower Electric Power Trust to supervise the management of the Company. The Board establishes the Company's objectives, overall policy framework, and monitors management performance.

PRINCIPAL ACTIVITIES

The group's principal activities are the transmission of electricity and electrical contracting.

DIRECTORS HOLDING OFFICE DURING THE YEAR

Northpower Limited

W W Moyes (Chair)
D J Ballard
R J Black
N P Davies-Colley
K C Hames
MBD James (from 26/3/14)
J J Ward

West Coast Energy Pty Ltd, and Northpower Western Australia Pty Ltd

D Wright (Chair)
N P Davies-Colley
M Giglia (until 31/3/14)
T Beach (from 17/2/14)

Northpower Limited, in conjunction with Crown Fibre Holdings, has an investment in a jointly controlled entity:-

- Northpower Fibre Limited (NFL)

M R Gatland and N P Davies-Colley are directors of NFL.

RESULTS

The group recorded an after tax profit of \$15.9 million for the period, as set out in the Income Statement.

DIVIDEND

A dividend of \$5.5 million has been declared for the year.

DONATIONS

The group made donations of \$5000 to Power Engineers Excellence Trust, \$2000 to Equal Employment Opportunities Trust and \$1000 to Burn Support Group Charitable Trust during the year.

INSURANCE OF DIRECTORS

The company has insured all its Directors against liabilities to other parties, that may arise from their positions as Directors.

SHARE DEALINGS

It is not possible for any Director to acquire or dispose of any interest in shares in the Company.

USE OF COMPANY INFORMATION

The Board received no notices during the year from Directors requesting use of Company information received in their capacity as Directors, which would not otherwise have been available to them.

DIRECTORS' INTERESTS

The following Directors have made general disclosures of interest pursuant to Section 140 of the Companies Act 1993, that the named Directors are to be regarded as having an interest in any contract that may be made with the entities listed below by virtue of their directorship of those organisations.

W W Moyes

Board Member – North Tec
Shareholder – Contact Energy
Director – Moyesco

D J Ballard

Director/Shareholder – New Zealand Bloom (NZ) Ltd
Director/Shareholder – New Zealand Bloom (California) Ltd
Director - Canterbury Fields Ltd
Shareholder – Vector Ltd
Business Bankers - BNZ

R J Black

Director/Shareholder – Tin Hau Farm Ltd
Director/Shareholder – Mark Six Company Ltd
Director/Shareholder – R and G Orchard Ltd
Director/Shareholder – Leafcutter Ltd
Commissioner – Earthquake Commission

N P Davies-Colley

Director – Northpower Fibre Ltd
Director – West Coast Energy Pty Ltd
Director – Northpower Western Australia Pty Ltd
Director – Farmlands Co-Operative Society Ltd
Director – Landcorp Farming Ltd

K C Hames

Director/Shareholder – Tomorata Dairy Farms Ltd
Director – Te Arai Farms Ltd
Partner – Ewenny Farms Partnership
Trustee/Beneficiary – Ken Hames Trust
Trustee/Beneficiary – G M Hames Estate
Trustee/Beneficiary – Ken & Janine Hames Trust

M B D James

Director – Plant & Food Research Australia Pty Ltd
Director – Plant & Food Research USA Corporation
Director – CropSeed Ltd
Trustee – Ocean View Trust
Shareholder – Vector Ltd
Shareholder – Westpac Banking Corporation
Shareholder – Meridian Energy Ltd
Shareholder – Origin Energy Ltd
Shareholder – QBE Insurance

J J Ward

Shareholder – Vector Ltd
Shareholder – Contact Energy
Shareholder – NZ Refining Co
Shareholder – Fletcher Building
Shareholder – Chorus
Shareholder – Westpac Banking Corporation
Shareholder – Meridian Energy Ltd
Shareholder – Might River Power Ltd
Shareholder – Trustpower Ltd

DIRECTORS' REMUNERATION

Directors' remuneration paid during the period was:-

Northpower Limited:

R J Black	\$ 55,250
D J Ballard	\$ 55,250
N P Davies-Colley	\$ 55,250
J J Ward	\$ 55,250
K C Hames	\$ 55,250
MBD James	\$ 4,750
W W Moyes	\$ 111,750
	<u>\$392,750</u>

West Coast Energy Pty Ltd:

D Wright	\$ 70,800
N P Davies-Colley	\$ 33,500
M Giglia	\$ 30,677
T Beach	\$ 10,412
	<u>\$145,388</u>

REMUNERATION OF EMPLOYEES

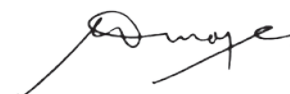
Bands:	Employees:	Bands:	Employees:
\$100,000 - \$109,999	93	\$180,000 - \$189,999	2
\$110,000 - \$119,999	51	\$190,000 - \$199,999	3
\$120,000 - \$129,999	29	\$200,000 - \$209,000	3
\$130,000 - \$139,999	24	\$219,000 - \$219,999	1
\$140,000 - \$149,999	20	\$250,000 - \$259,999	1
\$150,000 - \$159,999	11	\$260,000 - \$269,999	1
\$160,000 - \$169,999	9	\$350,000 - \$359,999	1
\$170,000 - \$179,999	4	\$490,000 - \$499,999	1

CHANGES IN DIRECTORS

In accordance with the Company's Constitution, Warren Moyes and Russell Black will retire. Mr Black offers himself for re-election.

For and on behalf of the Board.

Warren Moyes
Chairman



Directors' responsibility statement

The Directors are responsible for preparing the financial statements and ensuring that they comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and the Subsidiaries as at 31 March 2014 and the results of their operations and cash flows for the year ended on that date.

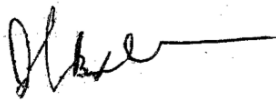
The Directors consider that the financial statements of the Company and the Subsidiaries have been prepared using appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards 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 Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company with the Subsidiaries, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of Northpower Limited and its Subsidiaries for the year ended 31 March 2014.

For and on behalf of the Board of Directors.



David Ballard
Director



John Ward
Director

Governance statement

The Board of Directors of the Company is appointed by the Northpower Electric Power Trust, as representatives of the shareholders. Its role is to supervise the management of the Company and its subsidiary companies. The Board establishes the Group's objectives, strategies and overall policy framework. The Board delegates day-to-day management of the Group to the Chief Executive and monitors management's performance.

Code of Conduct

As part of the Board's commitment to the highest standards of behaviour and accountability, the Company adopts a Code of Conduct to guide executives, management and employees in carrying out their duties and responsibilities. The Code covers such matters as:-

- Responsibilities to shareholders
- Relations with customers and suppliers
- Employment practices
- Responsibilities to the community
- Board operations and membership.

The Board comprises seven directors; a non-executive Chairman and six non-executive directors. Board members have an appropriate range of proficiencies, experience and skills to ensure compliance with all governance responsibilities.

The Board meets monthly and has additional meetings as required to address specific issues.

The primary responsibilities of the Board include:-

- Ensuring preparation of the annual and half-year financial statements.
- The establishment of the long term goals of the Company and strategic plans to achieve those goals.
- The review and adoption of annual budgets for the financial performance of the Company, monitoring results on a monthly basis.
- Managing risk by ensuring that the Company has implemented adequate systems of internal controls, together with appropriate compliance monitoring.
- Working with management to create shareholder value.

Audit Committee

The Audit Committee is responsible for overseeing 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 consolidated financial statements and making recommendations on financial and accounting policies. The Committee met six times during the year.

Statement of Corporate Intent

In accordance with Section 39 of the Energy Companies Act 1992, the Board submits to the Northpower Electric Power Trust a draft Statement of Corporate Intent (SCI) for the coming financial year. The SCI sets out the Company's overall objectives, intentions and financial performance targets.

Risk Management

The Board has overall responsibility for the Group's internal control systems. The Board has established policies and procedures that are designed to provide effective internal control.

In addition, the Board reviews ways of enhancing existing risk management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff, and the implementation, where considered necessary and effective, of recommendations made by the external auditors.

Statement of service performance

Performance against targets set out in the Statement of Corporate Intent for the year ended 31 March 2014 was as follows:

	FY14 Actual	FY14 Target	FY13 Actual
Group			
Net profit after tax as a percentage of Shareholders' Funds			
including discount	6.3%	5.0%	4.6%
excluding discount	7.6%		6.0%
Capital ratio	60.3%	>57%	59.3%
Network			
Earnings before interest and tax as a percentage of Total Assets			
including discount	6.7%	6.0%	5.5%
excluding discount	8.3%		7.1%
Network Reliability (SAIDI)			
planned	52	<55	56
unplanned	104	<90	62
Number of faults per 100 km of line	8.2	<10	5.6
Customer Satisfaction (residential)	92%	>85%	91%
Customer Satisfaction (commercial)	87%	>85%	80%
NZ Contracting			
Earnings before interest and tax as a percentage of Total Assets			
	8.7%	10.0%	7.0%
Lost Time Injury	6	0	7
Total injury frequency per million hours	21	<35	35.7
Australian Contracting (West Coast Energy)			
Earnings before interest and tax as a percentage of Total Assets			
pre Management Fees	4.0%	3.0%	3.5%
post Management Fees	2.7%		2.7%
Lost Time Injury	0	0	0
Total injury frequency per million hours	14.42	<31	26.73
Northpower Fibre			
Earnings before interest and tax as a percentage of Total Assets			
	-3.6%	-4.0%	-7.8%

Northpower achieved its Group SCI target for FY14 – the ratio of Group net profit after tax to average shareholders' funds was 6.3% versus a target of 5.0%. Financial performance was also superior compared to prior year. The improved group SCI performance was driven by strong performances across all divisions (New Zealand Contracting, Network Division and West Coast Energy Pty Limited) coupled with a strong foreign exchange gain on the revaluation of Australian dollar loans.

The Network division comfortably exceeded its FY14 SCI financial target of 6% achieving a full year EBIT/ Total Assets of 6.7%. The target for planned interruptions of 55 minutes was also achieved with actual SAIDI score for the year being 52 minutes. However, we did not meet the reliability target for unplanned interruptions – this was due to Cyclone Lusi which accounts for 21 minutes of the total 104 minutes for the year.

Our annual customer satisfaction suggests our overall performance continues to be of a high standard. In particular our commercial customer satisfaction exceeded both target and 2013 levels.

The NZ Contracting division achieved 8.7% which is higher than prior year result of 7.0% but still below the SCI target of 10%. Whilst the NZ Contracting profits improved, this was offset by the increase in NZ Contracting assets which is a reflection of the business division's investment in systems and processes.

The NZ Contracting division's most important SCI target is for all staff to return home safe at the end of every day – our target is to have no lost time injuries. This was not achieved over the year ended 31 March 2014, despite significant efforts and continued focus on health and safety. There has been considerable improvement around total injury frequency with the rate decreasing from 35.7 to 21 this year.

The Australian Contracting division achieved its SCI target for FY14 – the ratio of EBIT to average total assets was 4% versus a target of 3%. The Australian Contracting Division also met its health and safety targets for the year ended 31 March 2014.

Northpower Fibre performance also exceeded both target and prior year levels.

Comprehensive income statement

	Notes	GROUP		PARENT	
		2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Revenue	5(a)	307,796	282,685	237,008	217,273
Other income	5(b)	5,073	964	5,387	1,026
Materials/supplies expense		130,193	116,614	94,211	84,685
Employee benefit expenses	31	115,699	106,694	85,606	77,756
Transmission costs		17,715	18,040	17,715	18,040
Depreciation and amortisation expense		16,698	15,510	14,541	13,187
Other expenses	6	6,714	7,316	5,331	6,041
Finance costs		3,749	4,103	3,368	3,534
Share of (profit)/ loss in associate		400	(133)	-	-
Profit before income tax		21,701	15,505	21,623	15,056
Income tax expense	7	(5,826)	(4,212)	(5,826)	(4,212)
Profit for the year attributable to the equity holders of the parent		15,875	11,293	15,797	10,844
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Net fair value gains/ (loss) on available-for-sale financial asset		(125)	408	(125)	408
Exchange differences on translation of foreign operations		(2,420)	(238)	-	-
Income tax relating to these items	7	-	-	-	-
<i>Items that will not be reclassified to profit or loss</i>					
Net fair revaluation gains/ (loss) on land and buildings		(1,300)	-	(1,300)	-
Income tax relating to these items	7	-	-	-	-
Other comprehensive income (loss) for the period, net of tax		(3,845)	170	(1,425)	408
Total comprehensive income for the year attributable to the equity holders of the parent		12,030	11,463	14,372	11,252

The above statement should be read in conjunction with the accompanying notes.

Balance sheet

	Notes	GROUP		PARENT	
		2014	2013	2014	2013
		\$000s	\$000s	\$000s	\$000s
Assets					
Current assets					
Cash and cash equivalents	9	414	5,289	306	4,960
Trade and other receivables	10	39,625	33,540	31,234	24,166
Work in progress - construction contract	11	18,939	22,894	13,494	15,453
Inventory	29	8,874	9,475	8,474	9,317
Tax refund due		-	2,609	-	2,609
Total current assets		67,852	73,807	53,508	56,505
Non-current assets					
Available for sale financial assets	12	884	1,060	884	1,060
Investment in subsidiaries	13	-	-	29,634	27,656
Assets under construction		6,167	7,879	6,011	7,740
Goodwill and intangible assets	14	6,950	6,087	5,205	4,050
Investment in associates	25	8,149	3,612	9,098	4,161
Derivative financial instruments	21	867	124	867	124
Property, plant and equipment	15	332,198	328,031	319,496	313,221
Total non-current assets		355,216	346,793	371,195	358,012
Total assets		423,068	420,600	424,703	414,517
Current liabilities					
Borrowings	16	7,971	15,130	5,425	8,833
Trade and other payables	17	25,230	27,036	19,948	19,640
Provision for dividend	18	5,529	-	5,529	-
Provision for tax		3,003	-	3,003	-
Derivative financial instruments	21	191	523	191	523
Employee entitlements	28	7,816	6,966	6,333	5,650
Total current liabilities		49,740	49,655	40,429	34,646
Non-current liabilities					
Employee entitlements	28	1,473	1,475	1,473	1,475
Borrowings	16	59,945	61,730	58,163	60,270
Derivative financial instruments	21	41	287	41	287
Deferred taxation	8	55,964	58,049	55,964	58,049
Total non-current liabilities		117,423	121,541	115,641	120,081
Total Liabilities		167,163	171,196	156,070	154,727
Net assets		255,905	249,404	268,633	259,790
Equity					
Share capital	19	35,989	35,989	35,989	35,989
Asset revaluation reserve		39,670	40,970	39,670	40,970
Available for sale reserve		-	125	-	125
Foreign currency translation reserve		(3,110)	(690)	-	-
Retained earnings		183,356	173,010	192,974	182,706
Equity attributable to equity holders of the parent		255,905	249,404	268,633	259,790
Total equity		255,905	249,404	268,633	259,790

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity

GROUP	Ordinary shares \$000s	Retained Earnings \$000s	Available For Sale Reserve \$000s	Asset Revaluation Reserve \$000s	Foreign Currency Translation Reserve \$000s	Total \$000s
As at 1 April 2013	35,989	173,010	125	40,970	(690)	249,404
Profit for the period	-	15,875	-	-	-	15,875
Other comprehensive income for the period	-	-	(125)	(1,300)	(2,420)	(3,845)
Total comprehensive income for the period	-	15,875	(125)	(1,300)	(2,420)	12,030
Transactions with owners in their capacity as owners						
Dividends paid	-	(5,529)	-	-	-	(5,529)
As at 31 March 2014	35,989	183,356	-	39,670	(3,110)	255,905
As at 1 April 2012	35,989	165,717	(283)	40,970	(452)	241,941
Profit for the period	-	11,293	-	-	-	11,293
Other comprehensive income for the period	-	-	408	-	(238)	170
Total comprehensive income for the period	-	11,293	408	-	(238)	11,463
Transactions with owners in their capacity as owners						
Dividends paid	-	(4,000)	-	-	-	(4,000)
As at 31 March 2013	35,989	173,010	125	40,970	(690)	249,404
PARENT						
	Ordinary shares \$000s	Retained Earnings \$000s	Available For Sale Reserve \$000s	Asset Revaluation Reserve \$000s	Foreign Currency Translation Reserve \$000s	Total \$000s
As at 1 April 2013	35,989	182,706	125	40,970	-	259,790
Profit for the period	-	15,797	-	-	-	15,797
Other comprehensive income for the period	-	-	(125)	(1,300)	-	(1,425)
Total comprehensive income for the period	-	15,797	(125)	(1,300)	-	14,372
Transactions with owners in their capacity as owners						
Dividends paid	-	(5,529)	-	-	-	(5,529)
As at 31 March 2014	35,989	192,974	-	39,670	-	268,633
As at 1 April 2012	35,989	175,862	(283)	40,970	-	252,538
Profit for the period	-	10,844	-	-	-	10,844
Other comprehensive income for the period	-	-	408	-	-	408
Total comprehensive income for the period	-	10,844	408	-	-	11,252
Transactions with owners in their capacity as owners						
Dividends paid	-	(4,000)	-	-	-	(4,000)
As at 31 March 2013	35,989	182,706	125	40,970	-	259,790

The above statement should be read in conjunction with the accompanying notes.

Cash flow statement

	Notes	GROUP		PARENT	
		2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Operating activities					
Receipts from customers		302,316	277,163	230,934	216,828
Interest received		1,120	77	1,120	77
Payments to suppliers		(155,421)	(137,374)	(116,322)	(107,928)
Payments to employees		(114,641)	(107,111)	(84,925)	(78,065)
Interest paid		(3,781)	(4,149)	(3,400)	(3,534)
Income tax paid		(2,299)	(2,231)	(2,299)	(2,231)
Net cash flows from operating activities	20	\$27,295	\$26,376	\$25,108	\$25,147
Investing activities					
Proceeds from sale of property, plant & equipment		481	416	429	411
Proceeds from sale of investment property		-	1,156	-	1,156
Proceeds from subsidiary		-	-	2,411	6,193
Advances to subsidiary		-	-	(4,871)	(7,045)
Advances to associate		(4,577)	(750)	(4,577)	(750)
Purchase of intangible assets		(1,848)	(750)	(1,848)	(750)
Purchase of available for sale financial assets		-	(74)	-	(74)
Purchase of property, plant & equipment		(18,710)	(20,637)	(18,155)	(19,756)
Net cash flows used in investing activities		(\$24,654)	(\$20,639)	(\$26,611)	(\$20,615)
Financing activities					
Proceeds from borrowings		-	6,857	-	6,857
Repayment of borrowings		(4,060)	-	(3,151)	-
Payment of finance lease liabilities		(3,232)	(1,665)	-	-
Dividends paid to equity holders of the parent	18	-	(7,826)	-	(7,826)
Net cash flows from/ (used in) financing activities		(\$7,292)	(\$2,634)	(\$3,151)	(\$969)
Net increase in cash & cash equivalents		(4,651)	3,103	(4,654)	3,563
Net foreign exchange differences		(224)	27	-	-
Cash and cash equivalents at the beginning of the year		5,289	2,159	4,960	1,397
Cash and cash equivalents at the end of the year	9	\$414	\$5,289	\$306	\$4,960

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

I. General information

Northpower Limited (the Company) is a profit-oriented limited liability company incorporated in New Zealand.

The Company is formed under the Energy Companies Act 1992 and registered under the Companies Act 1993. The Group consists of Northpower Limited and its subsidiaries West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd along with an associate company Northpower Fibre Limited. The Northpower Electric Power Trust is the sole shareholder of the Company.

The principal activities of the Company are the transmission of electricity and electricity contracting. The principal activities for the subsidiaries are as follows:

- West Coast Energy Pty Ltd is based in Western Australia. It operates an electricity contracting business.
- Northpower Western Australia Pty Ltd is based in Western Australia. It is an intermediate holding company.

2. Summary of significant accounting policies

a. Statement of compliance and reporting framework

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

The financial statements comply with the Financial Reporting Act 1993, the Companies Act 1993 and section 44 of the Energy Companies Act 1992. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). For the purposes of complying with NZ GAAP the entity is a profit-oriented entity.

b. Basis of preparation

The financial statements have been prepared on an historical cost basis except for the revaluation of derivatives, available for sale assets, distribution system assets, and land and buildings.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousands (\$'000) unless otherwise stated.

The financial statements for the year ended 31 March 2014 were authorised for issue in accordance with a resolution of the directors on 12 June 2014.

c. New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

These financial statements were prepared using accounting policies that are consistent with those of the previous financial year except for new accounting policies adopted during the year. The adoption of the following amendments to the standards did not have a material impact on the accounting policies, financial position and financial performance of the Group:

- Amendments to NZ IAS 1 *Presentation of Financial Statements* - Presentation of Other Comprehensive Income - This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).
- NZ IAS 27 *Separate Financial Statements* (as amended in 2011) removes the accounting and disclosure requirements for consolidated financial statements, as a result of the issue of NZ IFRS 10 *Consolidated Financial Statements* & NZ IFRS 12 *Disclosures of Interests in Other Entities*, which establish new consolidation and disclosure standards.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

c. New accounting standards and interpretations (continued)

- NZ IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011) prescribes the accounting for investments in associates and joint ventures, and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.
- Amendments to NZ IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* - These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.
- NZ IFRS 10 *Consolidated Financial Statements* establishes a new control model. It replaces parts of NZ IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This could lead to more entities being consolidated.
- NZ IFRS 11 *Joint Arrangements* replaces NZ IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. This may result in a change in the accounting for joint arrangements.
- NZ IFRS 12 *Disclosure of Interests in Other Entities* includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.
- NZ IFRS 13 *Fair Value Measurement* establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

(ii) Accounting standards issued but not yet effective

Standards and interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 31 March 2014. These are summarised below:

- **NZ IFRS 9 (2013), NZ IFRS 9 (2010) and NZ IFRS 9 (2009): Financial Instruments.** This standard is part of the project to replace NZ IAS 39: *Financial Instruments – Recognition and Measurement*. The standard will be effective for periods beginning on or after 1 January 2017. Management is yet to determine the impact of this new standard on the financial statements.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

d. Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and other entities under its control (its subsidiaries). Interest in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Company has control because it is exposed, or has rights, to variable returns from its involvement with a subsidiary and has the ability to affect those returns through its power over the subsidiary. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by the Parent are accounted for at cost in the separate financial statements of the Parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the Parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the Parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference of the aggregate of the consideration transferred and the amount of any non-controlling interest over the net fair value of the acquiree's identifiable assets and liabilities is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. There are no non-controlling interests in the Group.

e. Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

f. Foreign currency translation

(i) *Functional and presentation currency*

Both the functional and presentation currency of Northpower Limited is New Zealand dollars (\$). The Australian subsidiaries functional currency is Australian dollars which is translated to the presentation currency (see below for consolidated reporting).

(ii) *Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

f. Foreign currency translation (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

(iii) Translation of Group companies' functional currency to presentation currency

The results of the Australian subsidiaries are translated into New Zealand dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date. Exchange variations resulting from the translation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

If the Australian subsidiary were sold, the proportionate share of exchange differences would be transferred out of reserves and reclassified to profit or loss in the statement of comprehensive income.

g. Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Line charges

Line Charges revenue represents income generated from the distribution of electricity to consumers. Revenue is measured at the fair value of the consideration received or receivable.

Line contributions

Line contribution revenue represents third party contributions towards the construction of property, plant and equipment. Revenue is recognised in the Comprehensive Income Statement to reflect the percentage of completion of the construction of the related items. Contributions received in excess of those recognised in the Comprehensive Income Statement are recognised as deferred income in the balance sheet.

Interest income

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at balance date, as measured by the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Farming

Revenue is recognised at the fair value of the consideration received or receivable derived from the Group's share of milking income from the farm.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

h. Property, plant and equipment

Distribution system assets

Distribution system assets are stated in the Balance Sheet at their revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at Balance Sheet date. Additions between revaluations are recorded at cost.

Depreciation on revalued network assets is charged to profit or loss in the Comprehensive Income Statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties' revaluation reserve is transferred directly to retained earnings.

Land and buildings

Land and Buildings held for use in the production or supply of goods and services, or for administrative purposes are stated in the Balance Sheet at their revalued amount, being the fair value at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at Balance Sheet date. Additions between revaluations are recorded at cost.

Depreciation on revalued buildings is charged to profit or loss in the Comprehensive Income Statement. On the subsequent sale or retirement of a revalued property the attributable revaluation surplus remaining in the properties' revaluation reserve is transferred directly to retained earnings.

No depreciation is charged on land.

Plant, equipment and vehicles

Plant, equipment and vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of production overhead. Costs cease to be capitalised as soon as the asset is ready for productive use. Repairs and maintenance are recognised in the profit or loss as incurred.

Meters, fibre and generation assets are valued at cost less accumulated depreciation.

Revaluation increment and decrement

Any revaluation increment is credited to the asset revaluation reserve in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in the profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

h. Property, plant and equipment (continued)

Depreciation

Depreciation is charged on a straight line basis so as to write off the cost or valuation of the fixed assets to their estimated residual value over their expected economic lives. The estimated economic lives are as follows:-

Distribution system	5-70 years
Generation	5-50 years
Meters	4 years
Fibre assets	10-50 years
Buildings -freehold	10-50 years
Buildings - infrastructure	10-20 years
Motor vehicles	5-15 years
Plant and equipment	3-20 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

i. Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Property held to meet service delivery objectives is classified as property, plant, and equipment.

Investment properties are measured initially at cost, including transactions costs. Subsequent to initial recognition, investment properties are stated at fair value, which is based on market prices. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the Comprehensive Income Statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to a third party.

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes the cost of direct materials and other charges, such as freight cost, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

k. Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

k. Income tax (continued)

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- > When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- > When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss except when it relates to items charged or credited outside profit or loss, in which case the deferred tax is dealt with either directly in equity or in other comprehensive income (such as asset revaluations).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

l. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- > When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- > Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

m. Financial instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the entity becomes a party to the contractual provisions of the instrument.

Trade & other receivables

Trade and other receivables are measured at initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the Comprehensive Income Statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted using the effective interest rate. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days and without arrangement) are considered indicators that the receivable is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposit and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

Derivative financial instruments

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with the treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ\$ (the functional currency) using the exchange rates prevailing at the dates of the transactions.

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 at each balance date with the resulting gain or loss recognised in the profit or loss. The Group has elected not to apply hedge accounting.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date, otherwise foreign exchange derivatives are classified as non-current. The portion of the fair value of an interest rate derivative that is expected to be realised within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

The fair value of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profile.

n. Available for sale investments

Available for sale investments are stated at fair value.

Available for sale investments are non derivative financial assets, principally equity securities, not classified as financial assets designated at fair value through profit and loss, loans and receivables, or held to maturity financial assets. After initial recognition, available for sale equity instruments are measured at fair value with gains or losses being recognised in other comprehensive income and accumulated in a separate component of equity until the investment is derecognised or until the investment is deemed to be impaired, at which time the cumulative gain or loss previously accumulated in equity is recognised in profit or loss in the Comprehensive Income Statement.

Fair values of instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. Fair value of unlisted shares are based on the unlisted entity's published fair valuation.

o. Investment in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

o. Investment in associates (continued)

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates, measured as the difference between the recoverable amount of the net investment in the associate and its carrying value. Any impairment loss is recognised in the "share of profit of an associate" in the statement of comprehensive income.

The Group's share of associate's profits or losses is recognised in profit or loss, and its share of movements in other comprehensive income is recognised in other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the Parent entity's statement of comprehensive income as a component of other income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. When there are differences in the reporting dates and accounting policies, appropriate adjustments are made in the financial statements of the associate prior to the application of the equity method of accounting. If the difference in the reporting dates between the Group and the associate is longer than three months, financial statements for the associate are prepared as at the reporting date of the Group prior to the application of the equity method of accounting.

p. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction instead of use. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

q. Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the net fair value of the acquiree's identifiable assets and liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment as defined in NZ IFRS 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss in disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

q. Goodwill and intangibles (continued)

Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

r. Goodwill and intangibles

Intangible assets are assessed to be have either finite or indefinite useful lives. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in accounting estimate and is thus accounted for on a prospective basis.

Software costs have a finite useful life and are amortised over a period of expected future benefit of 5-10 years on a straight line basis.

Easements are deemed to have an indefinite life because there is no expiry date to the easement agreements and Northpower is expected to use the easements indefinitely, based on past experience.

s. Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for sale or use, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

t. Impairment of non financial assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually or more frequently when there is an indication that the asset may be impaired.

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

Notes to the financial statements

2. Summary of significant accounting policies (continued)

t. Impairment of Non Financial Assets other than Goodwill (continued)

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

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

u. Leases

Northpower entities lease certain plant and equipment. The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Comprehensive Income Statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term

Provision for onerous lease

Provision for onerous contracts are obligations that have arisen under non-cancellable leases for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

v. Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits including accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at their nominal values using the remuneration rate expected at the time of settlement. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to Balance Sheet date. Contributions to defined contribution superannuation plans are expensed when incurred.

w. Trade and other payables

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

x. Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings

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 Balance Sheet date.

Capitalised Borrowing Costs

Capitalised borrowing costs that are 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

y. Capital and Reserves

Share Capital

Share capital consists of ordinary shares which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Asset Revaluation Reserve

The asset revaluation reserve is used to record the increments and decrements in the fair value of property, plant and equipment identified as being carried at valuation.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Available for Sale Reserve

The available for sale reserve is used to record movements in the fair value of available for sale financial assets.

z. Cash Flow Statement

Cash and cash equivalents comprise cash balances on hand, held in bank accounts, on-demand deposits and other highly liquid investments with maturities three months or less in which the Group invests as part of its day-to-day cash management.

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support Northpower's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital, excluding interest.

aa. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year's presentation. These reclassifications have no effect on previously reported net profit. We have expanded some of our disclosures in the Statement of Comprehensive Income to provide more information. Comparative disclosures have also been expanded to ensure consistency.

Notes to the financial statements

3. Financial risk management objectives and policies

The Group's principal financial instruments comprise trade & other receivables, trade & other payables, borrowings, available for sale investments, interest rate swaps, forward exchange contracts and cash & cash equivalents.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group may enter into forward exchange currency contracts and interest rate swaps to manage interest rate and foreign exchange currency risks arising from the Group's operations. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below, including the setting of limits for hedging cover of foreign currency and interest risk, credit allowances and future cash flow forecast projections.

Credit Risk:

Credit risk is the risk that a third party will default on its contractual obligation resulting in financial loss to the Group.

Financial instruments which potentially subject the Group to credit risk principally consist of cash and bank balances, short term deposits and accounts receivable. Northpower does not generally require collateral from customers.

The Group places its cash and short term deposits with high credit quality financial institutions (A1 or better), and limits the proportion of credit exposure to any one institution in accordance with Company policy.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is no significant concentration of credit risk. The maximum amount of credit risk for each class is the carrying amount in the Balance Sheet.

Liquidity Risk

Liquidity risk is the risk that the Parent and Group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. Flexibility in funding is maintained by keeping committed credit lines available.

The Group has a maximum amount that can be drawn down against its lending facilities of NZD\$90,000,000 (2013: NZD\$85,000,000). There are no restrictions on the use of the facilities.

The Parent also has in place a credit card facility with a combined credit limit over all cards issued of NZD\$1,000,000 (2013: \$NZD\$1,000,000).

The Group manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and matching the maturity profiles of financial assets and liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

Notes to the financial statements

3. Financial risk management objectives and policies (continued)

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

Group	2014				2013			
	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years
Trade and Other Payables	21,639	-	-	-	24,083	-	-	-
Finance Leases Payable	469	425	759	1,193	968	2,363	539	1,088
Interest Bearing Loans	7,242	-	24,550	33,604	11,953	-	35,000	25,270
	<u>29,350</u>	<u>425</u>	<u>25,309</u>	<u>34,797</u>	<u>37,004</u>	<u>2,363</u>	<u>35,539</u>	<u>26,358</u>
Parent								
Trade and Other Payables	17,153	-	-	-	17,369	-	-	-
Finance Leases Payable	-	-	-	-	-	-	-	-
Interest Bearing Loans	5,425	-	24,550	33,604	8,832	-	35,000	25,270
	<u>22,578</u>	<u>-</u>	<u>24,550</u>	<u>33,604</u>	<u>26,201</u>	<u>-</u>	<u>35,000</u>	<u>25,270</u>

Contractual maturity analysis of derivative financial liabilities

The table below analyses derivative financial instruments into those that are settled net and those that will be settled on a gross basis into their relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Group	2014				2013			
	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years
Derivatives	(171)	(20)	215	611	(267)	(255)	(287)	-
Parent								
Derivatives	(171)	(20)	215	611	(267)	(255)	(287)	-

Maturity analysis of financial liabilities based on management's expectation.

The risk implied from the values shown in the table above, reflects management's expectation of cash outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Northpower has established comprehensive risk reporting covering its business units that reflects expectations of management of expected settlement of financial assets and liabilities.

Fair values:

The fair value of all financial instruments approximate the carrying value recorded in the Balance Sheet.

Fair value hierarchy disclosures

For those instruments recognised at fair value on the statement of financial position, fair values are determined according to the following hierarchy:

1. Quoted market price – Financial instruments with quoted prices for identical instruments in active markets (Level 1).
2. Valuation technique using observable inputs – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable (Level 2).
3. Valuation techniques with significant non-observable inputs – Financial instruments valued using models where one or more significant inputs are not observable (level 3).

Notes to the financial statements

3. Financial risk management objectives and policies (continued)

The following table summarises the classes of financial instruments measured at fair value in the statement of financial position of the Parent and Group with all their valuations under Level 1 and Level 2 of the fair value hierarchy.

Fair value hierarchy	2014		2013	
	Level 1 \$000s	Level 2 \$000s	Level 1 \$000s	Level 2 \$000s
Group				
<i>Financial assets</i>				
Interest rate swaps	-	867	-	124
Available for sale investments	852	32	1,028	32
	852	899	1,028	156
<i>Financial liabilities</i>				
Interest rate swaps	-	232	-	810
	-	232	-	810
Parent				
<i>Financial assets</i>				
Interest rate swaps	-	867	-	124
Available for sale investments	852	32	1,028	32
	852	899	1,028	156
<i>Financial liabilities</i>				
Interest rate swaps	-	232	-	810
	-	232	-	810

MARKET RISKS

a) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

The group has no material exposure to price risk.

b) Foreign Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of investment operations in Australia, the Group's balance sheet can be affected significantly by movements in the exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in Australian dollars.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

Notes to the financial statements

3. Financial risk management objectives and policies (continued)

At balance date the principal or contract amounts of foreign currency forward exchange contracts in \$NZD are:

	Group		Parent	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Foreign currency forward exchange contracts	1,129	-	1,129	-

At balance date, the fair value of the above forward exchange contracts were considered immaterial. At balance date the Parent has Australian borrowings of A\$13,225,000 (2013:A\$13,225,000) held in foreign currency that are not hedged.

At 31 March 2014, the Group had the following exposure to \$AUD:

	Group		Parent	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Financial Assets				
Cash and cash equivalents	101	264	-	-
Trade and other receivables	8,465	7,794	-	-
Financial Liabilities				
Trade and other payables	5,223	6,237	-	-
Interest bearing loans and borrowings	14,925	19,413	13,225	13,225
Net Exposure	11,582	17,592	13,225	13,225

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

At 31 March 2014, had the New Zealand Dollar moved, as illustrated in the table below with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Group				
NZD Strengthen +5%	590	1,045	-	-
NZD Weaken -5%	(652)	(1,115)	-	-
Parent				
NZD Strengthen +5%	673	785	-	-
NZD Weaken -5%	(744)	(869)	-	-

c) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, hedging positions and the mix of fixed and variable interest rates.

The Group manages its cost of borrowing by limiting the ratio of fixed to floating rate cover held. The Group uses interest rate swaps to manage this.

Notes to the financial statements

3. Financial risk management objectives and policies (continued)

At balance date the notional value of interest rate swaps outstanding are:

	Group		Parent	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Interest rate swaps	53,345	40,000	53,345	40,000

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 31 March 2014, if interest rates had moved as illustrated in the table below with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Group				
+1% (100 basis points)	663	895	-	-
-0.5% (50 basis points)	(332)	(462)	-	-
Parent				
+1% (100 basis points)	663	895	-	-
-0.5% (50 basis points)	(332)	(462)	-	-

Based on the above table the movement in profit is due mainly to the higher/lower interest costs from variable rate debt along with the result of a fair value change in interest rate swaps which are not hedged. There would be no effect on other components of equity.

4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Notes to the financial statements

4. Significant accounting judgements, estimates and assumptions (continued)

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) Significant accounting judgments

Investment in Northpower Fibre Ltd (NFL)

The investment in NFL is accounted for as an investment in associate since Northpower exercises significant influence through its ability to participate in the financial and operating decisions of the investee. Significant influence is demonstrated by Northpower through its ability to participate in the approval of the business plan, any transactions outside the ordinary course of business or outside the business plan, and the appointment, removal, replacement and remuneration of the senior management team of NFL.

The share in the profits or losses and other comprehensive income of NFL is accounted for by Northpower to the extent of its ownership interest based on its proportionate ownership of all classes of outstanding shares of the investee.

(ii) Significant accounting estimates and assumptions

Construction contracts

The Group recognises revenue from construction contracts by applying percentage of completion method. Percentage of completion is determined using the cost incurred compared to the total cost estimated for the completion of the contract.

Impairment of goodwill

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 14.

Allowance for impairment loss on trade receivables

Northpower maintains a provision for estimated losses expected to arise from customers being unable to make required payments. This provision takes into account known commercial factors impacting specific customer accounts, as well as the overall profile of Northpower's debtors' portfolio. In assessing the provision, factors such as past collection history, the age of receivable balances, the level of activity in customer accounts, as well as general macro-economic trends, are taken into account. Changes to market conditions or assumptions made are considered in the estimation of the carrying value of trade receivables.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties for plant and equipment (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Long service leave and retirement leave provision

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on the likely future entitlements based on years of service, years to entitlement, attrition rates, and contractual entitlements information; and the present value of the estimated future cash flows. Changes to the assumptions made in the calculation of the long service leave will result in changes to the carrying value of the provision.

Notes to the financial statements

4. Significant accounting judgements, estimates and assumptions (continued)

(ii) Significant accounting estimates and assumptions (continued)

Revaluation of assets

Distribution system assets along with land and buildings which are held as property, plant and equipment are valued by an independent valuer. The revaluation exercise is performed every three years, the last of which was performed in prior year.

The fair value of the Group's land and buildings is based on market values, being the price that would be received to sell land and buildings in an orderly transaction between market participants at the measurement date. Changes to market conditions or assumptions made in the estimation of fair value will result in changes to the fair value of the revalued assets.

Network distribution system assets are determined by using a discounted cash flow methodology. The major inputs used in the valuation of network assets include the discount rate, projected operational and capital expenditure profiles, inflation and growth rate assumptions.

An analysis of the valuation model based on the most recent revaluation performed on 31 March 2013 (see note 15) indicates that the valuation of the distribution system assets is most sensitive to changes in the weighted average cost of capital (WACC) and moderately sensitive to operating costs and real price growth rate.

Assumptions	Valuation assumptions adopted	Low	High	Valuation Impact
Discount rate	6.2%	6.6%	5.8%	-\$9.3 million/+\$9.6 million
Operating costs	Per forecast	Increase by 5%	Decrease by 5%	-\$5.0 million/+\$4.9 million
Real price growth rate (per annum)	1%	0.75%	1.25%	-\$2.9 million/+\$3 million

Revenue recognition

Part of the network charges are based on normalisation, where consumption is estimated to the end of the billing period based on historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refund given. These adjustment amounts are not significant compared with total network revenue.

Notes to the financial statements

	Group		Parent	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
5a Revenue				
Gross line revenues	64,910	63,241	64,910	63,241
Discount	(4,676)	(4,694)	(4,676)	(4,694)
Net line revenues	60,235	58,547	60,235	58,547
Line contributions	2,019	1,098	2,019	1,098
Contracting work income	244,048	222,551	173,260	157,139
Interest income	1,120	77	1,120	77
Income from farming	374	412	374	412
	307,796	282,685	237,008	217,273
5b Other income				
Net gain on foreign exchange	1,828	247	1,828	247
Fair valuation gain on derivative instruments	1,321	353	1,321	353
Sundry income	1,924	364	2,238	426
	5,073	964	5,387	1,026
6 Other Expenses				
Auditor's remuneration				
- Audit of financial statements	205	224	130	135
- Audit of regulatory disclosures	24	24	24	24
Bad debts written off	22	52	22	52
Impairment of investment	-	-	-	-
Directors' fees	529	465	388	355
Rental and operating lease costs	5,746	5,735	4,639	4,733
Research and development	48	162	48	158
Loss on sale of assets	139	654	80	584
	6,714	7,316	5,331	6,041
7 Taxation				
Accounting profit before income tax	21,701	15,505	21,623	15,056
At New Zealand's statutory tax rate of 28% (2012: 28%)	6,076	4,341	6,054	4,216
Plus/(less) tax effect of:				
Non-deductible expense	121	32	143	157
Prior period adjustment	(371)	(161)	(371)	(161)
Deferred tax arising from change in tax treatment of buildings	-	-	-	-
	5,826	4,212	5,826	4,212
The Taxation Charge is Represented by:				
Current taxation	8,385	2,409	8,385	2,409
Deferred taxation	(2,524)	1,509	(2,524)	1,509
Prior period adjustment relating to current tax	(473)	1,158	(473)	1,158
Prior period adjustment relating to deferred tax	438	(864)	438	(864)
Deferred tax arising from change in tax treatment of buildings	-	-	-	-
	5,826	4,212	5,826	4,212
Amounts charged or credited to other comprehensive income				
Effect of change in tax rate on asset revaluation reserve	-	-	-	-
Income tax expense recorded in other comprehensive income	-	-	-	-
Imputation credits available for use in subsequent reporting periods	28,233	22,444	28,233	22,444

The Group has unrecorded tax losses relating to its Australian business of A\$10.5m (2013: A\$11.0m). These losses have not been booked as a deferred tax asset in the current year due to unpredictability and volatility of future taxable profits.

Notes to the financial statements

8 Recognised deferred tax assets and liabilities

Group	Property, plant & equipment	Financial Instruments	Employee entitlements	Others	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Balance as at 1 April 2013	<u>(53,954)</u>	<u>(86)</u>	<u>1,772</u>	<u>(5,781)</u>	<u>(58,049)</u>
Charged to profit/loss	(228)	86	140	2,087	2,085
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2014	<u>(54,182)</u>	<u>-</u>	<u>1,912</u>	<u>(3,694)</u>	<u>(55,964)</u>
Parent					
Balance as at 1 April 2013	<u>(53,954)</u>	<u>(86)</u>	<u>1,772</u>	<u>(5,781)</u>	<u>(58,049)</u>
Charged to profit/loss	(228)	86	140	2,087	2,085
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2014	<u>(54,182)</u>	<u>-</u>	<u>1,912</u>	<u>(3,694)</u>	<u>(55,964)</u>
Group					
Balance as at 1 April 2012	<u>(54,024)</u>	<u>(86)</u>	<u>1,952</u>	<u>(5,246)</u>	<u>(57,404)</u>
Charged to profit/loss	70	-	(180)	(535)	(645)
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2013	<u>(53,954)</u>	<u>(86)</u>	<u>1,772</u>	<u>(5,781)</u>	<u>(58,049)</u>
Parent					
Balance as at 1 April 2012	<u>(54,024)</u>	<u>(86)</u>	<u>1,952</u>	<u>(5,246)</u>	<u>(57,404)</u>
Charged to profit/loss	70	-	(180)	(535)	(645)
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2013	<u>(53,954)</u>	<u>(86)</u>	<u>1,772</u>	<u>(5,781)</u>	<u>(58,049)</u>

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
9 Cash and cash equivalents				
Bank	410	5,284	302	4,956
Cash on hand	4	5	4	4
	414	5,289	306	4,960

Cash and cash equivalents comprise: cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximate its fair value.

10 Trade and other receivables

Trade and other receivables	39,675	33,590	31,284	24,216
Less provision for impairment	(50)	(50)	(50)	(50)
	39,625	33,540	31,234	24,166

Due to the short term nature of these receivables the carrying value of receivables approximates their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

As at 31 March 2014 the ageing analysis of trade receivables is as follows:

	2014			2013		
	Gross	Impairment	Net	Gross	Impairment	Net
Parent						
0 - 30 days	27,099	-	27,099	22,479	-	22,479
31 - 60 days	2,631	-	2,631	971	-	971
61 - 90 days	410	-	410	148	-	148
91 days plus	1,144	(50)	1,094	618	(50)	568
	31,284	(50)	31,234	24,216	(50)	24,166
Group						
0 - 30 days	34,439	-	34,439	30,741	-	30,741
31 - 60 days	3,473	-	3,473	1,771	-	1,771
61 - 90 days	577	-	577	220	-	220
91 days plus	1,185	(50)	1,135	858	(50)	808
	39,675	(50)	39,625	33,590	(50)	33,540

The provision for impairment has been calculated based on incurred losses for Northpower's pool of debtors. Incurred losses have been determined by review of specific debtors.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

The carrying amount of receivables that are past due, but not impaired, whose terms have been renegotiated is \$1,135k (2013: \$808k).

Movements in the provision for impairment of receivables are as follows:

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
Balance at 1 April	50	50	50	50
Additional provisions made during the year	-	-	-	-
Receivables written off during the year	-	-	-	-
Balance at 31 March	50	50	50	50

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
11 Work in progress - construction contracts				
Customer progress billings made during the year	(83,508)	(92,517)	(48,055)	(51,183)
Aggregate of costs incurred	76,269	84,622	46,507	50,670
Recognised profits (less recognised losses) to date	26,179	30,789	15,042	15,966
	18,939	22,894	13,494	15,453

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
12 Available for sale financial assets				
At fair value				
Fonterra Co-operative Group Limited	852	1,028	852	1,028
Ravensdown Fertiliser Co-operative Limited	32	32	32	32
	884	1,060	884	1,060

The available for sale financial assets consists of 140,619 shares (2013: 137,014 shares) Fonterra Co-operative Group Limited and 31,612 shares (2013: 31,612 shares) Ravensdown Fertiliser Co-operative Limited.

Shares held in Ravensdown Fertiliser Co-operative Ltd are unlisted. The fair value of these shares is provided by Ravensdown Fertiliser Co-operative Limited. Fonterra shares were listed during the year - the fair value of these shares was the closing price reported on the NZX for the the last trading day in March.

	PARENT	
	2014	2013
	\$'000	\$'000
13 Investment in subsidiaries		
Debentures	27,102	24,431
Advances to subsidiaries	416	1,109
Shares in subsidiaries (unlisted) - at cost	3,781	3,781
Allowance for impairment	(1,665)	(1,665)
	29,634	27,656

The allowance for impairment amounting to \$1,665,000 represent impairment loss recognised in prior year when it was determined that the recoverable value of the investment was lower than its carrying value. No impairment loss was recognised during the year.

Subsidiary	Principal Activity	Country of Incorporation	Balance Sheet Date	Interest held at 31 March 2014	Interest held at 31 March 2013
West Coast Energy Pty Ltd	Electricity contracting	Australia	31 March	100%	100%
Northpower Western Australia Pty Ltd	Intermediate holding company	Australia	31 March	100%	100%

Notes to the financial statements

14 Goodwill and Intangible Assets

	Goodwill \$000s	Software \$000s	Easements \$000s	Total \$000s
GROUP				
Cost				
At 1 April 2013	4,414	6,536		10,950
Addition	-	1,395	453	1,848
Disposal	-	-		-
Foreign Exchange Differences	(292)	-		(292)
At 31 March 2014	<u>4,122</u>	<u>7,931</u>	<u>453</u>	<u>12,506</u>
Accumulated Amortisation				
At 1 April 2013	-	4,863		4,863
Amortisation for the year	-	693		693
Disposal	-	-		-
At 31 March 2014	<u>-</u>	<u>5,556</u>	<u>-</u>	<u>5,556</u>
Net carrying amount at 31 March 2014	<u>4,122</u>	<u>2,375</u>	<u>453</u>	<u>6,950</u>
Cost				
At 1 April 2012	4,450	5,786	-	10,236
Addition	-	750	-	750
Disposal	-	-		-
Foreign Exchange Differences	(36)	-		(36)
At 31 March 2013	<u>4,414</u>	<u>6,536</u>	<u>-</u>	<u>10,950</u>
Accumulated Amortisation				
At 1 April 2012	-	4,188		4,188
Amortisation for the year	-	675		675
Disposal	-	-		-
Foreign Exchange Differences	-	-		-
At 31 March 2013	<u>-</u>	<u>4,863</u>	<u>-</u>	<u>4,863</u>
Net carrying amount at 31 March 2013	<u>4,414</u>	<u>1,673</u>	<u>-</u>	<u>6,087</u>

Notes to the financial statements

14 Goodwill and Intangible Assets (continued)

	Goodwill \$000s	Software \$000s	Easements \$000s	Total \$000s
PARENT				
Cost				
At 1 April 2013	2,377	6,536	-	8,913
Addition	-	1,395	453	1,848
Disposal	-	-	-	-
At 31 March 2014	<u>2,377</u>	<u>7,931</u>	<u>453</u>	<u>10,761</u>
Accumulated Amortisation				
At 1 April 2013	-	4,863	-	4,863
Amortisation for the year	-	693	-	693
Disposal	-	-	-	-
At 31 March 2014	<u>-</u>	<u>5,556</u>	<u>-</u>	<u>5,556</u>
Net carrying amount at 31 March 2014	<u>2,377</u>	<u>2,375</u>	<u>453</u>	<u>5,205</u>
Cost				
At 1 April 2012	2,377	5,786	-	8,163
Addition	-	750	-	750
Disposal	-	-	-	-
At 31 March 2013	<u>2,377</u>	<u>6,536</u>	<u>-</u>	<u>8,913</u>
Accumulated Amortisation				
At 1 April 2012	-	4,188	-	4,188
Amortisation for the year	-	675	-	675
Disposal	-	-	-	-
At 31 March 2013	<u>-</u>	<u>4,863</u>	<u>-</u>	<u>4,863</u>
Net carrying amount at 31 March 2013	<u>2,377</u>	<u>1,673</u>	<u>-</u>	<u>4,050</u>

There are no intangible assets whose title is restricted.

Notes to the financial statements

14 Goodwill and Intangible Assets (continued)

Allocation of goodwill to cash generating units

Goodwill is allocated to the group's cash generating units, being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indicator of impairment.

Goodwill acquired through business combinations has been allocated to three cash generating units ('CGUs') for impairment testing as follows:

Western Australia - The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by senior management covering a five-year period. For modelling purposes, a growth rate of 10% - 21% (2013: 4% - 19%) has been used during the five-year forecast period. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 2.5%. The pre-tax discount rate applied to cash flow projections is 14.5% (2013: 14.5%).

Regional Contracting - is Northpower's North Island contracting area excluding Central and Auckland. The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial forecasts covering five-year period. For modelling purposes, a growth rate of 2% (2013: 2%) is used. The pre-tax discount rate applied to cash flow projections is 11.3% (2013: 15%).

Central Contracting - is Northpower's central North Island contracting area. The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial forecasts covering a five-year period. For modelling purposes, a growth rate of 2% (2013: 2%) is used. The pre-tax discount rate applied to cash flow projections is 11.3% (2013: 15%).

(ii) Carrying value of goodwill allocated to each group of cash generating units

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
Western Australia	1,745	2,037	-	-
Regional Contracting	877	877	877	877
Central Contracting	1,500	1,500	1,500	1,500
	<u>4,122</u>	<u>4,414</u>	<u>2,377</u>	<u>2,377</u>

(iii) The calculation of value in use in calculations for cash generating units

The calculation of value in use in calculations for all CGUs are most sensitive to the following assumptions:

- Gross Margins
- Discount Rates
- Growth Rates

Gross margins are based on the expected results as per next year's budget and future year's forecast.

Discount rates are based on Northpower's internal return on investment hurdle rate.

(iv) Sensitivity

The directors have considered the variability of the key assumptions underlying the carrying amounts for the intangible assets set out above. The directors believe that the range of reasonable variability would not cause a material change in these carrying amounts.

Notes to the financial statements

15 Property, Plant and Equipment

	Freehold Land \$'000s	Freehold Buildings \$'000s	Building Infrastructure \$'000s	Distribution System \$'000s	Meters \$'000s	Fibre \$'000s	Generation \$'000s	Plant & Equipment \$'000s	Motor Vehicles \$'000s	Total \$'000s
Group										
Cost or fair value										
At 1 April 2013	16,012	13,452	5,349	259,387	4,584	1,352	13,356	33,414	59,071	405,978
Addition	64	276	388	14,771	112	-	298	2,728	5,421	24,058
Acquisitions through trade purchase	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	53	-	-	-	-	-	53
Revaluation adjustment	(1,175)	(174)	-	-	-	-	-	-	-	(1,349)
Disposal	-	-	(2)	-	(7)	-	-	(152)	(2,110)	(2,270)
Foreign exchange differences	-	-	(38)	-	-	-	-	(638)	(3,240)	(3,917)
At 31 March 2014	<u>14,901</u>	<u>13,554</u>	<u>5,697</u>	<u>274,211</u>	<u>4,689</u>	<u>1,352</u>	<u>13,654</u>	<u>35,353</u>	<u>59,142</u>	<u>422,553</u>
Accumulated Depreciation										
At 1 April 2013	-	1,131	881	17,050	703	319	6,827	21,272	29,763	77,946
Depreciation Charge for the Year	-	381	309	6,419	1,099	83	456	2,674	4,457	15,878
Transfers	-	-	-	-	-	-	-	-	-	-
Revaluation adjustment	-	(49)	-	-	-	-	-	-	-	(49)
Disposal	-	-	(1)	-	-	-	-	(94)	(1,531)	(1,626)
Foreign exchange differences	-	-	(14)	-	-	-	-	(387)	(1,394)	(1,795)
At 31 March 2014	-	<u>1,463</u>	<u>1,174</u>	<u>23,469</u>	<u>1,802</u>	<u>402</u>	<u>7,283</u>	<u>23,466</u>	<u>31,295</u>	<u>90,354</u>
Net carrying amount at 31 March 2014	<u>14,901</u>	<u>12,091</u>	<u>4,523</u>	<u>250,742</u>	<u>2,887</u>	<u>950</u>	<u>6,371</u>	<u>11,887</u>	<u>27,847</u>	<u>332,198</u>
Cost or fair value										
At 1 April 2012	15,825	14,210	4,505	247,695	4,913	1,361	12,803	29,565	55,441	386,317
Addition	187	94	887	10,840	188	-	553	3,980	5,503	22,232
Acquisitions through trade purchase	-	-	-	-	-	-	-	-	-	-
Transfers	-	(852)	-	852	-	(9)	-	-	-	(9)
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	(37)	-	(517)	-	-	(57)	(1,503)	(2,114)
Foreign exchange differences	-	-	(5)	-	-	-	-	(73)	(370)	(448)
At 31 March 2013	<u>16,012</u>	<u>13,452</u>	<u>5,349</u>	<u>259,387</u>	<u>4,584</u>	<u>1,352</u>	<u>13,356</u>	<u>33,414</u>	<u>59,071</u>	<u>405,978</u>
Accumulated Depreciation										
At 1 April 2012	-	864	615	10,987	485	236	6,307	18,567	26,445	64,507
Depreciation Charge for the Year	-	305	275	6,025	262	83	520	2,766	4,566	14,802
Transfers	-	(38)	-	38	-	-	-	-	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	(6)	-	(44)	-	-	(22)	(1,105)	(1,177)
Foreign exchange differences	-	-	(3)	-	-	-	-	(39)	(143)	(185)
At 31 March 2013	-	<u>1,131</u>	<u>881</u>	<u>17,050</u>	<u>703</u>	<u>319</u>	<u>6,827</u>	<u>21,272</u>	<u>29,763</u>	<u>77,947</u>
Net carrying amount at 31 March 2013	<u>16,012</u>	<u>12,321</u>	<u>4,468</u>	<u>242,337</u>	<u>3,881</u>	<u>1,033</u>	<u>6,529</u>	<u>12,142</u>	<u>29,307</u>	<u>328,031</u>

Notes to the financial statements

15 Property, Plant and Equipment (continued)

	Freehold Land	Freehold Buildings	Building Infrastructure	Distribution System	Meters	Fibre	Generation	Plant & Equipment	Motor Vehicles	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Parent										
Cost or fair value										
At 1 April 2013	16,012	13,452	5,109	259,387	4,584	1,352	13,356	29,297	38,236	380,785
Addition	64	276	367	14,771	112		298	2,384	3,606	21,878
Acquisitions through trade purchase										-
Transfers				53						53
Revaluation adjustment	(1,175)	(174)								(1,349)
Disposal			(2)		(7)			(126)	(1,999)	(2,134)
At 31 March 2014	<u>14,901</u>	<u>13,554</u>	<u>5,474</u>	<u>274,211</u>	<u>4,689</u>	<u>1,352</u>	<u>13,654</u>	<u>31,555</u>	<u>39,843</u>	<u>399,233</u>
Accumulated Depreciation										
At 1 April 2013	-	1,131	809	17,050	703	319	6,827	19,077	21,648	67,564
Depreciation Charge for the Year		381	288	6,419	1,099	83	456	2,203	2,919	13,848
Transfers										
Revaluation adjustment		(49)								(49)
Disposal			(1)		-			(94)	(1,531)	(1,626)
At 31 March 2014	<u>-</u>	<u>1,463</u>	<u>1,096</u>	<u>23,469</u>	<u>1,802</u>	<u>402</u>	<u>7,283</u>	<u>21,186</u>	<u>23,036</u>	<u>79,737</u>
Net carrying amount at 31 March 2014	<u>14,901</u>	<u>12,091</u>	<u>4,378</u>	<u>250,742</u>	<u>2,887</u>	<u>950</u>	<u>6,371</u>	<u>10,369</u>	<u>16,807</u>	<u>319,496</u>
Cost or fair value										
At 1 April 2012	15,825	14,210	4,315	247,695	4,913	1,361	12,803	25,990	35,294	362,406
Addition	187	94	831	10,840	188	-	553	3,363	4,408	20,464
Acquisitions through trade purchase	-	-	-	-	-	-	-	-	-	-
Transfers	-	(852)	-	852	-	(9)	-	-	-	(9)
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	(37)	-	(517)	-	-	(56)	(1,466)	(2,076)
At 31 March 2013	<u>16,012</u>	<u>13,452</u>	<u>5,109</u>	<u>259,387</u>	<u>4,584</u>	<u>1,352</u>	<u>13,356</u>	<u>29,297</u>	<u>38,236</u>	<u>380,785</u>
Accumulated Depreciation										
At 1 April 2012	-	864	559	10,987	485	236	6,307	16,923	19,868	56,229
Depreciation Charge for the Year	-	305	256	6,025	262	83	520	2,176	2,885	12,512
Transfers	-	(38)	-	38	-	-	-	-	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	(6)	-	(44)	-	-	(22)	(1,105)	(1,177)
At 31 March 2013	<u>-</u>	<u>1,131</u>	<u>809</u>	<u>17,050</u>	<u>703</u>	<u>319</u>	<u>6,827</u>	<u>19,077</u>	<u>21,648</u>	<u>67,564</u>
Net carrying amount at 31 March 2013	<u>16,012</u>	<u>12,321</u>	<u>4,300</u>	<u>242,337</u>	<u>3,881</u>	<u>1,033</u>	<u>6,529</u>	<u>10,220</u>	<u>16,588</u>	<u>313,221</u>

There are no items of property, plant and equipment whose title is restricted.

Notes to the financial statements

15 Property, Plant and Equipment (continued)

Revaluation of distribution system

The Group engaged PriceWaterhouseCoopers, an independent registered valuer, to determine the fair value of its distribution system assets as at 31 March 2013. As the fair value of the assets was not able to be reliably determined using market - based evidence, the valuation was prepared using a discounted cash flow methodology.

The key inputs used in the valuation include the forecast of future line charges, volumes, projected operational and capital expenditures growth rates and discount rate. A sensitivity analysis of the major inputs used in the valuation are discussed in detail in note 4 (ii).

The valuers estimated a range of values attributable to the group's distribution system assets between \$229.2 million and \$243.3 million as at 31 March 2013. The carrying value of the distribution system is within the range of estimated fair values as a result of valuation exercise. Accordingly, no revaluation adjustments were recognised as the carrying value of the distribution system did not differ materially from its fair value.

Revaluation of Land and Buildings

The Group engaged Telfer Young (Northland), a registered independent valuer, to determine the fair value of its land and buildings as at 31 March 2013. Fair value is determined by direct reference to recent market transactions on arms length terms. Fair value is assessed with reference to the "highest & best use" being defined as "the most probable use of an asset that is physically possible, appropriately justified, legally permissible, financially feasible and results in the highest value". As at 31 March 2013, the fair value of the land and buildings amounted to \$16.05 million and \$14.49 million, respectively. No revaluation adjustments were recognised as the carrying amount of the land and buildings did not differ materially from its fair value as at balance date.

The valuation of land and buildings was carried out in accordance with International Valuation Standards. To establish the valuation of properties, the valuers have used a combination of income capitalisation, market comparison and depreciated replacement cost approach.

The carrying value that would have been recognised had the following revalued assets been carried under the cost model would be as follows:

	2014			
	Freehold Land	Freehold Buildings	Building Infrastructure	Distribution system
Group				
Cost	13,504	12,851	2,139	252,263
Accumulated depreciation and impairment	-	2,042	549	50,492
Net carrying amount	<u>13,504</u>	<u>10,809</u>	<u>1,590</u>	<u>201,771</u>
Parent				
Cost	13,504	12,851	2,139	252,263
Accumulated depreciation and impairment	-	2,042	549	50,492
Net carrying amount	<u>13,504</u>	<u>10,809</u>	<u>1,590</u>	<u>201,771</u>
2013				
Group				
Cost	13,440	12,632	2,137	237,154
Accumulated depreciation and impairment	-	1,752	473	44,205
Net carrying amount	<u>13,440</u>	<u>10,880</u>	<u>1,664</u>	<u>192,949</u>
Parent				
Cost	13,440	12,632	2,137	237,154
Accumulated depreciation and impairment	-	1,752	473	44,205
Net carrying amount	<u>13,440</u>	<u>10,880</u>	<u>1,664</u>	<u>192,949</u>

Notes to the financial statements

15 Property, Plant and Equipment (continued)

Farm Properties

	Land		Buildings	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
Cost	2,905	4,080	1,283	1,432
Accumulated depreciation		-	(222)	(223)
	<u>2,905</u>	<u>4,080</u>	<u>1,061</u>	<u>1,209</u>
Depreciation during the period	-	-	(47)	-
Impairment	(1,175)	-	(125)	-

During the year, the farm land and buildings were reviewed for impairment. This resulted in a decrease in the carrying value of the farm assets and a corresponding decrease in asset revaluation reserve of \$1.3 million. As the farm properties have sufficient revaluation surplus, there was no impact on the profit or loss.

16 Borrowings

	Maturity	GROUP		PARENT	
		2014	2013	2014	2013
		\$000s	\$000s	\$000s	\$000s
Current					
Bank overdrafts	On demand	-	-	-	-
Unsecured loans	30-270 days	5,425	8,833	5,425	8,833
Secured loans	30-90 days	1,817	3,120	-	-
Finance lease liability		729	3,178	-	-
Total current portion		<u>7,971</u>	<u>15,130</u>	<u>5,425</u>	<u>8,833</u>
Non Current					
Finance lease liability		1,782	1,460	-	-
Unsecured loans	Within 2 yrs	24,550	35,000	24,550	35,000
	Within 2 and 3 yrs	33,613	25,270	33,613	25,270
Total non-current portion		<u>59,945</u>	<u>61,730</u>	<u>58,163</u>	<u>60,270</u>
		<u>67,916</u>	<u>76,860</u>	<u>63,588</u>	<u>69,103</u>

(a) *Fair Values*

The carrying amount of borrowings repayable within one year approximate their fair value.

(b) *Terms and Conditions*

Bank overdrafts and loans

The Group operates an unsecured overdraft facility at floating interest rates and is due on demand.

The Group operates lending facilities with the current facility expiring in May 2014 and the non current facility expiring in November 2015 and November 2016.

Interest rates paid on \$NZD borrowings averaged 3.5% (2013: 3.4%). Interest rates paid on \$AUD borrowings averaged 3.6% (2013: 3.9%)

(c) *Financing Facilities Available*

The Group operates a \$90,000,000 lending facility with advances being a combination of NZD\$ and AUD\$.

There is also an additional \$1,000,000 credit card facility.

Notes to the financial statements

16 Borrowings (continued)

(d) *Assets Pledged as Security*

There are commercial secured facilities issued by the National Australia Bank which are secured by the group's parent entity.

Finance lease liabilities are secured by the underlying assets.

Security held by the bank is in the form of a Negative pledge deed, where an undertaking has been given that certain actions will not be undertaken and key financial ratios will be maintained.

(e) *Set-off of Assets and Liabilities*

The Group has established a legal right of set-off with a bank enabling it to set-off certain deposits with that bank against an overdraft.

(f) *Interest rate risk*

Refer to the Financial Risk Management Objectives and Policies.

(g) *Debt to Equity ratio*

The group's debt to equity ratio is 0.66 (2013: 0.69)

Analysis of finance leases

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
Minimum lease payments payable:				
Not later than one year	894	3,412	-	-
Later than one year and not later than five years	1,952	1,546	-	-
Later than five years	-	-	-	-
Total minimum lease payments	2,846	4,958	-	-
Future finance charges	(337)	(356)	-	-
Present value of minimum lease payments	2,509	4,602	-	-
Present value of minimum lease payments payable:				
Not later than one year	748	3,177	-	-
Later than one year and not later than five years	1,761	1,425	-	-
Later than five years	-	-	-	-
Total present value of minimum lease payments	2,509	4,602	-	-

The Group has entered into finance leases for Motor Vehicles and the net carrying amount of these assets at balance date are \$4,449,721 (2013: \$5,543,257). The leases can be renewed at the Group's option, with rents set by reference to current market rates for items of equivalent age and condition. The Group has the option to purchase the asset at the end of the lease term. There are no restrictions placed on the Group by any of the finance leasing arrangements.

Notes to the financial statements

17 Trade and other payables	GROUP		PARENT	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Trade Payables (GST Inclusive)	16,019	16,309	11,601	9,910
Accrued Payables (GST Exclusive)	8,413	10,120	7,549	9,085
Income in advance	797	644	797	644
	<u>25,230</u>	<u>27,073</u>	<u>19,947</u>	<u>19,639</u>

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

18 Dividends paid and proposed

No dividends were paid in the current financial year.

Recognised amounts

Declared during the year

Dividends on ordinary shares:

Final imputed dividend for 2014: 15.36 cents (2013: 11.11 cents)	5,529	4,000	5,529	4,000
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19 Share Capital

(a) Ordinary Shares

As at 31 March 2014	35,989	35,989	35,989	35,989
Represented by 35,981,848 ordinary shares				
Total Issued and paid up capital	<u>35,989</u>	<u>35,989</u>	<u>35,989</u>	<u>35,989</u>

Ordinary shares have no par value. Fully paid shares carry one vote per share and carry the right to dividends. All ordinary shares are ranked equally.

(b) Capital Management

The company considers the following as part of its capital: Shares, reserves and retained earnings. When managing capital, the board's objective is to ensure the entity continues as a going concern maintaining adequate working capital ensuring obligations can be met on time as well as to maintain returns to shareholders as set out in the Statement of Corporate intent.

For year ended 31 March 2014 the Group declared dividends of \$5,529,000 (\$2013: \$4,000,000). As outlined in the Statement of Corporate Intent, the Group's dividend policy is to pay a minimum of 35% of Net Profit after Tax as a dividend.

The Group's Statement of Corporate Intent prescribes that the ratio of total shareholders' funds to total assets will be maintained at not less than 50%.

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
20 Cash flow statement reconciliation				
Reconciliation of net profit after tax to net cash flows from operations				
Net profit after income tax	15,875	11,293	15,797	10,844
Adjustments for:				
Depreciation and amortisation	16,698	15,510	14,541	13,187
Loss on sale of property, plant & equipment	80	490	80	490
Loss on sale of investment property	-	94	-	94
Non cash line contribution revenue	(2,019)	(1,098)	(2,019)	(1,098)
Fair valuation (gain)/ loss on derivative financial instruments	(1,321)	(353)	(1,321)	(353)
Capitalised interest expense	(32)	(208)	(32)	(208)
Unrealised foreign currency loss/ (gain)	(1,828)	109	(1,828)	109
Share in loss/ (profits) of associate	400	(133)	-	-
Changes in assets and liabilities				
Increase in trade & other payables	(466)	5,261	308	978
Decrease/(increase) in construction work in progress	2,945	(1,734)	1,959	(1,193)
Decrease in tax refund	5,612	1,336	5,612	1,336
Decrease/(increase) in trade and other receivables	(7,809)	(4,692)	(7,428)	459
Decrease/(increase) in inventory	564	(497)	843	(496)
Increase/(decrease) in deferred tax liabilities	(2,085)	645	(2,085)	645
Increase in employee entitlements	681	353	681	353
Net cash from operating activities	27,295	26,376	25,108	25,147

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
21 Derivative Financial Instruments				
Current Asset portion				
Interest rate swap contracts	-	-	-	-
Non-current Asset portion				
Interest rate swap contracts	867	124	867	124
Current liability portion				
Interest rate swap contracts	191	523	191	523
Non-current liability portion				
Interest rate swap contracts	41	287	41	287
Net financial derivative asset/ (liability) position	635	(686)	635	(686)

Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rates.

(i) Interest rate swaps

The fair values of interest rate swaps have been determined by calculating the expected cash flows under the terms of the swaps and discounting these values to present value. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

The notional value of the outstanding interest rate swap contracts amounted to \$53,345,307 (2013: \$40,000,000). The fixed interest rates of interest rate swaps vary from 3.15% to 5.58%.

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
22 Guarantees and contingencies				
Performance bonds in relation to contract work	15,776	18,484	15,776	16,078
Letters of credit in relation to contract work	3,472	2,485	3,472	2,485
Guarantee for leased premises	98	115	-	-
	19,346	21,084	19,248	18,563

Performance bonds relate to guarantees given to customers to guarantee completion of contracting work. Letters of Credit relate to guarantees given to off-shore customers for work completed. No liability was recognised in relation to the above guarantees as the fair value is considered immaterial.

Northpower is a participant in the DBP Contributors Scheme (the scheme) which is a multi-employer defined benefit scheme operated by National Provident Fund. If the other participating employers ceased to participate in the scheme, Northpower could be responsible for the entire deficit of the scheme (see note 27). Similarly, if a number of employers ceased to participate in the Scheme, Northpower could be responsible for an increased share of the deficit.

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
23 Commitments				
As lessee in Operating leases				
The parent and Group leases property, plant & equipment in the normal course of business. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:				
Within one year	2,750	2,897	2,263	2,545
After one year but not more than five years	6,987	5,037	3,247	5,037
More than five years	4,641	850	536	850
Total non-cancellable operating leases	14,378	8,784	6,046	8,432
As lessor in Operating leases				
The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:				
Within one year	41	41	41	41
After one year but not more than five years	72	72	72	72
More than five years	33	32	33	32
Total non-cancellable operating leases	145	145	145	145
No contingent rents have been recognised during the period.				
Capital commitments contracted for at balance sheet date	1,129	4,554	1,129	4,554
Commitments relate to purchase of property, plant & equipment (see note 32).				

Northpower is a party to certain options contracts which, when exercised, will require Northpower to purchase A shares in Northpower Fibre Ltd from Crown Fibre Holdings. As at balance date, the exercise of these options is considered to be unlikely since the conditions that trigger them have not been met. Furthermore, the value of these options is assessed to be not significant since its exercise price is equivalent to the market price on exercise date.

Notes to the financial statements

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s

24 Related Parties

(a) Subsidiaries

(i) Terms and conditions of transactions with related parties

I. Sales to and purchases from related parties are made in arm's length transactions both at normal market price and on normal commercial terms.

(ii) Outstanding balances

I. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

Transactions during the year

Sales to subsidiaries	268	427
Management fees charged to subsidiary	420	276
Purchases from subsidiaries	-	-

Outstanding balances as at 31 March

Accounts payable to subsidiaries	-	-
Accounts receivable from subsidiaries	301	351
Debenture to subsidiary	27,102	24,431
Loan to subsidiary	416	1,109

(b) Associates (Refer to note 26)

Transactions during the year

Sales to associate	16,303	11,005
Purchases from associate	166	-
Other transactions	204	164

Outstanding balances as at 31 March

Payable to associate	-	-
Receivable from associate	1,117	332

(c) Directors

One of the Directors of Northpower Ltd is also a Director of West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd.

(d) Key Management

The compensation of the directors and executives, being the key management personnel of the entity is set out below:

Compensation of key management personnel

Short-term employee benefits	4,111	4,050	2,275	2,214
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There are close family members of key management personnel employed by the Group. The terms and conditions of these arrangements are no more favourable than the Group would otherwise have adopted if there were no relationships to key management personnel.

Notes to the financial statements

24 Related Parties (continued)

Transactions between the company and key management personnel

Mr Ercoli Allen Angelo is a Trustee of Northpower. He is also the Director of D B Quinn Trustees Ltd and shareholder of Diesel Maintenance Ltd. During the year Northpower made purchases from D B Quinn Trustees Ltd of \$nil (2013: 1,273) and Diesel Maintenance Ltd of \$10,153 (2013:\$2,942).

Mr Anthony Davies-Colley is a Trustee of Northpower. He is also the Director of Blackdog Steelworks Ltd and Westpoint Management Ltd and Port Nikau Joint Venture. During the year Northpower made purchases from Blackdog Steelworks Ltd of \$nil (2013: \$353,815) and provided services to Westpoint Management Ltd \$12,221 (2013: \$255) and Blackdog Steelworks Ltd of \$nil (2013: \$147). During the year, Northpower made sales to Port Nikau Joint Venture of \$31,475, the full value of which is still outstanding as at year end.

Mrs Nicole Davies-Colley is a director of Northpower, its subsidiary West Coast Energy Pty Ltd, its associate Northpower Fibre Ltd, and also a Director of Farmlands Trading Society Ltd and Landcorp Farming Ltd. During the year Northpower made purchases from Farmlands Trading Society to the value of \$3,109 (2013: \$4,335) and sales to Landcorp Farming Ltd of \$338 (2013: nil).

Mr Lloyd Brian Richards is a board member of the Electricity Engineers Association and during the year Northpower made purchases from this organisation totalling \$66,328 (2013: \$40,243).

Mr Warren Moyes is also a council member of Northtec Polytechnic. During the year Northpower made sales to Northtec of \$418 (2013: \$255). During the year Northpower made sales to Mr Moyes amounting to \$3,969 (2013: nil).

Mr Mark Giglia is a director of Northpower's two Australian subsidiaries (West Coast Energy Ltd and Northpower Western Australia Pty Ltd) who also provides accountancy and taxation services to Northpower's Australian group via Anderson Redman Chartered Accountants. During the year fees totalling \$12,603 were paid or payable for services provided (2013: \$13,500).

Jo Brosnahan is the Chairperson of Northpower's associate company Northpower Fibre Ltd and is also the Chairperson of Leadership NZ. During the year Northpower made purchases from Leadership NZ amounting to nil (2013: \$nil).

No provision has been required, nor any expense recognised for impairment of receivables from related parties.

25 Investment in associates

Northpower Fibre Limited (NFL) has been established to construct and operate an Ultra-Fast Broadband (UFB) network in the Whangarei area, as part of the Government's objective to roll-out UFB to 75% of the New Zealand population over ten years. Northpower has partnered with Crown Fibre Holdings Limited (CFH) to establish, manage and fund the operations of NFL. Under a shareholders' agreement between Northpower and CFH, Northpower's obligation during the initial ten year period includes:

- Provide working capital to the NFL in return for shares.
- Purchase shares in NFL from CFH, as and when end users are connected to the UFB network.
- Participate in the governance and management of NFL, including the appointment of two directors to the Board of NFL and the provision of management services to NFL.

(a) Movements in the carrying amount of the Group's investment in associates

	GROUP		PARENT	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Beginning balance	3,612	2,729	4,161	3,411
Additional investment made	4,937	750	4,937	750
Share of profit/ (loss) after income tax	(315)	(181)	-	-
Unrealised profit adjustment	(101)	306	-	-
Realised profit adjustment	16	8	-	-
Ending balance	<u>8,149</u>	<u>3,612</u>	<u>9,098</u>	<u>4,161</u>

Notes to the financial statements

25 Investment in associates (continued)

b) Summarised financial information

Extract from the associate's statement of financial position:	2014	2013
	\$000s	\$000s
Current assets	1,308	934
Non-current assets	29,426	16,318
Current liabilities	776	150
Non-current liabilities	339	143
Net assets	29,619	16,959
Share of associate's net assets	6,812	3,901
 Extract from the associate's statement of comprehensive income:		
Revenue	857	480
Net profit/(loss)	(1,112)	(789)

26 Categories of other financial assets and liabilities

The carrying amount of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
<i>Financial Assets at fair value</i>	867	124	867	124
<i>Loans and Receivables</i>				
Cash and cash equivalents	414	5,289	306	4,960
Trade and other receivables	39,625	33,806	31,234	24,166
Total loans and receivables	40,039	39,095	31,540	29,126
<i>Available for sale instruments</i>				
Unlisted shares	884	1,060	884	1,060
<i>Financial liabilities at fair value</i>	41	810	41	810
<i>Financial liabilities measured at amortised cost</i>				
Short term borrowings	7,971	15,130	5,425	8,833
Long term borrowings	59,945	61,730	58,163	60,270
Trade and other payables	21,639	24,803	17,153	17,369
	89,554	101,663	80,741	86,472

27 Defined benefit superannuation scheme

Northpower contributes to a multi-employer defined benefit superannuation scheme operated by National Provident Fund. The scheme is not open to new members and currently only two employees are members of the scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine, from the terms of the scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.

The actuarial examination as at 31 March 2013 indicated that the scheme had a past service surplus of \$17.4 million (7.7% of the liabilities).

This amount is exclusive of Employer Superannuation Contribution Tax. This surplus was calculated using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.

Notes to the financial statements

28 Employee entitlements	GROUP		PARENT	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
<u>Current employee entitlements are represented by:</u>				
Accrued salaries and wages	1,241	1,142	1,241	1,142
Annual leave	6,550	5,799	5,067	4,483
Sick leave	25	25	25	25
Total current portion	<u>7,816</u>	<u>6,966</u>	<u>6,333</u>	<u>5,650</u>
<u>Non-current employee entitlements are represented by:</u>				
Retirement and long service leave	1,473	1,475	1,473	1,475
Total non-current portion	<u>1,473</u>	<u>1,475</u>	<u>1,473</u>	<u>1,475</u>
Total employee entitlements	<u>9,289</u>	<u>8,441</u>	<u>7,806</u>	<u>7,125</u>
29 Inventory				
Inventory held for use in the provision of goods and services	8,874	9,475	8,474	9,317
Cost of inventories recognised as expense	81,023	71,669	53,544	48,080

The carrying amount of inventories held for distribution are measured on a weighted average cost basis.

Inventory written down during the period amounted to nil (2013: nil). No inventories were pledged as securities for liabilities, however some inventories are subject to retention of title clauses.

30 Capitalised Borrowing Cost

The assets under construction account includes capitalised borrowing costs amounting to \$20,282 (2013: \$208,263). The weighted average interest rate used to determine the amount of borrowing costs eligible for capitalisation is 3.6% (2013: 4.3%).

31 Employee Benefit expenses	GROUP		PARENT	
	2014 \$000s	2013 \$000s	2014 \$000s	2013 \$000s
Salaries and wages	110,499	102,784	82,536	75,632
Defined contribution plan employer contributions	4,091	3,327	2,389	1,771
Movement in employee entitlements	1,109	582	681	353
	<u>115,699</u>	<u>106,694</u>	<u>85,606</u>	<u>77,756</u>

Notes to the financial statements

32 Auditor's Remuneration

The auditor of Northpower Limited is Audit New Zealand

	GROUP		PARENT	
	2014	2013	2014	2013
	\$000s	\$000s	\$000s	\$000s
<i>Fees to Audit New Zealand for:</i>				
Audit of financial statements	130	135	130	135
Special audits required by regulators	24	24	24	24
	154	159	154	159
<i>Fees paid to non Audit New Zealand firms for:</i>				
Audit of financial statements of subsidiary	71	88	-	-
Advisory services	120	131	120	131
	191	219	120	131

DIRECTORY

Northpower Limited:

Chairman

W W Moyes, BA, AF Inst D.

Directors:

D J Ballard, BE (Hons), MBA.

R J Black, BE(Civil) (Hons), FREng, FIPENZ.

N P Davies-Colley, BBS, MBA. AF Inst D.

K C Hames, BAg, M Inst D.

M B James, BCom, CA (from 26 March 2014).

J J Ward, BE (Hons), MIPENZ.

Executive officers:

Chief Executive

M R Gatland, BE, MIPENZ, MBA.

General Counsel

J Boyd, LLB (Hons) / BA.

General Manager, Network

G A C Dawson, NZCE.

General Manager, Business Support

B S Harrison, BBus.

Chief Financial Officer

P McElwee, BMS, CA, MBA (from 3 March 2014).

D Molloy, BSC, BE (Hons) (until 15 November 2013).

General Manager, Strategic Development and Regulatory

R Pearce, MBA, BE (Hons).

General Manager, Contracting

L B Richards, NZCE, REA, Tec IPENZ.

West Coast Energy Pty Limited:

Chairman

D Wright, MBA Distinction, B Tech (Food) (Hons).

Directors:

T Beach, MAICD, MIE Aust, CP Eng (From 17 February 2014).

N P Davies-Colley, BBS, MBA. AF Inst D.

M Giglia, B.Bus, CA (until March 2014).

Executive officers:

Chief Executive

S Horgan, BMS (Hons), MMS, AMS (INSEAD).

Commercial Operations Manager

N Ellett, BAppMgt, CSCP, AIMM.

Area Manager Perth

W Huia.

HSQE and Technical Standards Manager

A Macleod

Area Manager Melbourne

R Wilson, NZCE Electrical.

Northpower Electric Power Trust

Chairman

E A Angelo, CA ANZIM.

Deputy Chairman

R J Drake, MNZM.

Trustees

A J Davies-Colley, BAgSci.

I M Durham, BBM, Grad Dip (Fin).

S K Mckenzie.

K R Provan.

W E Rossiter, QSM.

Bankers

The Bank of New Zealand, Whangarei.
Westpac Banking Corporation, Whangarei.

Head Office

Mount Pleasant Road, Raumanga, Whangarei.

Auditors

Audit New Zealand, Whangarei, on behalf of the Auditor-General.

Registered Office

28 Mount Pleasant Road, Whangarei.

Northpower

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Northpower Fibre:	0800 66 78 47
Northpower Electrical Services:	0800 66 78 47
No Hot Water Fault:	0800 10 40 40
Northpower Vegetation Department:	0800 66 78 47
Complaints & Compliments:	0800 66 78 47
Northpower Electric Power Trust (NEPT):	0800 43 41 00

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