Northpower

Annual Report 2012-2013

Northpower Fibre Technician John Knight, helping bring world class broadband to Whangarei.

Northpower Annual Report 2013

Left to right: Nikki Davies-Colley, David Ballard, Warren Moyes (Chairman), John Ward, Russell Black, Ken Hames.

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 2013.

For and on behalf of the Board of Directors.

Warren Moyes
Chairman

Nikki Davies-Colley
Director

"safe, reliable, hassle free service"

Chairman's report

It's been 20 years since the Government forced the corporatisation of Northpower.

At the time there were deep seated concerns about moving from a traditional Power Board to a corporate entity.

The major issue for consumers and staff was that the Power Board was there to service the consumer. It was not about profits. There was a fear that the sole driver of the Northpower business would be profits.

The important reality with corporatisation was that we were being put into a much more effective governance structure which still allowed the consumers to retain ownership. The industry has changed dramatically. In the process, we had to lose some of our protected market. However, there were clearly opportunities to broaden our business. What Northpower has achieved could never have been done as a Power Board.

By comparison, Power Boards were quite bureaucratic and hierarchical, and customers often did not receive a good result, Northpower had to change that and has done so with integrity. Internally, and despite some nervousness about pending change, staff soon realised the empowerment they were being offered and they grabbed it. Giving people the authority to solve customer issues was enlightening and refreshing for many. They were so multi-talented they had the capability to do so with relative ease.

The new owners of Northpower, the Northpower Electric Power Trust (NEPT), could clearly see that simply retaining the status quo was a limiting option. The Northpower business needed to be on a development path to set itself up and generate the energy and vitality to be successful in quite a challenging environment. That was implicit and was required to maximise the opportunity for the Kaipara and Whangarei Districts. The Government had effectively forced us out of retailing and we had to quickly build on the Northpower Network service to provide for, enable and service the community.

The 'new Northpower' was tasked with establishing a sustainable Northland business that locals would be proud to own and call their own. A key part of this was purchasing the Whangarei District Council Electricity Department which gave us the entire electricity network for Kaipara and Whangarei.

Ultimately, it was our resolve to build on that opportunity based on customer service whereby we empowered our staff to quickly solve problems for customers and adopted our now renowned 'hassle-free' approach that has led to steady long-term growth. That now sees us far beyond the $47 million net asset value company we were in 1993. Instead, Northpower has a net asset value in the 2012/2013 financial year of $249 million, annual revenue of $282.7 million and pay-outs to our consumer owners in Kaipara and Whangarei totalling an impressive $174 million over 20 years. Total assets of the Northpower Group currently sit at $420.6 million.

So I must express my gratitude for the drive and commitment of the staff to achieve the financial performance this past year. We have lifted our profit 17% in the past financial year, expanded our business base considerably with a move into the transmission sector and taken revenue to an all-time high. That has been the consistent theme for Northpower these past two decades – steady growth.

Throughout this time, the Board of Directors has continued to impress on the business three key ingredients – integrity, openness (no surprises) and commitment. From the outset, we firmly believed these traits were required to become a successful corporate business unit back in the 1990s.

However, it has been the openness of NEPT Chairman Erc Angelo and his longstanding team of trustees which has been fundamental to Northpower being able to flourish as we have pursued a consistent growth path. There has been no micro-management from the NEPT. Conversely, there has been trust and belief in the Board and Management to do what is right for the company and make commercially savvy decisions to grow the business.

Chairman's report

Northpower's Trust has allowed us to innovate, grow, expand and diversify. Now is the time to realise that potential and to consolidate the revenue and business profits of a company increasingly recognised locally and internationally by industry, government and aid agencies. The leaders of the NEPT have managed to keep the Trust free from outside influences.

The reason the Trust has backed our path is thanks to a consumer oriented spirit based on a belief people will support. The NEPT – Northpower's owners – did not want to keep the status quo based on the 1993 business model they inherited.

As a consumer-owned trust, the NEPT has been responsible for $174 million being given back to the consumers – instead of selling Northpower for much less in 1993. We could have simply remained as a Kaipara and Whangarei-based electricity lines distribution company and not bothered with growth.

Northpower has matured into a vibrant, capable, innovative, diversified and consistently growing business that should be a source of pride for Northland. It has given hundreds of true-blue Northlanders employment and career opportunities in Whangarei, throughout the North Island, Australia, the Pacific Islands and beyond.

While some of that talent leaves Northpower, much of it comes back with a far greater skill-base and enhanced business acumen, adding even more value to the business. It is pleasing that Northpower is seen as an employer of choice by individuals and a service provider of choice by other electricity companies and agencies.

Yet contracting, which is a major part of our business – despite the Northpower network being our heart and soul – is a difficult game. That is the nature of contracting and always has been. This year has been a tough one for the Northpower New Zealand Contracting division yet it has still been profitable. I'm glad so much focus has been put on safety and I expect that to continue. The safety of our staff is critical at all times. So too is their ability to keep the public safe around electricity.

As we continue to work on our systems and processes to strengthen our business model and continually fine-tune our work practices, we will become better at what we do. No short-cut is ever worth the risk – regardless of how quickly our clients, or Northpower itself, expect repairs and maintenance to be completed on any electricity network.

No one in a governance role, past or present, wants to see anyone harmed.

This leads me to pay tribute to two men, both of whom passed away during the 2012/2013 financial year and who had a very positive impact on Northpower.

Col Keen joined the North Auckland Electric Power Board as a Board Member on 12 February 1990. Following reform of the Electrical Distribution Industry, he was appointed Director Designate to the new Board from 17 October 1990. He served as a Director of Northpower until his retirement on 30 June 1998.

The other is Dave Culham who was elected as an NEPT Trustee on 15 May 1993, following the inaugural election of the Trust. He served until his retirement on 19 November 2010 and played a key role in helping the business understand the challenges and opportunities of contracting.

Both, at different times, contributed to positive change in professionalism and culture that is still on-going today. They understood astutely the move of the Labour Government to turn Power Boards into locally-owned entities.

In 2013 Northpower continues to consolidate, grow and create opportunity for a profitable future that will benefit locals in decades ahead. We have matured well and entered most of the markets we targeted. On the eve of the 2013/2014 financial year we were on the verge of taking ownership of the Maungatapere to Dargaville Transpower transmission line – an achievement more than ten years in planning.

Our Ultra-Fast Broadband fibre build in Whangarei is leading the way in New Zealand which is testimony to the ability of our Northpower Fibre team and that is an amazing, enabling opportunity for Northland to have access to world-class broadband in less than three years.

Chairman's report

The Northpower Network has become increasingly reliable and I am thrilled with the turnaround of West Coast Energy Pty Ltd. Make no mistake – establishing a business in a fiercely competitive and parochial Australian market is a tough ask.

Northpower's Board of Directors and Management team have come under plenty of heat in recent years for this investment but it is finally realising its immense promise. Those who have been so dedicated to making WCE work deserve credit as it will play a big part in the success of Northpower.

We are a business that thrives on challenge and opportunity. We don't always get everything right but we learn along the way and are better for it. In a climate of ever increasing delivery, expectations – not only in Health, Safety, Quality & Environmental (HSQE) but also in information provided to clients – Northpower is performing well.

We are forging a solid reputation for the electrical project work we are doing in the Pacific Islands and the development of talent we are assisting the Electricity Supply Industry Training Organisation (ESITO) with. Not many electricity companies have qualified women line mechanics and cable jointers. We do.

I am proud that our field staff is the first in the NZ electricity sector to be armed with electronic tablets in a comprehensive way and that is a game changer for them – along with an immense value-add for clients like Transpower.

When you have a complex and dynamic business, such as ours, with risk profiles operating in a high exposure and very demanding health and safety environment, while working amongst so many electricity networks (each with their own very specific and detailed requirements), developing processes and systems to improve safety, efficiency, delivery and effectiveness around that takes on additional importance.

We are not perfect. We can make mistakes but ultimately we challenge ourselves, work to improve and get things right.

The future is bright for Northpower.

Warren Moyes
Chairman

Chief Executive's report

I am extremely pleased with the way Northpower has continued to strongly build its strategic position as a high quality services provider across an increasingly diversified market base, while at the same time achieving a 17% lift in Group profit. It has been a challenge. We expected a larger profit from our Northpower New Zealand Contracting business but we put our focus where it needed to be at the time and I am pleased with the way we are tackling the remaining challenges. Our Australian Contracting business continued its hard won turnaround to exceed profit targets. The Northpower Network performed exceptionally well while controlling costs and leading what is recognised as the best performing Ultra-Fast Broadband build project in the country.

For the New Zealand Contracting business we implemented a transmission line and substation's contracting unit to a tight timeframe to take over the transmission maintenance contracts awarded by Transpower in the previous year. The step into a long term transmission maintenance contract is a huge achievement for Northpower. The implementation to undertake this highly demanding, critical work needed to be robust and secure. It involved innovation, new processes, system development, specialist recruitment, training and equipment. All this was done while significant transmission projects were also being completed. Transmission work is expected to provide $20m income in the 2013/2014 financial year. I am ecstatic with what our new transmission team has achieved along with the extensive support from the rest of Northpower to get it up and going.

At the same time we are in an industry where all our major clients are making changes and looking for improvements. We do around two million hours for these clients and can't take our focus off them at

Chief Executive's report

any time. The priority has to be safety and delivery. Productivity and profitability can only come through doing these things well and this is why so much effort is being put into supporting a performance culture through improved business tools, processes, standards and reporting.

We experienced the effect of a distraction from safety causing considerable disruption to the business. This was the catalyst for reasserting a stringent safety focus. I am pleased to see that throughout our business we are learning, regardless of the issues, that the above priorities always apply. Northpower's 'Lift in Leadership' development which started early in the year is progressing well. Combined with the system and procedural developments, it will improve our robustness when the business takes on another major client or project.

In addition to the new transmission work, Northpower Contracting is building the Northpower Fibre network. This is another very intense, critical project. Laying new services through every part of Whangarei CBD and the rest of the city can be very disruptive but the project team has worked to minimise the impact with good results. The fibre network is livened (or lit up) as each stage is built and customers connected, so we have the complexity of reliably operating this new technology at the same time as the build. This project, nearing completion ahead of schedule, is a bit of a showcase in the NZ Ultra-Fast Broadband world. In the realm of capability, innovation, speed and accuracy, we will have delivered a world class fibre network skilfully and quickly.

Another area of recognised leadership is our work in the Pacific Islands. Northpower Contracting has very successfully completed four substantial projects over the past two years, plus several smaller technical assignments. That we have several more projects in the pipeline is a tribute to the quality of our project management and delivery, along with the depth of our expertise in electricity network engineering. It also recognises the valued commitment from a relatively few key staff to frequently spend time away from home in order to support these great projects. Building a substation in Samoa is a much more difficult proposition to building one on our home turf and our teams are doing it well.

Northpower's electricity distribution network continues to thrive on marginal growth by sticking to budget, while also managing costs and network performance extremely well. Our tree maintenance strategy to engage with land owners and work to a feeder-based programme has had a continued positive impact. This, combined with the carefully targeted 'rotten' conductor replacement programme, has enhanced network reliability through reducing tree interference and unplanned outages.

The rock-solid network delivery is deliberate and planned, with a sense of innovation wrapped around it. Similarly, the engineering knowledge being developed within our network business and throughout the broader Northpower business, from a variety of challenges – and which our clients benefit from – is illustrated by the tremendous result we have had with a 38% improvement in network reliability.

Our engineering capability will be tested as emerging electro technologies impact this industry. We already see reducing household consumption due to insulation improvements and high efficiency consumer products becoming commonplace. Add in the reducing cost of photovoltaic panels, gas or electric heat pump water heating, small scale electricity storage systems and of course electric cars – it is going to be interesting.

A good starting point to sorting this out is the smart meter. The meter gives consumers the information they need to gain control of energy costs. It will also enable electricity networks to work with consumers to come up with the optimal solutions to support increasingly complex needs. We are positioning ourselves to be knowledgeable in this field and there will likely be a Northpower investment in smart meters in the future. That could mean we benefit from a more universal smart metering solution and working closely with leading players will greatly increase the effectiveness of the work we do.

Northpower's Wairua Hydro Power Station performed well given the very dry summer. We have continued to work with iwi, local authorities and NIWA to assist with the health of the local eel population.

It is reassuring that Northpower's Australian subsidiary, West Coast Energy Pty Ltd, delivered a maiden profit, increasing EBITDA 254% through building on the deliberate turnaround in the previous year.

That is a substantial achievement and just reward for the employees who have been outstanding with their commitment and resilience in making this business a success.

Chief Executive's report

This, combined with the focused direction of the subsidiary's Board of Directors, having completed two years of their tenure, is proving to be successful.

The positive result is also thanks to the groundwork put in by staff with key clients since we set up in Perth in 2007. We have built relationships well and shown clients we will take the time to understand their business and deliver consistently and with quality. Remaining open, transparent and committed has earned us a good reputation with network clients in Western Australia and Victoria.

Stepping out of New Zealand has been a really positive move for Northpower as we have faced challenges and gained experience that allows us to take on projects we didn't have the expertise for ten years ago. Experience has given us commercial and technical depth and our innovation continues to create opportunity.

Distribution power line construction has traditionally been tough, risky, physical work, requiring high upper body strength and almost exclusively done by men. The work has become increasingly sophisticated with high demands for consistent safety, work quality, accuracy and reliable delivery. We need highly talented, motivated, reliable people to do this work. At the same time, the numbers of young men coming into the workforce who meet these criteria and want 'outside' jobs appears to have decreased. Effectively limiting our choice of future line mechanics and cable jointers to men is an ever increasing constraint on the industry. That's why, alongside our traditional recruitment and training, we are targeting women for these field roles. Our strategy is to identify and remove the barriers to those women who might be interested in a rewarding, challenging, outdoor vocation such as becoming a Line Mechanic. It will take time and effort but eventually it could double our resource pool.

We already have women who have graduated as Cable Jointers and Line Mechanics – an initiative alongside the Electricity Sector Industry Training Organisation (ESITO). Northpower has had a number of ESITO award winners this past year and I want to acknowledge them.

It is in the Northpower culture to strive to be a leader in fields we operate in. Our drive is to build a successful, sustainable business through delivering outstanding service to our clients and customers. We want to be the 'go to' network services contracting company in Australasia and the Pacific, and we want our own network to be attractive to both new and existing consumers.

We must achieve this through our actions and performance. We have to be honest with ourselves and our clients about what we do well and our shortcomings. Our clients are relying on us for very critical parts of their business and real progress is only made through open engagement with them.

It is encouraging to see we are gaining recognition for our efforts and achievements. Northpower's profile throughout the region has lifted in recent years. It is what our customers and employees say about us that will influence our future growth.

When I summarise how I see Northpower in the 2012/2013 financial year, I believe we can take pride from the number of projects in the Pacific Islands, the fact we are among few New Zealand companies showing promising signs of a turnaround in Australia, while at the same time illustrating we can be a force with transmission contracting and constructing fibre broadband networks. Our culture of engaging with customers to understand their business needs and our openness in how we work with them is recognised. We value inspection, criticism and encouragement from our clients because that makes us better.

We are expanding and building and making the Northpower business better all the time which only happens by getting the fundamentals right in fine detail. This includes a focus on succession planning, the combination of attracting skilled people and developing potential within. We have considerably increased our leadership capability. One example is the Prime Minister's Business Scholarship which has taken our former Business Development Manager Sean Horgan to the London Business School on his way to taking up the CEO role of West Coast Energy.

Likewise, I would like to mention the resilience and ability of our Board of Directors to manage and navigate throughout some tough times. The Board understands the Northpower business deeply and they regularly step into the field to see what is going on. But that culture starts with the owners – the NEPT. The Trust has been consistent and worked hard to understand what we are about. Like the Board, our Trust challenges us constructively and as Chief Executive I am fortunate to have this style of governance in such a challenging business.

We have spent the best part of ten years building our market base and resilience. The increased talent and professionalism within the business is exciting.

Chief Executive's report

The impact of that skill working its way throughout Northpower is clear to see. Northpower has made great progress in a tough environment and market demand for our services will continue to increase in years ahead – we are well prepared to take advantage of new opportunities.

Mark Gatland
Chief Executive

Financial overview

Group net profit after tax for the year ending 31 March 2013 was $11.3m, up 17% on the previous year. The lift in profit was predominantly due to the continued improvement of our Australian contracting subsidiary West Coast Energy Pty Ltd, which recorded its maiden profit in FY13. This was partially offset by an increase in corporate overheads and a decline in earnings for Northpower's New Zealand Contracting division. The line holiday rebate to all consumers was $4.7m – unchanged from 2012 and the dividend to the Northpower Electric Power Trust was $4m – up 5% on last year.

Network

Earnings before interest and tax for the Network Division fell by 3% over FY13. The result was negatively impacted by several abnormal factors, including: budgeted losses on the CBD build stage of the fibre project (by far the most expensive build stage of the project); additional costs for the fibre Layer 2 electronics; and a write off relating to 6,000 Northpower meters which have been replaced by Genesis Energy smart meters.

Excluding the fibre project and meter write off, the underlying network result was up around 6% on FY12. This was a solid result, delivered on the back of a 2% reduction in overheads and operating expenses (excluding depreciation and corporate allocations), and despite largely stagnant consumption and low connection growth.

Connection growth was around 0.9% in FY13 whilst average consumption per customer declined by 0.4%. In fact the trend over the past five years has been very similar, with average connection growth of only 0.8% per annum and a decline in average consumption per customer of 0.4% per annum for each of those years.

Fibre Build

Northpower is currently constructing a fibre network to more than 19,000 premises in Whangarei as part of the Government's Ultra-Fast Broadband initiative. The network will be owned and operated by Whangarei Local Fibre Company Ltd (WLFC), a joint venture between Northpower and the Crown. As at 31 March 2013, 24 months into the build, the network was around 70% complete. We expect the build to be complete by the end of this financial year, well ahead of schedule.

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 WLFC, which funds the purchase by issuing shares to the Crown. Northpower is required to repurchase WLFC shares from the Crown as customers connect. Hence, as the number of connections increases, Northpower's shareholding in WLFC will increase and the Crown's shareholding will decrease. As at 31 March 2013 our total investment in WLFC stood at $4.2m and our shareholding in WLFC was 23%.

Uptake on the fibre network is currently sitting at just over 7%. This is lower than we had hoped but is the highest of any Local Fibre Company across the country. Some of the reasons for the low uptake are Northpower specific (delays with our Layer 2 electronics; low level of marketing) and some are nationwide (major RSPs have not been quick to offer UFB products; lack of a compelling content proposition such as a Netflix or equivalent). We believe these issues will be addressed in due course. Meanwhile, our priority is to complete the build and ensure our performance is world class in all aspects. We remain confident in the long term business case for UFB.

Financial overview

Northpower New Zealand Contracting

FY13 was a busy and challenging year for the NZ Contracting division. At the very end of FY12 we secured a long term maintenance contract with Transpower, a key milestone in our growth and diversification strategy. The first three months of FY13 saw a frenzy of activity gearing up for the Transpower contract, which came into effect on 1 July 2012. This required a significant investment in training, management resource, processes, vehicles and tools, which continued throughout FY13.

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

Whilst NZ Contracting revenue grew by 7% over FY13, earnings before interest and tax fell by 25% relative to the previous year. This decline in earnings reflects a number of factors, including significant downtime incurred whilst training and qualifying staff for the Transpower network; regulatory uncertainty impacting the spend of key customers; and declining efficiencies as our systems and processes struggle to keep pace with the requirements of a diversified customer base.

We are anticipating a significant investment in contracting systems and processes over FY14. This, together with our health, safety and lift in leadership programmes, are the three key platforms for NZ Contracting's operational improvement strategy in FY14 and beyond to support our delivery to existing clients and continued growth opportunities.

Australian Contracting

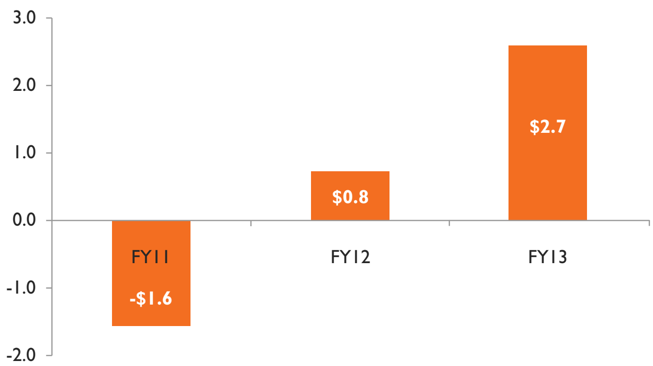
West Coast Energy Pty Ltd delivered a maiden profit of NZ$314k in FY13, continuing the turnaround that began in the previous year. Revenue for the 12 months to 31 March was A$52m, up 41% on the previous year. EBITDA for the year was A$2.7m, an improvement of 254% on FY12.

We are heartened by the progress made by West Coast Energy over FY12 and FY13. 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.

Forward work for our major customer in Western Australia remains very strong, and there is scope to further increase revenues over the next three years provided we can source qualified field staff.

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.

WCE EBITDA (A$m)



Financial overview

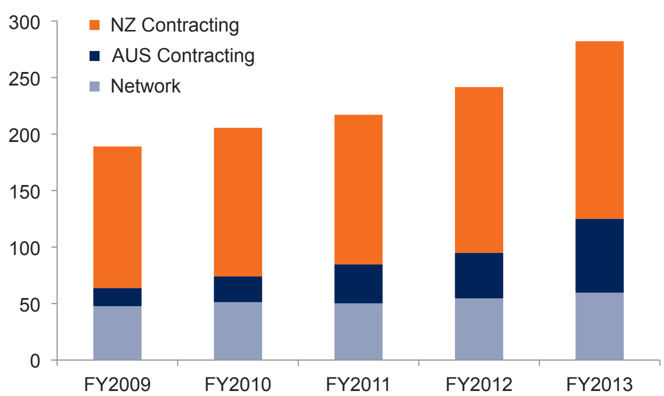
Key financial highlights

($m)	FY2013	FY2012	% Change
Revenue	283	242	17%
EBITDAF [1]	34.4	33.3	4%
EBIT	19.5	18.8	4%
NPAT	11.3	9.6	17%
Dividend + Discount	8.7	8.6	1%
Equity	249	242	3%
Assets	421	406	4%
Net Debt	71.6	68.6	4%
Capital Expenditure	21.4	19.2	12%
EBITDA/Revenue	12%	14%	
EBIT/Revenue	7%	8%	
Gearing [2]	22%	22%	
EBIT Interest Cover	4.8 x	4.4 x	

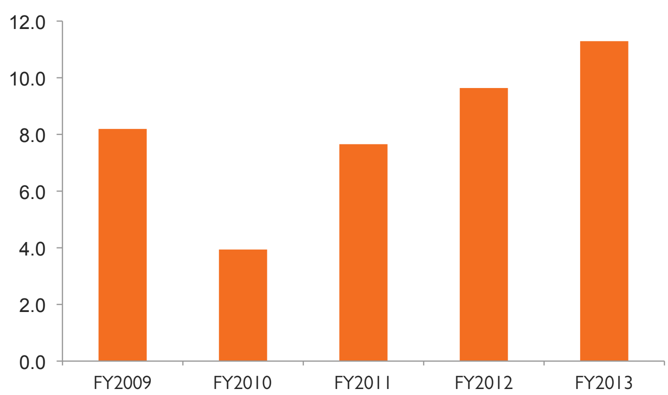
1 *Earnings before interest, tax, depreciation and fair value movements in derivatives*

2 *Net debt / Net debt + Equity*

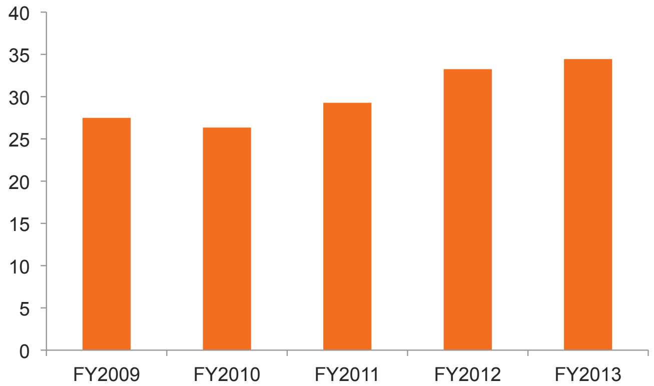
Revenue



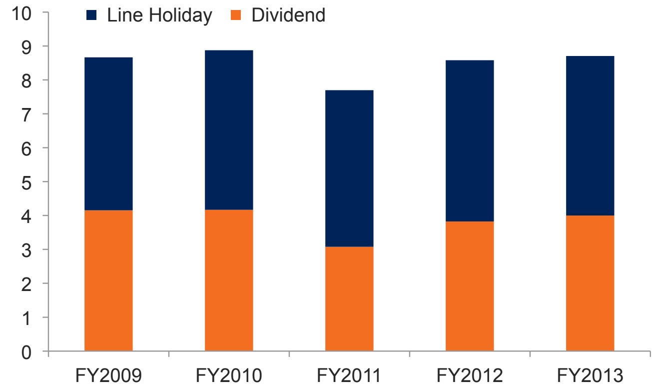
Net Profit After Tax



EBITDA



Dividends + Discounts



Northpower's Network

Northpower Network reliability improves yet again

The performance of Northpower's electricity distribution network is of utmost importance to the company and the local community.

So it is pleasing to reflect on a successful year where our network has performed very well financially and reliability improved dramatically thanks to meticulous planning over a number of years, an ongoing annual investment in maintenance and a prudent capital works programme.

Electricity distribution networks use the System Average Interruption Duration Index (SAIDI) as a reliability indicator. SAIDI is the average outage duration (measured in minutes) for each customer served. Similarly, the System Average Interruption Frequency Index (SAIFI) is used to assess the average number of interruptions that a customer experiences.

In the 2012/2013 financial year the Northpower Network had an unplanned SAIDI reduction of 38% over the previous financial year where SAIDI had reduced 19%. Our SAIFI reduction was also pleasing at 32% compared to 28% for the 2011/2012 financial year. The Customer Average Interruption Duration Index (CAIDI) is another measure used to assess the average outage duration for a customer and our unplanned CAIDI dropped 9%, following a 6% decrease in the 2011/2012 financial year.

A number of factors have contributed to this performance, including targeted overhead line replacement which, in part, has involved renewing copper conductors. Due to reliability and safety concerns we developed a tensile strength test machine to help determine the remaining life of a conductor. Since the inception of the replacement project our lines crews have identified and replaced 114km of near end of life conductors. The project was accelerated in the 2012/2013 financial year and this resulted in almost 60km of overhead conductor being replaced.

We are working closely with landowners on a tree maintenance programme where we provide an initial trim/clear fell free service. We have also taken a systematic approach across all feeders and over the past year we have trimmed 60% of trees on our feeders. There is a direct correlation from this project to the reduction in faults and SAIDI.

Our replacement of overhead air break high voltage switches to negate reliability issues is also contributing to improved network reliability. In the year to March 31, 2013, we installed 76 manually operated overhead enclosed switches and six automated switches. By the end of the 2013/2014 financial year we will have replaced all overhead air break switches – a total of 560 switches since 2006.

Northpower has upgraded the electricity network control system resulting in a digital representation of our entire medium voltage network. This will provide increased resilience in the event of a civil emergency, decreased duplication of information and improved auditing capabilities for industry metrics. Again, it is a strategic investment to benefit our consumer owners in the Kaipara and Whangarei Districts in years ahead.

Separate to this deliberate and planned maintenance, we have continued trialling network related equipment at our Glinks Gully test site located south-west of Dargaville. This site is unique in that it is very exposed to the prevailing south-westerly conditions which bring salt laden sea mist inland, coating exposed equipment. It is a very destructive environment which gives us a worst case scenario by hastening the failure mechanism of equipment. This approach allows us to determine which equipment is fit for purpose for the Northpower Network.

Our crews are heavily committed to providing quality service at all times of the day or night, despite often working in challenging conditions and they deserve credit for their ongoing dedication to maintaining the Northpower Network as one of the more reliable in New Zealand.

Northpower Network is also managing the operation and build of the Northpower Fibre network on behalf of the Whangarei Local Fibre Company.

Northpower Network General Manager Graham Dawson.

Northpower's Network

Northpower acquires Transpower asset

Just two days into the 2013/2014 financial year, Northpower Network became the owner of Transpower's two 50,000 Volt electricity distribution lines between Dargaville and Maungatapere.

The asset transfer also saw Northpower take ownership of the former Transpower Dargaville substation and those assets within Transpower's substation at Maungatapere that are dedicated to the electricity supply from Maungatapere to Dargaville. The new assets only supply the Northpower network.

Northpower Chairman Warren Moyes classed the acquisition as a substantial addition to the company's infrastructure portfolio, representing very good value.

Along with Northpower Network General Manager Graham Dawson, Mr Moyes said the asset transfer was very positive for consumers in the Whangarei and Kaipara Districts as they now own the line.

Importantly, the pair said lines charges wouldn't change due to the transfer as Northpower has simply reallocated the amount that would have been paid to Transpower across to the distribution charges portion of the line charges.

Mr Dawson said the Northpower Network would, when required, design and install new equipment to replace 'end-of-life' assets and increase the supply capacity.

"Transpower has maintained these assets, some of which have provided reliability for well over 80 years but which are now due for replacement, allowing Northpower the opportunity to make provision for future capacity increases to Dargaville. This will result in a 150% increase in firm capacity for Dargaville over the next couple of years," said Mr Moyes.

"That is an immense boost for future large industry in Dargaville as that level of capacity increase will comfortably allow for the likes of a timber processing plant or a dairy factory. Enabling that level of growth in Kaipara will be great for the Northland economy.

"This is in line with Northpower's overall drive to ensure as far as is economically viable, that development in the region is not hindered through a lack of electricity infrastructure."

Northpower Network Planning Manager Russell Watson, left, and Northpower Chairman Warren Moyes.

Long term, these assets are better owned, managed and maintained by a local lines company such as Northpower because more of the revenue earned from the asset will remain locally, in the hands of the consumers connected to Northpower's network in Kaipara and Whangarei – just as happens with our 'line holidays' and the Northpower Electric Power Trust 'distributions'.

Northpower owns more than 3700km of high voltage electricity lines (237km underground) and almost 2100km of low voltage lines (643km underground) in Kaipara and Whangarei Districts.

Northpower's Network

Moving into the future

In late 2012 Northpower invested in its first all-electric plug-in vehicle – a Mitsubishi iMEV – as part of ongoing efforts to fully test and understand developing technology.

Chances are, electric vehicles (EV) will have a big impact on our network in the future and we need to understand how – and be able to offer sound advice as more people invest in them. So we are looking at the benefits and the challenges to be well prepared for an EV future.

The same applies to all new technologies which can have an impact on the national grid – and our network.

Northpower's iMEV has already travelled more than 5,000km and has turned plenty of heads in the North.

While designed as a small urban commuting and shopping vehicle, it has been travelling at open road speeds on regular trips to our Wairua Hydro Power Station at Titoki.

The iMEV's range varies depending on driving conditions but it will generally achieve 100–130 km on a full charge.

The vehicle is designed for two charging systems – from the standard 230 Volt supply and from a fast charging unit. It takes around eight hours to charge fully but the electrical capacity required is the same as a 2kW heater.

Helicopter maintenance survey soars over Northland

Northpower conducted an extensive, low-level helicopter survey in May 2012 as part of an intensive lines network maintenance programme.

The aerial work took place across Northpower's entire 33,000 Volt powerlines network throughout Kaipara and Whangarei, continuing for a week. Flights covered 67km of lines in Kaipara and 212km of lines in Whangarei.

Northpower's Network General Manager Graham Dawson said that the helicopter flew as low as 50 metres because thermal imaging equipment was used to detect any damage to, or deterioration in, lines.

Aerial surveys are done every few years and are a critical part of Northpower's maintenance scheduling to ensure reliability of power supply to its consumers. Mr Dawson said that keeping a close eye on network safety was also an important outcome of the work.

Northpower spends an average of $20 million a year on maintaining its lines network.

Copper stolen from live power lines

Copper was stolen from live power lines in Whangarei and Kaipara in April 2012. A Ruawai man almost died in May 2012 and was left with serious burn injuries after cutting live power lines, allegedly to steal copper.

Northpower publicly warned that the thieves were risking their lives, conducting media interviews with Radio NZ, TV3, Radio Live and numerous other national media outlets and voicing industry-wide concern at the practice.

Northpower's Network General Manager Graham Dawson said that the thieves receive minimal money for the metal from a scrap dealer, yet they were putting both their own, and others', lives at risk.

He said that the thefts could cause power surges to homes, leading to fires, and also put repair crews at risk.

Mr Dawson said that it cost Northpower between $500 and $1000 to repair the damage and replace copper each time there was a theft.

Most scrap dealers around Whangarei do a fantastic job in alerting Northpower to suspicious activity which makes it hard for people to dispose of stolen copper.

Northpower's Network

Appeal for public safety

Motorists unnecessarily risked their lives by driving over an 11,000 Volt power cable after an accident on Otaika Valley Road in February 2013.

Northpower Public Affairs Manager Steve Macmillan said that two incidents near Whangarei in a week involving powerlines brought down during accidents had Northpower worried that someone could die from picking the lines up.

An 11,000 Volt power line was brought down when a logging truck tipped over at Otaika Valley and another line was felled when a car hit a power pole in Poroti.

Mr Macmillan said that, on both occasions, members of the public had jeopardised their own safety. Some motorists drove over the downed lines, another person picked up that same line and tried to move it out of the way, while at Poroti, a powerline fell onto a farm fence and onlookers leaned on the fence, risking their lives.

Anybody who sees a downed powerline should treat it as live and not go anywhere near it. People should call Northpower on 0800 10 40 40.

Northpower over summer 2012/2013 ran a radio campaign about safety around electricity and Mr Macmillan told the Northern Advocate and New Zealand Herald that it was extremely disappointing people had not taken the messages on board.

He said that downed powerlines were a nuisance when they blocked roads but it was important for people to be aware of the hazard they posed.

$5 million 'line holiday' for Northpower consumers

Northpower once again gave all electricity consumers connected to its network a line holiday in 2013 – this time totalling more than $5m.

Consumers in Whangarei and Kaipara connected to Northpower's network at 6am on February 13 received credits of between $35 and $145.

The Northpower line holiday credit appeared on March power accounts issued by electricity retailers.

The credits are based on energy consumption shown on individual power accounts for the past 12 months.

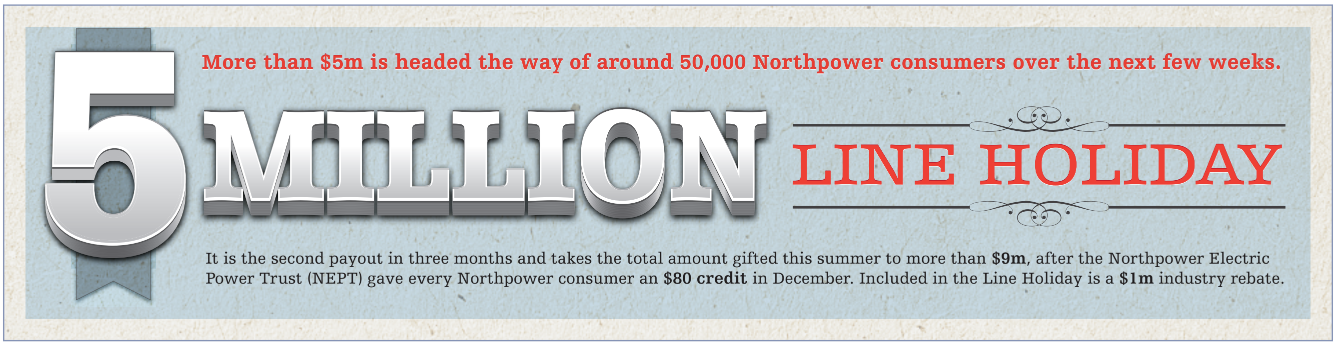
Consumers who used less than 2000 units received $35 and the larger consumers (greater than 15,000 units) were the beneficiaries of $145.

Consumers who used between 2000 and 15,000 units received credits of $95. A $1m industry rebate was included in the total of more than $5m.

Northpower's Chairman Warren Moyes said the fact that the Northpower Electric Power Trust had been so supportive of the company's growth strategies had given Northpower the flexibility to branch out from being solely a local lines company to one of New Zealand's leading multi-utility electrical contractors.

"Northpower is now ranked as one of the 200 largest companies in New Zealand.

"We have grown to become a company with annual revenue totalling nearly $250m which ultimately benefits our consumers," Mr Moyes said at the time.



Northpower's business divisions

West Coast Energy achieves turnaround

West Coast Energy Pty Limited's long held promise is finally coming to fruition with its maiden profit.

West Coast Energy achieved a profit of AUD$248,000 (NZ$314,000) in the 2012/2013 financial year, encouraging progress which began with a turnaround the previous financial year. Revenue for the 12 months to 31 March, 2013 lifted 41% to AUD$51.9m (NZ$65.8), while EBITDA for the year was AUD $2.53m (NZ$3.21m), an extremely pleasing improvement of 250% on FY12.

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.

WCE Health & Safety Advisor Samuel Davis.

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 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.

Greater levels of service and improved efficiencies for WCE and our clients have evolved through a strong focus on safety, quality and delivery by the WCE management team and field staff. A dedicated health and safety team has also paid dividends.

We are now qualified to work on all networks within Victoria and are aiming to secure multi-year distribution maintenance contracts to assist with controlled and financially positive growth over the next few years – an initiative which aligns with our strategic intent.

The WCE culture remains vibrant and strong and is reflective of the Northpower ethos of safe, reliable and hassle free service.

Of the nearly 200 WCE staff in Perth and Melbourne, over 110 are New Zealanders, with many being Northpower employees who have transferred to WCE.

While the Australian labour market is tight, the WCE employment brand is gaining recognition, allowing us to access a broader talent pool.

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 2013/2014 financial year will be a challenging and exciting period for WCE.

Northpower's business divisions

Northpower New Zealand Contracting continues to grow

The 2012/2013 financial year was perhaps one of the most challenging for Northpower's New Zealand Contracting division due to a number of contributing factors – not least our dramatically increased workload.

With revenue of $171 million, NZ Contracting clearly remains the largest business division in Northpower.

After three potentially serious safety incidents in March 2012 we quickly embarked on a major health and safety improvement programme which continues with an intense focus today.

Throughout the 2012/2013 financial year it prompted us to make an extremely honest appraisal of ourselves. This was a time consuming but necessary process that contributed to a challenging 12 months and lower than expected profit levels.

Best practice in health, safety and quality of delivery is an investment in our staff, the health of our business and the business of our clients.

It will be of immense benefit to Northpower in the 2013/2014 financial year and beyond, simply because we need to keep our staff, their colleagues and the public safe at all times. Only then can we do our clients justice with consistently high service levels.

A major positive to surface at the end of FY12 was when we secured a long term maintenance contract with Transpower, a strategic endeavour the business has pursued over a number of years.

The first three months of FY13 saw the culmination of substantial forward planning in anticipation of fully entering the New Zealand transmission sector. The effort from our existing and new staff to gear up for the Transpower contract, ready for mobilisation when it came into effect on 1 July 2012, deserves praise.

It required long hours, a wealth of knowledge and dedication, plus significant investment in training, management resource, processes, vehicles and tools. This continued throughout the financial year.

The NZ Contracting division has now secured a strong foothold in the North Island electricity distribution and transmission maintenance sectors, and has long term contracts with Vector, Wellington Electricity and Transpower. In addition, the NZ Contracting division undertakes all the maintenance on our own electricity network and is responsible for the technically and logistically demanding fibre build in Whangarei.

The decline in earnings reflects a number of factors, including significant downtime incurred whilst training and qualifying staff for the Transpower network; workflow from key customers; and the time and investment required to lift efficiencies and effectiveness around our systems and processes amidst rapid growth.

Significant investment in contracting systems and processes, dubbed Project Evolution, will continue in the 2013/2014 financial year.

Similarly, we have adopted a concerted effort in a Northpower specific 'Lift in Leadership' programme – a key strategic platform to assist us with more seamless growth in FY14 and beyond. This is part of an endeavour to enhance our Health, Safety, Quality and Environmental (HSQE) performance, remove duplication, improve consistency and delivery and drive greater efficiencies.

An array of our managers now spend much more time in the field and staff are encouraged to challenge, modify behaviour, seek improvement and request greater levels of support. It is building a reinvigorated culture that holds NZ Contracting in good stead.

That, combined with the addition of skills, drive and business acumen from the Northpower team, and our revised contracting management group which came into effect in late 2012, is paying dividends and garnering a stronger NZ Contracting division.

Michelle Burke, New Zealand's first woman to complete Live Line Glove and Barrier qualifications.

Our fibre network

Northpower Fibre spreading quickly

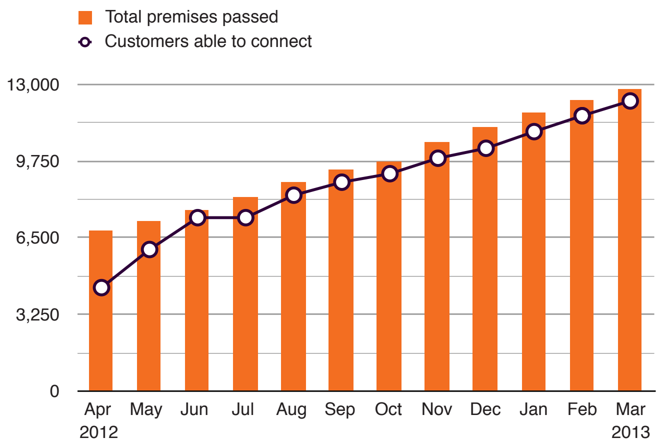
As the 2012/2013 financial year came to a close we were counting down to an earlier than expected completion time for the build of New Zealand's first Ultra-Fast Broadband fibre network.

By this time next year, Whangarei will be New Zealand's first fully connected fibre city and home to a world-class broadband network.

Under our agreement with Northpower and Crown Fibre Holdings, we are obliged to complete the entire Northpower Fibre Network build by June 2014.

However, at March 31, 2013 we were over two thirds of the way through the entire network build with almost 11,000 premises able to connect to the Northpower Fibre network. While the uptake rate was hovering at around 7%, this was the highest in the country and expected to grow.

A team of more than 50 fibre specialists has worked tirelessly on the project, overcoming technical and infrastructural challenges along the way.



To have progressed the build so quickly is an outstanding effort. By Christmas, 2013, fibre will be at the doors of almost 19,000 premises, meaning the physical part of the build will be nearing completion months ahead of schedule.

The entire network will be electronically live and fully operational around March 2014.

Northpower connects with Australian fibre network leaders

Northpower's growing stature in fibre networks culminated in September 2012 in a visit from the Australian Government Select Committee on the Australian National Broadband Network (NBN) during its New Zealand trip. Northpower was one of the first stops for the eight-member committee led by Robert Oakeshott MP.

The delegation was in New Zealand to learn more about this country's UFB initiative, as Australia has started its own multi-billion dollar fibre network build and wanted to draw on New Zealand's experience.

"Northpower, right from the outset and prior to the Government UFB project, built its fibre network to compete with copper. This innovation was significant and was required to reduce the build cost to enable faster construction. It was of particular interest to the committee," Northpower Network General Manager Graham Dawson told the Committee.

"It is our hope that Whangarei residents will increasingly switch to fibre as their communications choice. The greater the uptake levels, the greater the success of a locally owned infrastructure asset."

Senior Northpower Management with representatives from the Australian Government Select Committee on the National Broadband Network.

Our fibre network

Northpower Fibre – Enabling Whangarei Business Growth

Earlier last century Northpower was a tiny company in Dargaville with only a handful of staff.

Yet when Northpower set out in 2007 to build a fibre network, few would have picked a Northland electricity distribution lines company to be first across the line in the Government's Ultra-Fast Broadband initiative.

Northpower was awarded the Whangarei UFB contract in late 2010, formalising a public private partnership with Crown Fibre Holdings shortly after. The build began in earnest in April 2011. Deadline time for completion is June 2014, although with over 50 people on the job progress is rapid.

This time next year, Whangarei will be home to New Zealand's first 'fully-fibred' UFB network.

Ironically, it was Northpower that proved to the Government some years back that attaching fibre overhead (on power poles) was economically viable. It is somewhat fitting that an electricity company is now building a fibre network so efficiently and effectively.

Thanks to Northpower Fibre's UFB network hundreds of early adopters are already on board and more want to connect. Businesses already on the network have reported strong efficiency gains.

Whangarei creative suite 'Different Limited' has reported a productivity lift of 30% since switching to fibre. Director Matt Lewis says where transferring a large data file was once onerous and costly; it is a simple task on fibre.

It means he can provide creative solutions for clients faster and easier – often beating deadlines as the sign-off process is so much cleaner.

Jeff Oliver Print has a similar view. Director Dean Oliver has taken on clients in Christchurch and Australia since switching to fibre and rated the 2012/2013 financial year as one of the best. There is no longer need to courier print proofs to clients as fibre allows virtually instant online viewing, he said in a media interview in late 2012.

The data speeds around Whangarei on the Northpower Fibre network are an asset to businesses.

While 100 megabits per second (mbs) is available, the pair agree download speeds of 30mbs and upload speeds of 10mbs (30/10mbs) are ample for now.

Mr Lewis says being able to back up files across the network to an off-site remote location – rather than using the cloud and being charged for data storage is ideal.

"So for the price of a cheap external hard drive I negate expensive cloud services. For an SME, that's a huge saving. The reliability of the Northpower Fibre network has also been a bonus for me and I've been connected for close to two years now," he said.

Dean Oliver says Northpower Fibre broadband has added immense value to his printing business - contributing to a record year.

Pacific Islands

Pacific Islands reach expands for Northpower

Northpower announced in June 2012 that it was extending its project work in the Pacific Islands.

Northpower Business Development General Manager Sean Horgan said that the company hoped to expand the impact it was having in the Pacific by securing more project work over the next 12 months.

He said that Northpower had already assisted with an extensive expansion and upgrade of Samoa's electricity network following the completion of one key project.

"A further two are underway in partnership with the Electric Power Corporation of Samoa."

Mr Horgan said that Northpower had been targeting other Pacific Islands' projects for further growth. Most of the projects were part of Asian Development Bank or World Bank-funded programmes.

Northpower in 2012 assisted Meridian with the transmission circuit from the PV array to Tonga's power network and also worked with the Fiji Electricity Authority on a project.

"We are excited about the opportunities in the Pacific Islands and working with the local electricity authorities to upgrade their power networks. In future, we'd like to focus more on renewable technology and I think that will come once certain national grid projects and upgrades are complete in some of these countries."

Mr Horgan said that, because Northpower was an electricity distribution network owner, it had an innate understanding of what other networks required.

The company was also highly experienced in fibre telecommunication network design and builds, hydro, SCADA management, generation, transmission and distribution electricity systems. That combination of experience offered a lot to partners in the Pacific.

Northpower Chairman Warren Moyes in 2012 took part in the annual Foreign Minister's delegation to the Pacific Islands.

The trip was an opportunity to launch Popua – Tonga's first solar farm – an alliance between Meridian Energy, Tonga Power and the Government of New Zealand and the Kingdom of Tonga. Northpower provided the connection between the solar farm and Tonga's electricity grid.

In March 2013, Northpower featured at the Pacific Summit in Auckland, where Mr Horgan was a keynote speaker.

Helping out in Samoa

Northpower's focus on expanding its work in the Pacific continued when it won the contract for a governor control system upgrade at Taelefaga Hydro Station in Samoa.

Northpower also provided state-owned Electric Power Corporation (EPC) of Samoa with support in restoring power after the extensive damage caused by Tropical Cyclone Evan.

Northpower Business Development General Manager Sean Horgan said that, at the Fuluasau substation, EPC needed generation through to Apia, so generators were sent over to help out.

"We sent a couple of technicians and cable jointers over to get the generators operating on the network and they also did some configuration and amended protection settings.

"We have a good relationship with EPC in Samoa so we were happy to help out."

The Fuluasau substation project was handed over in November 2012 and Northpower was in March 2013 due to complete a contract to install a high voltage kit on a new diesel plant at Fiaga. The USD $27 million, 30MW Fiaga project houses seven diesel units, all running on a diesel-coconut oil blend.

Pacific Islands

Solomon Islands calling

Northpower is tasting its first Solomon Islands' work after agreeing to upgrade switchgear and install a SCADA system in the capital, Honiara.

Northpower Business Development Manager Sean Horgan said that the Solomon Islands' project was part of Northpower's continuing push into the Pacific.

"We are increasingly active in Fiji, recently installing a DC system at the 80 MW Wailoa hydro plant and it is pleasing to be involved in a project such as this.

"The work in the Pacific Islands is generally good because we're able to tie in our engineering resource in Northland, so that's providing the guys there with additional experience."

The work we do – Fuluasau Substation & Network Control Centre

PROJECT SCOPE

An Engineer, Procure and Commissioning project on a greenfields site requiring site civil and building design, earthworks and construction of a two-level 427m^2 building and facilities. The building required a full height cable basement, high voltage switch room, server room, control room with two operator stations, meeting rooms, offices and facilities.

As the site was approximately 250m from a public road, the design and construction of a driveway suitable for heavy vehicles and equipment was also necessary. The electrical scope involved the design, specification, supply and installation of power and local service transformers, standby generator, 33kV and 22kV switchboards, protection and control systems plus the auxiliary substation equipment.

CHALLENGES & SOLUTIONS

- A greenfields site remote from public roads and services. By using the services of a respected and experienced Pacific division of a New Zealand civil design and construction company, Northpower ensured that all the client's requirements for a turn-key solution were met.
- A hydrological report determined that there was a large flood plain bisecting the proposed access road and that the Fuluasau River was causing erosion which could undermine its stability and endanger the power cables and other services.
- To ensure the access road was usable during flash flooding events, the report recommended the installation of 3 x 1.2m diameter stormwater pipes under the new roadway and the installation of Rip Rap rock armour to protect the river banks and prevent the roadway being undermined.
- Project management in a developing country while ensuring robust supply chain management in relation to material and services requirements.
- Worked with a Logistics and Freight forwarding company experienced in the Pacific Islands to ensure all electrical equipment was available on site and on time – as required.
- Working in hot, humid conditions wearing Personal Protective Equipment (PPE) while maintaining our commitment to performance based values and safety.
- Lightweight fire retardant clothing was issued to staff and they were made aware of the importance of maintaining fluid levels.

RESULTS

Once the new SCADA system is operational, the Fuluasau Substation and Network Control Centre will allow EPC to monitor and control the operations of the entire generation, transmission and distribution networks on Upolu and Savai'i for the first time.

Northpower Electric Power Trust (NEPT)

NEPT keeps status quo

All Northpower Limited shares remain in the ownership of the Northpower Electric Power Trust (NEPT) following a comprehensive, five month review in 2012 of future ownership options for Northpower.

The NEPT announced in June 2012 that it intended to continue ownership of the Kaipara and Whangarei-based electricity lines company in its present state.

A public meeting held on June 7 gave full consideration to all submissions received since the ownership review began in February. The Trust subsequently confirmed its decision to retain ownership of all shares at a meeting with Northpower Directors.

In announcing the decision to retain all the shares, NEPT Chairman Erc Angelo expressed his appreciation to all Northpower consumers who shared their opinions on the ownership review.

"In a process like this it is the weight of formal submissions, along with views offered at the various public meetings we hold throughout Kaipara and Whangarei Districts, combined with comments made publicly by consumers, which contribute to the final decision. It is our role and responsibility as Trustees elected by consumer/electors to make a carefully considered decision."

Mr Angelo said that the review also gave the Trustees a firm mandate to ensure that Northpower kept a strong focus on maintaining a safe, reliable, hassle free network servicing the Whangarei and Kaipara Districts.

He said only three out of more than 100 submissions wanted the ownership structure changed; an overwhelming endorsement of the existing business model. Around 50,000 consumers are connected to Northpower's network.

NEPT Chairman elected to national body

Long-time Northpower Electric Power Trust (NEPT) Chairman Erc Angelo was elected to the executive of New Zealand's national organisation for energy trusts in 2012 – testimony to his industry contribution, business acumen and governance expertise.

Mr Angelo, who has been the chairman of the NEPT since 1994, is now part of the Energy Trust of New Zealand, whose 22 member trusts have investments of more than $5 billion in lines companies throughout New Zealand.

His appointment to ETNZ was welcomed by the ETNZ Executive Committee Chair Karen Sherry who noted "the experience Mr Angelo brings to the group".

"It is pleasing to have Erc join the ETNZ as he has a wealth of experience and a very calm and astute manner of doing what is right for the people he represents – more specifically, the consumer owners of Northpower," said Ms Sherry.

"That is exactly the job Electricity Trusts like the NEPT are there to undertake."

Mr Angelo said that the executive role was a good fit for the NEPT as the ETNZ worked closely with the Electricity Networks Association which represents the interests of consumer owned electricity lines companies like Northpower.

"My role as Chairman of the NEPT, along with the new involvement with the ETNZ, continues to be an exciting challenge.

"It is great to be able, along with all other trustees, to provide the consumer owners of Northpower with the benefits the company's ongoing progress and growth continues to provide."

Northpower Electric Power Trust (NEPT)

Giving back to our community

Northpower's consumer owners received an early Christmas present in 2012. It came via an $80 tax-free credit on December power accounts – thanks to the Northpower Electric Power Trust (NEPT). The distribution was allocated to each power installation control point (ICP) connected to the Northpower network at midnight, December 18, 2012.

NEPT Chairman Erc Angelo said 2012 was a pleasing year of progress for Northpower, with revenue and profit lifting.

"That's why we were able to pass on this distribution to consumers as it reflects the continuing success of Northpower, although it is still a tough market out there." Mr Angelo said the NEPT owned Northpower on behalf of the electricity consumers of the Kaipara and Whangarei Districts.

The distribution was the customer's share of Northpower's profits paid to the Trust by Northpower. The payment is made regardless of which energy retailer consumers are with.

Northpower supplies electricity to the Kaipara and Whangarei Districts through a number of electricity retailers.

By December 2013, almost $170m had been given back to Northpower's consumers through the NEPT distribution and line holidays since 1993.

Mr Angelo said that was a very significant contribution in a region as economically diverse as Northland and showed the benefit of having a locally-owned electricity lines company that was performing soundly while continuing to grow.

Safety and achievements

Northpower employees scoop electricity awards

Northpower bright sparks scooped several top places in the annual national electricity and telecommunications industry awards in November 2012.

Three staff were named the most outstanding trainees in their categories at the Electricity Supply Industry Training Organisation (ESITO) awards, including former Northland woman Aroha McLean, who earned the title of Networks Trainee of the Year.

Northpower project manager Mike Hughes was named Advanced Trainee of the Year and Warkworth-based John Donald took out the outstanding leader award for Top Foreman in the National Line Mechanics' competition.

Other trainees and employees who placed highly were Northpower's Warkworth team comprising John Donald, Dave Lelo, Neil Wardle, Tom Winterbottom and coach Lyndon Connolly in the Line Mechanics' competition; Brent Richards who was runner-up in the Cable Jointer competition; and Cam Miller, Pat Croul and Katherine Cosgrove who were finalists in various divisions.

"Mike, Aroha and John thoroughly deserve their awards. However, the calibre of all entrants was high so even those who didn't walk away with awards should hold their heads high with the recognition they received," said Northpower's General Manager of Business Support, Barbara Harrison.

"This is good recognition for the commitment, drive, skill and potential of people who have dedicated themselves to ongoing study and upskilling."

Northpower Cable Jointers Robyn Dawes, left, and Aroha McLean.

Providing Ultimit spark to empower women

A former Northland mum's love of work in the outdoors has sparked both a powerful new career path and a top award for Northpower cable jointer Aroha McLean.

Mrs McLean is the mother of twin girls and in 2012 became the face of the energy sector's campaign to entice women into the industry on the frontline and in the boardroom.

When Dame Jenny Shipley in August 2012 launched Ultimit, a collaborative energy sector initiative opening pathways for women into the traditionally male-dominated industry, Mrs McLean was at her side.

Mrs McLean loved working with her brother in Australia as a fencing contractor but, when the chance came up to work for Northpower, she applied.

The career change meant leaving Northland but she has no regrets about taking the plunge.

In late 2012, she was voted ESITO's Networks Trainee of the Year and in March 2013 she became a fully qualified cable jointer.

She hopes to work her way up through the ranks and become a project manager.

Safety and achievements

Northpower man wins one of PM's Business Scholarships

Northpower's Business Development General Manager, Strategy and Marketing, Sean Horgan, in October 2012 won one of 14 prestigious Prime Minister's Business Scholarships.

The awards allow recipients to study at top-class international institutions including Harvard, London Business School and the INSEAD Business School in Singapore and France. The study programmes range from five days to several intensive blocks over 17 months.

Prime Minister John Key said that the scholarships recognised the skills, achievements and potential of some of the best and brightest business brains in New Zealand.

Mr Horgan chose to use his scholarship to complete the Accelerated Development Programme at London Business School, to provide himself with a strong grounding in strategy, leadership and skills related to project commercialisation. The four week, two block course is supported by two months of tutor and peer group support.

Mr Horgan's aim is to utilise his new business skills to enhance Northpower's international growth as his responsibilities include growing the business both nationally and internationally as the company expands further in Australia and the Pacific Islands.

Mr Horgan said that Northpower had a very strong executive management team and he was excited to be helping with the ongoing efforts to expand the company internationally.

"Northpower has a unique culture and attitude which we carry with us wherever we work – be it on our home turf in Kaipara and Whangarei, in Perth, Melbourne or Samoa," said Mr Horgan.

"We have a strong sense of community and there is a real can-do attitude within Northpower, backed by a lot of expertise, to just get stuck in and do the job. That is what we bring to international markets and it makes us quite unique."

Safety and achievements

Bringing the safety message home

In 2012 we realised the New Zealand electricity industry had major issue with its Health, Safety, Quality and Environmental performance, that Northpower was a part of that problem and we needed to help fix it.

We decided to go on the front foot and tackle the problem with urgency, blatancy and in the most visually shocking manner possible.

It was about keeping it real and showing what can so easily and needlessly happen if safe work practices are not followed and if shortcuts are taken.

For some time now the industry has been focusing on providing the correct Personal Protective Equipment (PPE). In reality, it is only the last line of defence when all else fails. We need to be looking at everything that must take place before we go out into the field. This includes wearing the right undergarments and putting our PPE on correctly.

Yes, PPE has saved lives but it can only do its job if worn correctly and if we give ourselves the best chance possible to go about our work safely.

Three safety incidents (in some cases the PPE was being worn appropriately and in others not) in quick succession with our own frontline staff gave us the ammunition required to launch this new initiative – mannequins clad in burnt and damaged PPE gear courtesy of flashover incidents.

This mobile 'burns unit' was to tour our depots throughout the North Island and, at times, be backed by appearances from the very staff involved, who would stand in front of colleagues and tell their stories.

Our belief was that a picture is worth a thousand words.....and in this case, Northpower's mannequins would be worth a thousand pictures – with the stories, warnings and learnings to back them up.

We wanted to provide a lesson people simply could not visually escape from ...... because while you can talk at people, hand pieces of paper to them and create safety posters, ultimately, it means little or nothing if the message isn't long lasting.

Our mannequins were designed to be seen as their 'brothers'.....those brothers were standing in that gear when things went wrong – regardless of circumstance or fault.

What we were trying to say to our people, indeed all in the electricity sector, was that even though we are addressing issues around PPE, we needed to address the issue of people wearing the gear appropriately and going about the work properly, so as to avoid incident and accident.

Fellow New Zealand electricity companies have now requested our mannequins be taken to their offices and the lessons learnt be delivered along the way.

Safety and achievements

Drive for safety improvement continues

Safety remains a major focus for Northpower as we strive to keep our workers, and members of the public, safe. We strive to constantly do better and have implemented a targeted plan around continued Health, Safety, Quality and Environment (HSQE) improvement which is well underway.

We have developed a Zero Harm Strategy with an aspirational goal of everyone at Northpower being 'Safe, Well & Happy'.

We also undertake a Safety Climate Survey every two years at each Northpower depot in New Zealand.

It is completed by all field staff with the aim being to draw out issues detracting from safe work practice so they can be focused on their daily roles and solutions to issues can be implemented.

The goal is to maximise the performance and quality of work and demonstrate health and safety excellence.

As part of Northpower's Health, Safety, Quality and Environment (HSQE) drive, all employees and subcontractors are provided with diagrams like the above, clearly illustrating the correct Personal Protective Equipment (PPE) to be worn in specific environments of work within our sector – such as Transmission, Fibre Jointer, Arborist, Switching Operator, Line Mechanic, Utility/Manual Labourer and Work Site Visitors.

Community and sponsorship

To the moon and back

A year-long celebration marking the 25th anniversary of Northland's Electricity Rescue Helicopter Service began in November 2012.

November 15 was the anniversary of the first flight by the Northland Emergency Services Trust (NEST) back in 1988. Since then, the service has completed over 15,000 flights in and around Northland as well as offshore.

In fact, Northland's three Electricity Rescue Helicopters are among the best-equipped in the country for long-distance flights, being capable of completing 720km round trips. With the addition of an auxiliary fuel tank, the distance grows a further 300km.

In the last five years alone, NEST's air ambulances have flown the equivalent of 23 times around the earth, been to the moon and back twice since 2004 and carried enough passengers to fill an Air NZ 747-400 jumbo jet over a dozen times.

Yet those are only a handful of the remarkable statistics for the life-saving service which has a cruise speed of 140 knots (260km/hour). Now making over 1000 flights a year, NEST pilot Russell Procter said demand for the service is growing by close to 10% a year.

"We are busy. There is no doubt about it. But I guess that's the beauty of the service we offer – we can get people to a place of safety quickly and we have the choppers to do it."

Mr Procter said that the service was one of the most specialised rescue organisations in the country and was critical for a region as geographically diverse as Northland, particularly when it had so much coastline.

The 2012 Electricity Rescue Helicopter Appeal was launched in October 2012, with Northpower and Top Energy again matching public donations.

More than $100,000 was raised from the public – with those who donated $5 or more being eligible to win one of 30 rides in an Electricity Rescue Helicopter

Northpower contributed an additional $100,000 while Top Energy put in $50,000.

The generous donations were partly due to the use of real life 111 audio calls in a radio advertising campaign, courtesy of some of the faces of the campaign who had been rescued by the helicopters and wanted to show their thanks by taking part in the appeal.

Mark Gatland and Russell Shaw, Chief Executives for Northpower and Top Energy respectively, said they were pleased to be supporting Northland's Electricity Rescue Helicopters after 25 years, and look forward to an ongoing relationship to continue helping people.

Lifesaving NEST pilots Dan O'Reilly left, and Russell Procter, right.

Community and sponsorship

Kaipara District sails clear

Dargaville High School snared the 2012 Tai Tokerau Tall Ship Challenge aboard the R.Tucker Thompson sailing ship – the first time a Kaipara school has won the title.

Northpower sponsored teams from Dargaville High, Otamatea High and Pompallier College, with two students representing each school. They competed against students from three Far North high schools.

The journey up the coast from Whangarei to the Bay of Islands was staged in challenging weather but visits to Mimiwhangata, Whangamumu and snorkelling at the stunning Poor Knights Marine Reserve made up for any roughness.

Dargaville High School students Christine Cochrane and Nathan Mullen held the trophy aloft at Opua after snatching victory from the grasp of Otamatea High School in the final 24 hours of the six day voyage.

The sailing challenge aims to encourage safety in our future leaders, challenge them and develop their leadership potential.

Northpower Bird Recovery Centre – Feathered crusade continues

Robert Webb is justifiably proud of the work he and his wife Robyn have done to save thousands of birds around Northland since the early 1990s.

While the Northpower Bird Recovery Centre officially came to fruition in 1995, the couple began their crusade in 1991. All these years later they now take in an average of 1300 birds annually – from a catchment stretching the distance just north of Auckland to Cape Reinga.

Their success rate for returning them to the wild (in Robert's words: "back where they came from") is 60%. Those that don't survive are passed on to Whangarei's Department of Conservation office.

On average, three foreign television crews visit the centre annually – Scottish and Japanese included – and Robert has lost count of the seemingly endless media requests he receives each year, all of which he welcomes.

As he recounts two decades of highlights, he estimates having cared for and released more than 10,000 birds back into their natural habitat.

Wild birds, says Robert, come in three varieties. Native birds are those found in other countries (morepork and harrier hawk); endemic natives are found only in New Zealand (tui, weka, kiwi, fern bird, long tailed cuckoo); introduced species are the likes of sparrow and rosella.

Nevertheless, the Centre is about caring for any bird in need of help. "All wild birds have the right to come here – we are not here to be judge and jury. We are here to help," says Robert.

While the Webbs disagree with birds being caged, their centre is the only one of its kind in New Zealand with permission to keep a kiwi – whose name, ironically, is Sparky – caged in order to exhibit it nationwide.

"It's an ironic name because without Northpower's support from way back, this Centre would not have survived. In saying that, I've had great support from many other sponsors and members of the public which has helped immensely."

Robert says Sparky's lifespan could reach 40-50 years, during which time he, Robyn and their band of volunteers should continue releasing an average of 60 wood pigeons into the wild every year, along with 15 kiwi. Over 100 native wood pigeons have been tagged and released in his time.

"We took Sparky to New Plymouth this past year and in the space of one day, 1000 children and adults got to touch him. Being able to do that and help hundreds of birds each year makes this very satisfying."

Robert Webb with a rare weka.

Community and sponsorship

Real life faces rescued by our Electricity Rescue Helicopter

From rescued to rescuer – Kieran Frood

"I can certainly appreciate the help you get in an emergency situation so when it came my turn to give back and help out I was determined not to let anyone down because the team in Rescue Helicopter sure don't let people down.

"They prevented me losing my leg and that meant I was physically capable of saving a drowning man sometime later, so their rescue of me has had a positive impact on others."

The wait for help – Mike Bickers

"You see these people on TV and they look like they know what they are doing and that's the way it turned out for me.

"The biggest relief when they arrived was the realisation it was almost over. There is so much experience in the Electricity Rescue Helicopter team. They were brilliant and I'm very thankful for their assistance.

"It is something you don't appreciate until it affects you. It sounds clichéd but how can you ever know when you will need it."

On a sunny Northland afternoon – Julz Hudson

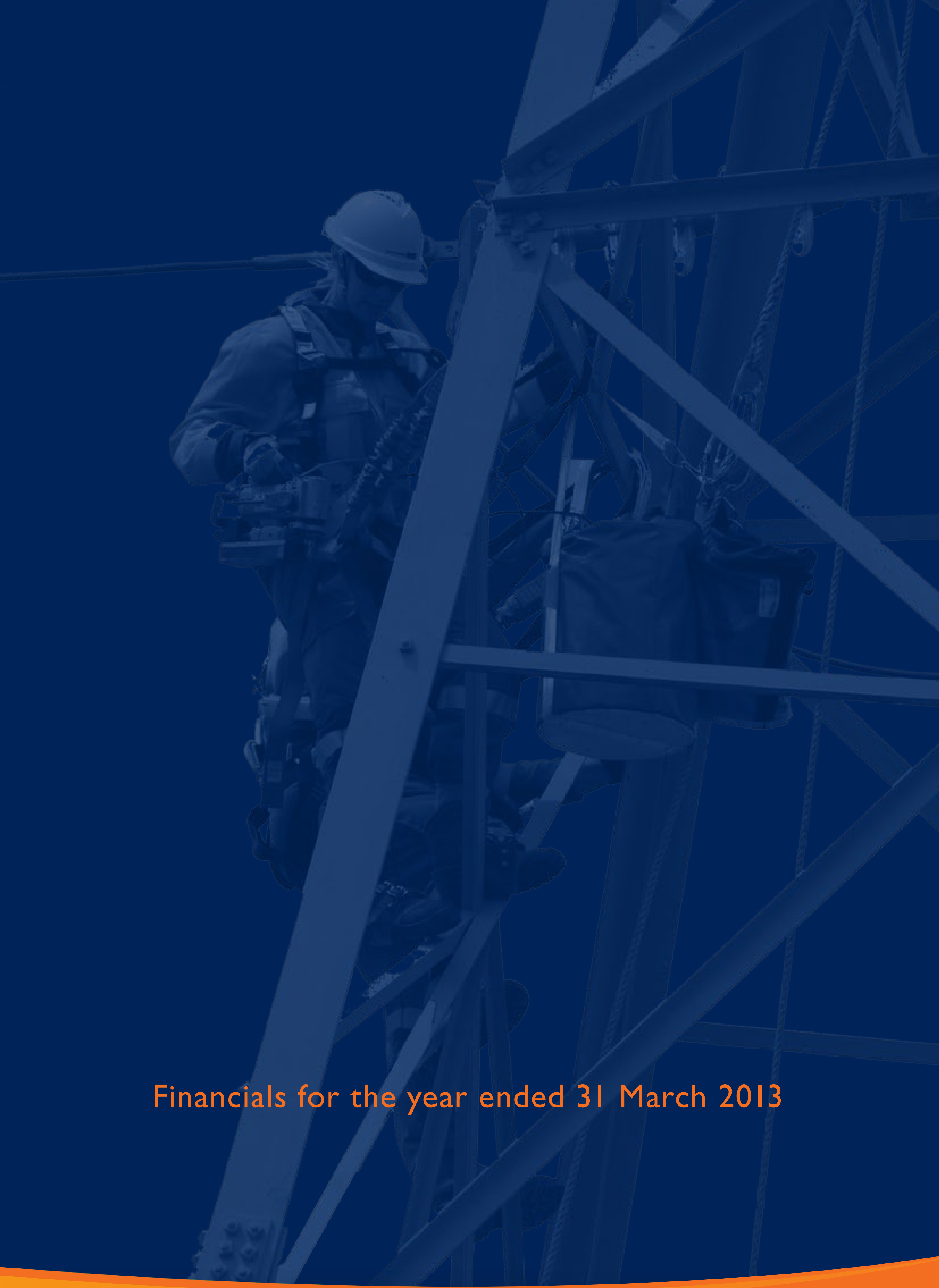
"Before the incident, I guess we had just become used to the sound of the chopper passing overhead. I never thought that I would need their help, but now when the chopper flies over it means something more.

"I know how it feels to start out expecting a normal day and then ending it in the rescue chopper, wondering if your injuries will change your life forever. When you are mid-air and frightened, you become very thankful for having this service in the community."

Screaming to speak – Vaudine Tutill

"The sheer relief of having them arrive and fly me to hospital so quickly was immense.

"I'd been very well looked after by the ambulance and other emergency staff until then but to be moved so quickly from that point was amazing. I'll certainly be supporting the Electricity Rescue Helicopter service in future campaigns!"



Financials for the year ended 31 March 2013

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 2013

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 2013, 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 2013; 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 2013.

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 2013. 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 2008. 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 (Chairman)
D J Ballard
R J Black
N P Davies-Colley
K C Hames
J J Ward

West Coast Energy Pty Ltd, and
Northpower Western Australia Pty Ltd
D Wright
N P Davies-Colley
M Giglia

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

Whangarei Local Fibre Company Limited (WLFC)

M R Gatland and N P Davies-Colley are directors of WLFC. WLFC started trading on 1 April 2011

RESULTS

The group recorded an after tax profit of $11.3 million for the period, as set out in the Income Statement.

DIVIDEND

A dividend of $4.0 million has been declared for the year.

DONATIONS

The group made donations of $5000 to Power Engineers Excellence Trust and $2000 to Equal Employment Opportunities 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

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 – The Tree People Ltd
Director – MP Logging Ltd
Director – West Coast Energy Pty Ltd
Director – Northpower Western Australia Pty Ltd
Director – Farmlands Trading 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

J J Ward
Shareholder – Vector
Shareholder – Contact Energy
Shareholder – NZ Refining Co
Shareholder – Fletcher Building
Shareholder – Chorus

DIRECTORS' REMUNERATION

Directors' remuneration paid during the period was:-

Northpower Limited:	
R J Black	$ 50,000
D J Ballard	$ 50,000
N P Davies-Colley	$ 50,000
J J Ward	$ 50,000
K C Hames	$ 50,000
W W Moyes	$105,000
	$355,000

West Coast Energy Pty Ltd:	
D Wright	$ 55,000
N P Davies-Colley	$ 20,000
M Giglia	$ 31,685
	$106,685

REMUNERATION OF EMPLOYEES

Bands:	Employees:	Bands:	Employees:
$100,000 - $109,999	66	$180,000 - $189,999	2
$110,000 - $119,999	37	$200,000 - $209,999	1
$120,000 - $129,999	21	$210,000 - $219,999	1
$130,000 - $139,999	18	$240,000 - $249,999	1
$140,000 - $149,999	14	$250,000 - $259,999	1
$150,000 - $159,999	11	$260,000 - $269,999	1
$160,000 - $169,999	8	$330,000 - $339,999	1
$170,000 - $179,999	2	$470,000 - $479,999	1

CHANGES IN DIRECTORS

In accordance with the Company's Constitution, N Davies-Colley and J Ward will retire and offer themselves 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 2013 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 judgments and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the 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 2013.

For and on behalf of the Board of Directors.

D J 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. Their 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 six directors; a non-executive Chairman and five 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

Perfomance against targets set in the statement of Corporate Intent for the year ended 31 March 2013 was as follows:

		FY13 Actual	FY13 Target	FY12 Actual
Group				
Net profit after tax as a percentage of Average Shareholders' Funds				
	after discount	4.6%	6.0%	4.0%
	before discount	6.0%		5.5%
Capital ratio		59.3%	>59%	59.6%
Network				
Earnings before interest and tax as a percentage of Average Total Assets				
	after discount	5.5%	5.0%	5.9%
	before discount	7.1%		7.6%
Network Reliability (SAIDI)				
	planned	56	<30	46
	unplanned	62	<90	99
Number of faults per 100 km of line		5.6	<10	8.2
Customer Satisfaction (residential)		91%	>85%	89%
Customer Satisfaction (commercial)		80%	>85%	88%
NZ Contracting				
Earnings before interest and tax as a percentage of Average Total Assets		7.0%	15.0%	11.2%
Lost Time accidents per million hours worked		3.4	0	2.1
Australian Contracting (West Coast Energy)				
Earnings before interest and tax as a percentage of Average Total Assets				
	pre management fees & market support payments	3.5%	3.0%	-4.7%
	post management fees & market support payments	2.7%		2.4%
Lost Time accidents per million hours worked		0	0	4.1

Northpower did not meet its Group financial SCI target for FY13 – the ratio of Group net profit after tax to average shareholders' funds was 4.6% versus a target of 6.0%. This was due to a number of factors, including the underperformance of the NZ Contracting division and the write-off of around 6,000 electricity meters which were replaced by smart meters owned by third parties.

The Network division comfortably achieved its FY13 SCI targets for EBIT/Total Assets for unplanned interruptions in FY13, with a SAIDI score of 62 minutes. We have deliberately exceeded reliability targets for planned interruptions – this was due to the significant programme of reconductoring that is currently underway.

Our annual customer surveys continue to indicate a very high level of satisfaction with Northpower's overall performance. Despite these results we constantly look at initiatives to improve our levels of customer service.

The NZ Contracting division missed its financial SCI target for FY13 by a considerable margin. This was due to a number of factors, including the significant downtime incurred whilst developing the Transpower business; regulatory uncertainty impacting the spend of key customers; and systems and processes which have not kept pace with our rapid growth. The 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 incidents. This was not achieved in New Zealand over FY13, despite a concerted and ongoing focus on Health and Safety.

The Australian Contracting division exceeded its financial SCI target for FY13 – the ratio of EBIT (pre management fees to Northpower) to average total assets was 3.5% versus a target of 3.0%. The Australian Contracting division also met its SCI Health & Safety target, with no lost time incidents over FY13. Northpower paid a market support payment of A$1.6m to West Coast Energy during FY2012. No market support payment was made during FY2013.

Comprehensive income statement

	Notes	GROUP 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
Revenue	5(a)	**282,685**	242,107	**217,273**	201,678
Other income	5(b)	**964**	1,359	**1,026**	2,427
Materials/supplies expense		**134,230**	108,194	**102,301**	94,788
Employee benefit expenses		**107,118**	94,607	**78,180**	71,403
Depreciation and amortisation expense		**15,510**	15,295	**13,187**	12,929
Other expenses	6	**7,316**	5,828	**6,041**	6,486
Finance costs		**4,103**	4,252	**3,534**	3,525
Share of (profit)/ loss in associate		**(133)**	682	**-**	-
Profit before income tax		**15,505**	14,608	**15,056**	14,974
Income tax expense	7	**(4,212)**	(4,971)	**(4,212)**	(4,971)
Profit for the year attributable to the equity holders of the parent		**11,293**	9,637	**10,844**	10,003
Other comprehensive income					
Exchange differences on translation of foreign operations		**(238)**	(762)	**-**	-
Net fair value gains on available-for-sale financial assets		**408**	-	**408**	-
Income tax on items of other comprehensive income	7	**-**	-	**-**	-
Other comprehensive income for the period net of tax		**170**	(762)	**408**	-
Total comprehensive income for the year attributable to the equity holders of the parent		**11,463**	8,875	**11,252**	10,003

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

Balance sheet

	Notes	GROUP 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
Assets					
Current assets					
Cash and cash equivalents	9	**5,289**	2,159	**4,960**	1,397
Trade and other receivables	10	**33,540**	29,323	**24,166**	24,625
Work in progress - construction contract	11	**22,894**	21,290	**15,453**	14,261
Inventory	30	**9,475**	8,981	**9,317**	8,821
Tax refund due		**2,609**	3,945	**2,609**	3,945
Total current assets		**73,807**	65,698	**56,505**	53,049
Non-current assets					
Available for sale financial assets	12	**1,060**	578	**1,060**	578
Investment in subsidiaries	13	**-**	-	**27,656**	26,846
Assets under construction		**7,879**	7,517	**7,740**	7,507
Goodwill and intangible assets	14	**6,087**	6,048	**4,050**	3,975
Investment property	16	**-**	1,250	**-**	1,250
Investment in associates	26	**3,612**	2,729	**4,161**	3,411
Derivative financial instruments	22	**124**	-	**124**	-
Property, plant and equipment	15	**328,031**	321,810	**313,221**	306,177
Total non-current assets		**346,793**	339,932	**358,012**	349,744
Total assets		**420,600**	405,630	**414,517**	402,793
Liabilities					
Current liabilities					
Borrowings	17	**15,130**	22,694	**8,833**	17,145
Trade and other payables	18	**27,073**	22,202	**19,640**	18,730
Provision for dividend	19	**-**	3,826	**-**	3,826
Derivative financial instruments	22	**523**	573	**523**	573
Employee entitlements	29	**6,966**	7,007	**5,650**	5,559
Total current liabilities		**49,692**	56,302	**34,646**	45,833
Non-current liabilities					
Employee entitlements	29	**1,475**	1,451	**1,475**	1,451
Borrowings	17	**61,730**	48,103	**60,270**	45,101
Derivative financial instruments	22	**287**	466	**287**	466
Deferred taxation	8	**58,049**	57,404	**58,049**	57,404
Total non-current liabilities		**121,541**	107,424	**120,081**	104,422
Total Liabilities		**171,233**	163,726	**154,727**	150,255
Net assets		**249,367**	241,904	**259,790**	252,538
Equity					
Share capital	20	**35,989**	35,989	**35,989**	35,989
Asset revaluation reserve		**40,970**	40,970	**40,970**	40,970
Available for sale reserve		**125**	(283)	**125**	(283)
Foreign currency translation reserve		**(690)**	(452)	**-**	-
Retained earnings		**172,973**	165,680	**182,706**	175,862
Equity attributable to equity holders of the parent		**249,367**	241,904	**259,790**	252,538
Total equity		**249,367**	241,904	**259,790**	252,538

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 Reserves $000s**	**Foreign Currency Translation Reserve $000s**	**Total $000s**
As at 1 April 2012	35,989	165,680	(283)	40,970	(452)	241,904
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**	**172,973**	**125**	**40,970**	**(690)**	**249,367**
As at 1 April 2011	35,989	161,171	(283)	40,970	(992)	236,855
Profit for the period	-	9,637	-	-	-	9,637
Other comprehensive income for the period	-	(1,302)	-	-	540	(762)
Total comprehensive income for the period	-	8,335	-	-	540	8,875
Transactions with owners in their capacity as owners						
Dividends paid	-	(3,826)	-	-	-	(3,826)
As at 31 March 2012	35,989	165,680	(283)	40,970	(452)	241,904

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 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**
As at 1 April 2011	35,989	169,685	(283)	40,970	-	246,361
Profit for the period	-	10,003	-	-	-	10,003
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	10,003	-	-	-	10,003
Transactions with owners in their capacity as owners						
Dividends paid	-	(3,826)	-	-	-	(3,826)
As at 31 March 2012	35,989	175,862	(283)	40,970	-	252,538

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

Cash flow statement

		GROUP		PARENT	
	Notes	**2013**	2012	**2013**	2012
		$000s	$000s	**$000s**	$000s
Operating activities					
Receipts from customers		**277,163**	227,104	**216,828**	191,046
Interest received		**77**	33	**77**	33
Payments to suppliers		**(137,374)**	(112,649)	**(107,928)**	(99,614)
Payments to employees		**(107,111)**	(94,065)	**(78,065)**	(71,276)
Interest paid		**(4,149)**	(4,487)	**(3,534)**	(3,760)
Income tax paid		**(2,231)**	(3,421)	**(2,231)**	(3,421)
Net cash flows from operating activities	21	**26,376**	12,515	**25,147**	13,008
Investing activities					
Proceeds from sale of property, plant & equipment		**416**	447	**411**	239
Proceeds from sale of investment property		**1,156**	-	**1,156**	-
Proceeds from subsidiary		**-**	-	**6,193**	4,081
Advances to subsidiary		**-**	-	**(7,045)**	(7,096)
Advances to associate		**(750)**	(551)	**(750)**	(551)
Purchase of intangible assets		**(750)**	(755)	**(750)**	(890)
Purchase of available-for-sale financial assets		**(74)**	(2)	**(74)**	(2)
Purchase of property, plant & equipment		**(20,637)**	(18,424)	**(19,756)**	(17,568)
Net cash flows used in investing activities		**(20,639)**	(19,285)	**(20,615)**	(21,787)
Financing activities					
Proceeds from borrowings		**6,857**	9,135	**6,857**	9,135
Payment of finance lease liabilities		**(1,665)**	(1,580)	**-**	-
Dividends paid to equity holders of the parent	19	**(7,826)**	-	**(7,826)**	-
Net cash flows from/ (used in) financing activities		**(2,634)**	7,555	**(969)**	9,135
Net increase in cash & cash equivalents		**3,103**	785	**3,563**	356
Net foreign exchange differences		**27**	(339)	**-**	-
Cash and cash equivalents at the beginning of the year		**2,159**	1,713	**1,397**	1,041
Cash and cash equivalents at the end of the year	9	**5,289**	2,159	**4,960**	1,397

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

Notes to the financial statements

1. 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 Whangarei Local Fibre Company 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 investments, investment properties, derivatives, available for sale assets, distribution system assets, 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 2013 were authorised for issue in accordance with a resolution of the directors on 12 June 2013.

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 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets. This amendment provides for a rebuttable presumption that deferred tax on investment property measured using the fair value model in NZ IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

This amendment results in a remeasurement of the deferred tax liability (DTL) on the investment property. Under the amendment, the DTL will be measured based on the tax consequences of the sale of the investment property. In New Zealand, this tax consequence is the applicable tax on any recovery of depreciation when investment property is sold. The amendment has no impact on the group's financial position, performance or disclosures.

- Harmonisation Amendments are effective for periods beginning on or after 1 July 2011. This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards and is read in conjunction with FRS-44 NZ Additional Disclosures.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

c. New accounting standards and interpretations (continued)

- FRS 44 New Zealand Additional Disclosures. FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB). This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas:

  a. compliance with NZ IFRS;
  b. the statutory basis or reporting framework for financial statements;
  c. audit fees;
  d. imputation credits;
  e. reconciliation of net operating cash flow to profit (loss);
  f. prospective financial statements; and
  g. elements in the statement of service performance.

(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 2013. These are summarised below:

- NZ IAS 27 Separate Financial Statements. NZ IAS 27 (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. The application date of this new standard for the Group is 1 April 2013. Management does not consider that this will have an impact on the financial statements.

- NZ IAS 28 Investment in Associates and Joint Ventures. This standard supersedes NZ IAS 28 Investment in Associates as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities. The standard, which prescribes the accounting for investments in associates and sets out the requirements for the application of equity accounting, will be effective for periods beginning on or after 1 January 2013. The application date of this new standard for the Group is 1 April 2013. Management does not consider that this will have an impact on the financial statements.

- NZ IFRS 9 Financial Instruments. This standard is part of the project to replace NZ IAS 39: Financial Instruments – Recognition and Measurement. The standard, which will be effective for the periods beginning on or after 1 January 2015, applies to financial assets and liabilities, their classification and measurement. The application date of this new standard for the Group is 1 April 2015. Management is yet to determine the impact of this new standard on the financial statements.

- NZ IFRS 10 Consolidated Financial Statements. This standard establishes a new control model which broadens the situation when an entity is considered to control another entity, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority interest may give control. The standards will be effective for periods beginning on or after 1 January 2013. The application date of this new standard for the Group is 1 April 2013. Management does not consider that this will have any impact on the financial statements.

- NZ IFRS 11 Joint Arrangements. This standard, effective for periods beginning on or after 1 January 2013, replaces NZ IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled entities – Nonmonetary contributions by Ventures and removes the option to account for jointly controlled entities 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 rise to the underlying assets and obligations themselves are accounted for by recognising the share of the assets and obligations. Joint ventures that give rise to a right to the net assets are accounted for using the equity method. The application date of this new standard for the Group is 1 April 2013. Management does not consider that this will have any impact on the financial statements.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

c. New accounting standards and interpretations (continued)

- NZ IFRS 12 Disclosure of Interests in Other Entities. The standard, effective for periods beginning on or after 1 January 2013, includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments 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. The application date of this new standard for the Group is 1 April 2013. Management does not consider that this will have any impact on the financial statements.

- NZ IFRS 13 Fair Value Measurement. The standard, which will be effective for periods beginning on or after 1 January 2013, does not change when an entity is required to use fair value but provides guidance on how to determine fair value. It also expands the disclosure requirements about the assumptions made and the qualitative impact of those assumptions on the fair value determined. This may result in more detailed disclosure around the valuation assumptions but should not materially impact the reported values. The application of this new standard for the Group is 1 April 2013. Management does not consider that this will have material impact on the financial statements.

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments retain the option to present profit or loss and other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The application of this new standard for the Group is 1 April 2013. Management does not consider that this will have material impact on the financial statements.

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). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. 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 noncontrolling interests in the Group.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

e. Business combinations

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.

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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

g. Revenue recognition (continued)

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.

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 property's revaluation reserve is transferred directly to retained earnings.

Land and buildings

Land and Buildings held for use in the production of 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 property's 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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

h. Property, plant and equipment (continued)

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.

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	5-15 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.

j. 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.

k. 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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

l. 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 income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

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 the Comprehensive Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity (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 the Group intends to settle its current tax assets and liabilities on a net basis.

m. 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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

m. Goods and services tax (continued)

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.

n. Financial instruments

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

Trade & other receivables

Accounts Receivable are measured at initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method, less 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 a debtor, default payments or debts more than 90 days overdue are considered to be objective evidence of impairment.

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 its 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.

o. 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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

p. 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.

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.

q. 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.

r. 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)

r. 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 capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or infinite. 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 years on a straight line basis.

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 the 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 and whenever there is an indication that the asset may be impaired.

The 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.

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.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

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

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 Group 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 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 a foreign subsidiary.

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.

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 to manage 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$85,000,000 (2012: NZD$82,500,000). 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 (2012: NZD1,000,000).

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.

	2013				2012			
	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years
Group								
Trade and Other Payables	**24,083**	**-**	**-**	-	19,574	-	-	-
Finance Leases Payable	**968**	**2,363**	**539**	**1,088**	1,337	881	2,678	799
Interest Bearing Loans	**11,953**	**-**	**35,000**	**25,270**	20,320	-	-	45,101
	37,004	**2,363**	**35,539**	**26,358**	41,231	881	2,678	45,900
Parent								
Trade and Other Payables	**17,369**	**-**	**-**	**-**	17,108	-	-	-
Finance Leases Payable	**-**	**-**	**-**	**-**	-	-	-	-
Interest Bearing Loans	**8,832**	**-**	**35,000**	**25,270**	17,145	-	-	45,101
	26,201	**-**	**35,000**	**25,270**	34,253	-	-	45,101

Contractual maturity analysis of derivative financial liabilities

The table below analyses derivative financial instrument liabilities 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.

	2013				2012			
	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years	< 6 Months	6 – 12 Months	1 – 2 Years	2 – 5 Years
Group								
Derivatives	**(267)**	**(255)**	**(287)**	**-**	(323)	(258)	(344)	(147)
Parent								
Derivatives	**(267)**	**(255)**	**(287)**	**-**	(323)	(258)	(344)	(147)

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 on 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.

	2013		2012
	Level 1 $000s	Level 2 $000s	Level 1 $000s
Group			
Financial assets			
Interest rate swaps	-	124	-
Available for sale investments	1,028	32	578
	1,028	156	578
Financial liabilities			
Interest rate swaps	- -	810	- 1,039
	- -	810	- 1,039
Parent			
Financial assets			
Interest rate swaps	-	124	-
Available for sale investments	1,028	32	578
	1,028	156	578
Financial liabilities			
Interest rate swaps	- -	810	- 1,039
	- -	810	- 1,039

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	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Foreign currency forward exchange contracts	**-**	-	**-**	-

At balance date the Parent has Australian borrowings of A$13,225,000 (2012:A$13,225,000) held in foreign currency bank accounts that are not hedged.

	Group		Parent	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Financial Assets				
Cash and cash equivalents	**264**	600	**-**	-
Trade and other receivables	**7,794**	3,767	**-**	-
Financial Liabilities				
Trade and other payables	**6,237**	2,771	**-**	-
Interest bearing loans and borrowings	**19,413**	19,958	**13,225**	13,225
Net Exposure	**17,592**	18,362	**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 2013, 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)	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Group				
NZD Strengthen +5%	**1,045**	1,110	**-**	-
NZD Weaken -5%	**(1,155)**	(1,227)	**-**	-
Parent				
NZD Strengthen +5%	**785**	800	**-**	-
NZD Weaken -5%	**(869)**	(883)	**-**	-

Notes to the financial statements

3. Financial risk management objectives and policies (continued)

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.

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

	Group		Parent	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Interest rate swaps	**40,000**	28,000	**40,000**	28,000

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

At 31 March 2013, 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)	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Group				
+1% (100 basis points)	**895**	582	**-**	-
-0.5% (50 basis points)	**(462)**	(291)	**-**	-
Parent				
+1% (100 basis points)	**895**	582	**-**	-
-0.5% (50 basis points)	**(462)**	(291)	**-**	-

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 fair value change in interest rate swaps which are not hedged. There would be no effect on other components of equity.

Notes to the financial statements

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 results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

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 Whangarei Local Fibre Company (WLFC)

The investment in WLFC 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 WLFC.

The share in the profits or losses and other comprehensive income of WLFC 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 recognised 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 8.

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 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.

Notes to the financial statements

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

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.

Revaluation of assets

Distribution system assets along with land and buildings which are held as property, plant and equipment and investment property are valued by an independent valuer.

The fair value of the Group's land and buildings is based on market values, being the estimated amount for which land and buildings could be exchanged between a willing buyer and a willing seller in an arm's length transaction. 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 latest 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	
		2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
5a	**Revenue**				
	Line charges	**58,547**	53,206	**58,547**	53,206
	Line contributions	**1,098**	1,442	**1,098**	1,442
	Contracting work income	**222,551**	186,990	**157,139**	146,561
	Interest income	**77**	33	**77**	33
	Income from farming	**412**	436	**412**	436
		282,685	242,107	**217,273**	201,678
5b	**Other income**				
	Net gain on foreign exchange	**247**	840	**247**	2,130
	Fair valuation gain on derivative instruments	**353**	-	**353**	-
	Fair value gains on investment property	**-**	50	**-**	50
	Sundry income	**364**	469	**426**	247
		964	1,359	**1,026**	2,427
6	**Other Expenses**				
	Loss on foreign exchange contracts	**-**	21	**-**	21
	Auditor's remuneration				
	- Audit of financial statements	**224**	187	**135**	122
	- Audit of regulatory disclosures	**24**	24	**24**	24
	Bad debts written off	**52**	100	**52**	100
	Impairment of investment	**-**	-	**-**	1,665
	Fair valuation loss on derivative instruments	**-**	18	**-**	18
	Directors' fees	**465**	429	**355**	322
	Rental and operating lease costs	**5,735**	4,860	**4,733**	4,036
	Research and development	**162**	160	**158**	160
	Loss on sale of assets	**654**	29	**584**	18
		7,316	5,828	**6,041**	6,486
7	**Taxation**				
	Accounting profit before income tax	**15,505**	14,608	**15,056**	14,974
	At New Zealand's statutory tax rate of 28% (2012: 28%)	**4,341**	4,090	**4,216**	4,193
	Plus/(less) tax effect of:				
	Non-deductible expense	**32**	483	**157**	380
	Prior period adjustment	**(161)**	20	**(161)**	20
	Deferred tax arising from change in tax treatment of buildings	**-**	378	**-**	378
		4,212	4,971	**4,212**	4,971
	The Taxation Charge is Represented by:				
	Current taxation	**2,409**	1,207	**2,409**	1,207
	Deferred taxation	**1,509**	3,366	**1,509**	3,366
	Prior period adjustment relating to current tax	**1,158**	119	**1,158**	119
	Prior period adjustment relating to deferred tax	**(864)**	(99)	**(864)**	(99)
	Deferred tax arising from change in tax treatment of buildings	**-**	378	**-**	378
		4,212	4,971	**4,212**	4,971
	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	**22,444**	20,633	**22,444**	20,633

Notes to the financial statements

8 Recognised deferred tax assets and liabilities

Group	Property, plant & equipment $000s	Financial Instruments $000s	Employee entitlements $000s	Others $000s	Total $000s
Balance as at 1 April 2012	**(54,024)**	**(86)**	**1,952**	**(5,246)**	**(57,404)**
Charged to profit/loss	**70**	**-**	**(180)**	**(535)**	**(645)**
Charged to other comprehensive income	**-**	**-**	**-**	**-**	**-**
Balance as at 31 March 2013	**(53,954)**	**(86)**	**1,772**	**(5,781)**	**(58,049)**
Parent					
Balance as at 1 April 2012	**(54,024)**	**(86)**	**1,952**	**(5,246)**	**(57,404)**
Charged to profit/loss	**70**	**-**	**(180)**	**(535)**	**(645)**
Charged to other comprehensive income	**-**	**-**	**-**	**-**	**-**
Balance as at 31 March 2013	**(53,954)**	**(86)**	**1,772**	**(5,781)**	**(58,049)**
Group					
Balance as at 1 April 2011	(52,947)	(86)	1,749	(2,475)	(53,759)
Charged to profit/loss	(1,077)	-	203	(2,771)	(3,645)
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2012	(54,024)	(86)	1,952	(5,246)	(57,404)
Parent					
Balance as at 1 April 2011	(52,947)	(86)	1,749	(2,475)	(53,759)
Charged to profit/loss	(1,077)	-	203	(2,771)	(3,645)
Charged to other comprehensive income	-	-	-	-	-
Balance as at 31 March 2012	(54,024)	(86)	1,952	(5,246)	(57,404)

Notes to the financial statements

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
9 Cash and cash equivalents				
Bank	**5,284**	2,156	**4,956**	1,394
Cash on hand	**5**	3	**4**	3
	5,289	2,159	**4,960**	1,397

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.

	GROUP		PARENT	
10 Trade and other receivables				
Trade and other receivables	**33,590**	29,373	**24,216**	24,675
Less provision for impairment	**(50)**	(50)	**(50)**	(50)
	33,540	29,323	**24,166**	24,625

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 2013 the ageing analysis of trade receivables is as follows:

	2013			2012		
Parent	**Gross**	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
0 - 30 days	**22,479**	**-**	**22,479**	22,147	-	22,147
31 - 60 days	**971**	**-**	**971**	870	-	870
61 - 90 days	**148**	**-**	**148**	962	-	962
91 days plus	**618**	**(50)**	**568**	696	(50)	646
	24,216	**(50)**	**24,166**	24,675	(50)	24,625
Group						
0 - 30 days	**30,741**	**-**	**30,741**	26,330	-	26,330
31 - 60 days	**1,771**	**-**	**1,771**	1,284	-	1,284
61 - 90 days	**220**	**-**	**220**	1,045	-	1,045
91 days plus	**858**	**(50)**	**808**	715	(50)	665
	33,590	**(50)**	**33,540**	29,373	(50)	29,323

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 $886,151 (2012: $664,928).

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

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Balance at 1 April	**50**	75	**50**	75
Additional provisions made during the year	**-**	75	**-**	75
Receivables written off during the year	**-**	(100)	**-**	(100)
Balance at 31 March	**50**	50	**50**	50

Notes to the financial statements

	GROUP 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
11 Work in progress - construction contracts				
Customer progress billings made during the year	**(92,517)**	(70,362)	**(51,183)**	(51,123)
Aggregate of costs incurred	**84,622**	67,795	**50,670**	47,983
Recognised profits (less recognised losses) to date	**30,789**	23,857	**15,966**	17,401
	22,894	21,290	**15,453**	14,261

12 Available for sale financial assets

	GROUP 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
At fair value				
Fonterra Co-operative Group Limited	**1,028**	549	**1,028**	549
Ravensdown Fertiliser Co-operative Limited	**32**	29	**32**	29
	1,060	578	**1,060**	578

The available for sale financial assets consists of 137,014 shares (2012: 121,352 shares) in Fonterra Co-operative Group Limited and 31,612 shares (2012: 29,065 shares) in 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.

13 Investment in subsidiaries

	PARENT 2013 $'000	PARENT 2012 $'000
Debentures	**24,431**	19,410
Advances to subsidiaries	**1,109**	5,320
Shares in subsidiaries (unlisted) - at cost	**3,781**	3,781
Allowance for impairment	**(1,665)**	(1,665)
	27,656	26,846

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 2013	Interest held at 31 March 2012
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	Total $000s
GROUP			
Cost			
At 1 April 2012	**4,450**	**5,786**	**10,236**
Addition	**-**	**750**	**750**
Disposal	**-**	**-**	**-**
Foreign Exchange Differences	**(36)**	**-**	**(36)**
At 31 March 2013	**4,414**	**6,536**	**10,950**
Accumulated Amortisation			
At 1 April 2012	**-**	**4,188**	**4,188**
Amortisation for the year	**-**	**675**	**675**
Disposal	**-**	**-**	**-**
At 31 March 2013	**-**	**4,863**	**4,863**
Net carrying amount at 31 March 2013	**4,414**	**1,673**	**6,087**
Cost			
At 1 April 2011	4,585	4,896	9,481
Addition	-	890	890
Disposal	-	-	-
Foreign Exchange Differences	(135)	-	(135)
At 31 March 2012	4,450	5,786	10,236
Accumulated Amortisation			
At 1 April 2011	-	3,582	3,582
Amortisation for the year	-	606	606
Disposal	-	-	-
Foreign Exchange Differences	-	-	-
At 31 March 2012	-	4,188	4,188
Net carrying amount at 31 March 2012	4,450	1,598	6,048

Notes to the financial statements

14 Goodwill and Intangible Assets (continued)

	Goodwill $000s	Software $000s	Total $000s
PARENT			
Cost			
At 1 April 2012	**2,377**	**5,786**	**8,163**
Addition	**-**	**750**	**750**
Disposal	**-**	**-**	**-**
At 31 March 2013	**2,377**	**6,536**	**8,913**
Accumulated Amortisation			
At 1 April 2012	**-**	**4,188**	**4,188**
Amortisation for the year	**-**	**675**	**675**
Disposal	**-**		**-**
At 31 March 2013	**-**	**4,863**	**4,863**
Net carrying amount at 31 March 2013	**2,377**	**1,673**	**4,050**
Cost			
At 1 April 2011	2,377	4,896	7,273
Addition	-	890	890
Disposal	-	-	-
At 31 March 2012	2,377	5,786	8,163
Accumulated Amortisation			
At 1 April 2011	-	3,582	3,582
Amortisation for the year	-	606	606
Disposal	-		-
At 31 March 2012	-	4,188	4,188
Net carrying amount at 31 March 2012	2,377	1,598	3,975

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 4% - 19% (2012: 2.5% - 16%) 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% (2012: 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 a five-year period.
For modelling purposes, a growth rate of 2% (2012: 1.6%) is used. The pre-tax discount rate applied to cash flow projections is 15% (2012: 20%).

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% (2012: 1.6%) is used. The pre-tax discount rate applied to cash flow projections is 15% (2012: 20%).

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

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Western Australia	**2,037**	2,073	**-**	-
Regional Contracting	**877**	877	**877**	877
Central Contracting	**1,500**	1,500	**1,500**	1,500
	4,414	4,450	**2,377**	2,377

(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	Freehold Buildings	Building Infrastructure	Distribution System	Meters	Fibre	Generation	Plant & Equipment	Motor Vehicles	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Group										
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
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	16,012	13,452	5,349	259,387	4,584	1,352	13,356	33,414	59,071	405,978
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	-	1,131	881	17,050	703	319	6,827	21,272	29,763	77,947
Net carrying amount at 31 March 2013	16,012	12,321	4,468	242,337	3,881	1,033	6,529	12,142	29,307	328,031
Cost or fair value										
At 1 April 2011	15,825	15,587	2,813	236,935	4,727	2,022	12,746	27,164	54,892	372,711
Addition	-	61	456	10,760	186	35	57	2,689	3,107	17,350
Transfers	-	(1,438)	1,245	-	-	-	-	193	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	(696)	-	(268)	(1,239)	(2,203)
Foreign exchange differences	-	-	(9)	-	-	-	-	(213)	(1,319)	(1,541)
At 31 March 2012	15,825	14,210	4,505	247,695	4,913	1,361	12,803	29,565	55,441	386,317
Accumulated Depreciation										
At 1 April 2011	-	563	409	5,317	237	320	5,732	16,063	22,985	51,626
Depreciation Charge for the Year	-	317	218	5,670	248	151	575	2,758	4,707	14,644
Transfers	-	(16)	(9)	-	-	-	-	25	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	(235)	-	(165)	(881)	(1,281)
Foreign exchange differences	-	-	(3)	-	-	-	-	(113)	(366)	(482)
At 31 March 2012	-	864	615	10,987	485	236	6,307	18,567	26,445	64,507
Net carrying amount at 31 March 2012	15,825	13,346	3,890	236,708	4,428	1,125	6,496	10,997	28,995	321,810

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 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**
Transfers	**-**	**(852)**	**-**	**852**	**-**	**(9)**	**-**	**-**	**-**	**(9)**
Revaluation adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposal	**-**	**-**	**(37)**	**-**	**(517)**	**-**	**-**	**(56)**	**(1,466)**	**(2,076)**
At 31 March 2013	**16,012**	**13,452**	**5,109**	**259,387**	**4,584**	**1,352**	**13,356**	**29,297**	**38,236**	**380,785**
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	**-**	**1,131**	**809**	**17,050**	**703**	**319**	**6,827**	**19,077**	**21,648**	**67,564**
Net carrying amount at 31 March 2013	16,012	12,321	4,300	242,337	3,881	1,033	6,529	10,220	16,588	313,221
Cost or fair value										
At 1 April 2011	15,825	15,587	2,673	236,935	4,727	2,022	12,746	23,704	33,452	347,671
Addition	-	61	397	10,760	186	35	57	2,271	2,966	16,733
Transfers	-	(1,438)	1,245	-	-	-	-	193	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	(696)	-	(178)	(1,124)	(1,998)
At 31 March 2012	15,825	14,210	4,315	247,695	4,913	1,361	12,803	25,990	35,294	362,406
Accumulated Depreciation										
At 1 April 2011	-	563	364	5,317	237	320	5,732	14,870	17,784	45,187
Depreciation Charge for the Year	-	317	204	5,670	248	151	575	2,193	2,965	12,323
Transfers	-	(16)	(9)	-	-	-	-	25	-	-
Revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	(235)	-	(165)	(881)	(1,281)
At 31 March 2012	-	864	559	10,987	485	236	6,307	16,923	19,868	56,229
Net carrying amount at 31 March 2012	15,825	13,346	3,756	236,708	4,428	1,125	6,496	9,067	15,426	306,177

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 arm's 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:

	Freehold Land	Freehold Buildings	Building Infrastructure	Distribution system
2013				
Group				
Cost	**13,440**	**12,632**	**2,137**	**237,154**
Accumulated depreciation and impairment	**-**	**1,752**	**473**	**44,205**
Net carrying amount	**13,440**	**10,880**	**1,664**	**192,949**
Parent				
Cost	**13,440**	**12,632**	**2,137**	**237,154**
Accumulated depreciation and impairment	**-**	**1,752**	**473**	**44,205**
Net carrying amount	**13,440**	**10,880**	**1,664**	**192,949**
2012				
Group				
Cost	13,252	13,393	2,137	225,478
Accumulated depreciation and impairment	-	1,512	396	38,339
Net carrying amount	13,252	11,881	1,741	187,139
Parent				
Cost	13,252	13,393	2,137	225,478
Accumulated depreciation and impairment	-	1,512	396	38,339
Net carrying amount	13,252	11,881	1,741	187,139

Notes to the financial statements

16 Investment Property

	GROUP		PARENT	
	2013 $000s	2012 $000s	**2013 $000s**	2012 $000s
Opening balance as at 1 April	**1,250**	1,200	**1,250**	1,200
Sale	**(1,250)**	-	**(1,250)**	-
Net gain from fair value adjustments	**-**	50	**-**	50
Closing balance as at 31 March	**-**	1,250	**-**	1,250

The investment property was sold during the year resulting in a loss on sale of $94,000 which is recognised in the comprehensive income statement.

17 Borrowings

		GROUP		PARENT	
	Maturity	**2013 $000s**	2012 $000s	**2013 $000s**	2012 $000s
Current					
Bank overdrafts	On demand	**-**	-	**-**	-
Unsecured loans	30-270 days	**8,833**	17,145	**8,833**	17,145
Secured loans	30-90 days	**3,120**	3,175	**-**	-
Finance lease liability		**3,178**	2,373	**-**	-
Total current portion		**15,130**	22,694	**8,833**	17,145
Non Current					
Finance lease liability		**1,460**	3,002	**-**	-
Unsecured loans	Within 2 yrs	**35,000**	-	**35,000**	-
	Within 2 and 3 yrs	**25,270**	45,101	**25,270**	45,101
Total non-current portion		**61,730**	48,103	**60,270**	45,101
		76,860	70,797	**69,103**	62,246

(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 overderaft facility at floating interest rates and is due on demand.

The Group operates lending facilities with the current facility expiring in November 2013 and the non current facilities expiring in November 2014 and November 2015.

Interest rates paid on $NZD borrowings averaged 3.4% (2012: 3.6%). Interest rates paid on $AUD borrowings averaged 3.9% (2012: 5.4%)

Notes to the financial statements

17 Borrowings (continued)

(c) *Financing Facilities Available*

The Group operates an $85,000,000 lending facility with advances being a combination of NZD$ and AUD$.

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

(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 0.69 (2012: 0.68)

Analysis of finance leases	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Minimum lease payments payable:				
Not later than one year	**3,412**	2,628	**-**	-
Later than one year and not later than five years	**1,546**	3,067	**-**	-
Later than five years	**-**	-	**-**	-
Total minimum lease payments	**4,958**	5,695	**-**	-
Future finance charges	**(356)**	(319)	**-**	-
Present value of minimum lease payments	**4,602**	5,376	**-**	-
Present value of minimum lease payments payable:				
Not later than one year	**3,177**	2,373	**-**	-
Later than one year and not later than five years	**1,425**	3,003	**-**	-
Later than five years	**-**	-	**-**	-
Total present value of minimum lease payments	**4,602**	5,376	**-**	-

The Group has entered into finance leases for motor vehicles and the net carrying amount of these assets at balance date are $5,543,257 (2012: $5,497,089). 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

		GROUP		PARENT	
18	**Trade and other payables**	**2013**	2012	**2013**	2012
		$000s	$000s	**$000s**	$000s
	Trade Payables (GST Inclusive)	**16,309**	13,609	**9,910**	11,209
	Accrued Payables (GST Exclusive)	**10,120**	8,261	**9,085**	7,189
	Income in advance	**644**	332	**644**	332
		27,073	22,202	**19,639**	18,730

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

19 Dividends paid and proposed

During the financial year fully imputed dividends of $7,826,200 were paid ($11,180,285 inclusive of imputation credits of which $5,714,285 relates to the 2012/2013 financial year and $5,466,000 relates to the 2011/2012 financial year).

No dividends were paid in the prior financial year.

Recognised amounts				
Declared during the year				
Dividends on ordinary shares:				
Final imputed dividend for 2013: 11.11 cents (2012: 10.63 cents)	**4,000**	3,826	**4,000**	3,826

20 Share Capital

(a) Ordinary Shares				
As at 31 March 2013	**35,989**	35,989	**35,989**	35,989
Represented by 35,981,848 ordinary shares				
Total Issued and paid up capital	**35,989**	35,989	**35,989**	35,989

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 2013 the Group declared dividends of $4,000,000 ($2012: $3,826,000). 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	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
21 Cash flow statement reconciliation				
Reconciliation of net profit after tax to net cash flows from operations				
Net profit after income tax	**11,293**	9,637	**10,844**	10,003
Adjustments for:				
Depreciation and amortisation	**15,510**	15,295	**13,187**	12,929
Gain on revaluation of investment property	**-**	(50)	**-**	(50)
Loss on sale of property, plant & equipment	**490**	29	**490**	18
Loss on sale of investment property	**94**	-	**94**	-
Non cash line contribution revenue	**(1,098)**	(1,442)	**(1,098)**	(1,442)
Fair valuation (gain)/ loss on derivative financial instruments	**(353)**	18	**(353)**	18
Impairment of investments	**-**	-	**-**	1,665
Capitalised interest expense	**(208)**	(235)	**(208)**	(235)
Unrealised foreign currency loss/ (gain)	**109**	(840)	**109**	(2,130)
Share in loss/ (profits) of associate	**(133)**	682	**-**	-
Changes in assets and liabilities				
Increase in trade & other payables	**5,261**	2,117	**978**	175
Increase in construction work in progress	**(1,733)**	(11,896)	**(1,192)**	(8,083)
Decrease/ (increase) in tax refund	**1,336**	(2,095)	**1,336**	(2,095)
Increase in trade and other receivables	**(4,692)**	(1,109)	**459**	(329)
Increase in inventory	**(497)**	(1,223)	**(496)**	(1,063)
Increase in deferred tax liabilities	**645**	3,645	**645**	3,645
Increase/ (decrease) in derivative financial instruments	**353**	(18)	**353**	(18)
Net cash from operating activities	**26,376**	12,515	**25,147**	13,008

Notes to the financial statements

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
22 Derivative Financial Instruments				
Current Asset portion				
Interest rate swap contracts	**-**	-	**-**	-
Non-current Asset portion				
Interest rate swap contracts	**124**	-	**124**	-
Current liability portion				
Interest rate swap contracts	**523**	573	**523**	573
Non-current liability portion				
Interest rate swap contracts	**287**	466	**287**	466
Net financial derivative liability position	**686**	1,039	**686**	1,039

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 $40,000,000 (2012 $28,000,000). The fixed interest rates of interest rate swaps vary from 3.15% to 5.58%.

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
23 Guarantees and contingencies				
Performance bonds in relation to contract work	**16,078**	16,378	**16,078**	16,378
Letters of credit in relation to contract work	**2,485**	2,559	**2,485**	2,559
	18,563	18,937	**18,563**	18,937

Performance bonds relate to guarantees given to customers for work completed.
Letters of Credit relate to guarantees given to off-shore customers for work completed.

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 28). Similarly, if a number of employers ceased to partipate in the Scheme, Northpower could be responsible for an increased share of the deficit.

Notes to the financial statements

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
24 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	**2,897**	3,728	**2,545**	2,876
After one year but not more than five years	**5,037**	4,706	**5,037**	3,871
More than five years	**850**	-	**850**	-
Total non-cancellable operating leases	**8,784**	8,434	**8,432**	6,747
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**	74	**33**	74
Total non-cancellable operating leases	**145**	186	**145**	186
No contingent rents have been recognised during the period				
Capital commitments contracted for at balance sheet date	**4,554**	-	**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 WLFC 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 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
25 Related Parties				
(a) Subsidiaries				
(i) Terms and conditions of transactions with related parties				
1. 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				
1. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.				
Transactions during the year				
Sales to subsidiaries			**427**	583
Management fees charged to subsidiary			**276**	-
Purchases from subsidiaries			**-**	-
Market support payments to subsidiary			**-**	2,043
Outstanding balances as at 31 March				
Accounts payable to subsidiaries			**-**	-
Accounts receivable from subsidiaries			**351**	48
Debenture to subsidiary			**24,431**	19,410
Loan to subsidiary			**1,109**	5,320
(b) Associates (Refer to note 26)				
Transactions during the year				
Sales to associate			**11,005**	8,159
Purchases from associate			**-**	-
Other transactions			**164**	40
Outstanding balances as at 31 March				
Payable to associate			**-**	-
Receivable from associate			**332**	227

(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:

	GROUP 2013 $000s	GROUP 2012 $000s	PARENT 2013 $000s	PARENT 2012 $000s
Compensation of key management personnel				
Short-term employee benefits	**4,050**	2,932	**2,214**	2,253

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

25 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 majority shareholder of Diesel Maintenance Ltd. During the year Northpower made purchases from D. B. Quinn Trustees Ltd of $1,273 (2012: nil) and Diesel Maintenance Ltd of $2,942 (2012: $5,336).

Mr Anthony Davies-Colley is a Trustee of Northpower. He is also the Director of Blackdog Steelworks Ltd and Westpoint Management Ltd. During the year Northpower made purchases from Blackdog Steelworks Ltd of $353,815 (2012: $172,619) and provided services to Westpoint Management Ltd of $255 (2012: nil) and Blackdog Steelworks Ltd of $147 (2012: nil).

Mrs Nicole Davies-Colley is a director of Northpower, its subsidiary West Coast Energy Pty Ltd, its associate WLFC, and also a Director of Farmlands Trading Society Ltd. During the year Northpower made purchases from Farmlands Trading Society to the value of $4,335 (2012: $1,412).

Jo Brosnahan is the Chairperson of Northpower's associate company Whangarei Local Fibre Company Ltd and is also the Chairperson of Leadership NZ. During the year Northpower made purchases from Leadership NZ amounting to nil (2012: $14,950).

Mr Lloyd Brian Richards is a board member of the Electricity Engineer's Association and during the year Northpower made purchases from this organisation totalling $40,243 (2012: $57,045).

Mr Warren Moyes is also a council member of Northtec Polytechnic. During the year Northpower made sales to Northtec of $255. In 2012, Northpower made purchases from Northtec of $14,776.

Mr Mark Giglia is a director of Northpower's two Australian subsidiaries (West Coast Energy Ltd and Northpower Western Australia Pty Ltd) which also provides accountancy and taxation services to Northpower's Australian group via Anderson Redman Chartered Accountants. During the year fees totalling $13,500 were paid or payable for services provided (2012: $41,875).

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

26 Investment in associates

Whangarei Local Fibre Company Limited (WLFC) 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 WLFC. Under a shareholders' agreement between Northpower and CFH, Northpower's obligation during the initial ten year period includes:

(a) Provide working capital to the WLFC in return for shares.

(b) Purchase shares in WLFC from CFH, as and when end users are connected to the UFB network.

(c) Participate in the governance and management of WLFC, including the appointment of two directors to the Board of WLFC and the provision of management services to WLFC.

Notes to the financial statements

26 Investment in associates (continued)

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

	GROUP		PARENT	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Beginning balance	**2,729**	-	**3,411**	-
Additional investment made	**750**	3,411	**750**	3,411
Share of profit/ (loss) after income tax	**(181)**	(176)	**-**	-
Unrealised profit adjustment	**306**	(506)	**-**	-
Realised profit adjustment	**8**	-	**-**	-
Ending balance	**3,612**	2,729	**4,161**	3,411

b) Summarised financial information

Extract from the associate's statement of financial position:	**2013 $000s**	2012 $000s
Current assets	**934**	1,430
Non-current assets	**16,318**	5,746
Current liabilities	**150**	257
Non-current liabilities	**143**	-
Net assets	**16,959**	6,919
Share of associate's net assets	**3,901**	3,228
Extract from the associate's statement of comprehensive income:		
Revenue	**480**	112
Net profit/(loss)	**(789)**	(377)

27 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	
	2013	2012	**2013**	2012
	$000s	$000s	**$000s**	$000s
Financial Assets at fair value	**124**	-	**124**	-
Loans and Receivables				
Cash and cash equivalents	**5,289**	2,159	**4,960**	1,397
Trade and other receivables	**33,806**	29,323	**24,166**	24,625
Total loans and receivables	**39,095**	31,482	**29,126**	26,022
Available for sale instruments				
Unlisted shares	**1,060**	578	**1,060**	578
Financial liabilities at fair value	**810**	1039	**810**	1039
Financial liabilities measured at amortised cost				
Short term borrowings	**15,130**	22,694	**8,833**	17,145
Long term borrowings	**61,730**	48,103	**60,270**	45,101
Trade and other payables	**24,803**	20,180	**17,639**	17,108
	101,663	90,976	**86,472**	79,354

Notes to the financial statements

28 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 2012 indicated that the scheme had a past service surplus of $19.833 million (8.3% 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.

29 Employee entitlements

	GROUP		PARENT	
	2013	2012	**2013**	2012
Current employee entitlements are represented by:	**$000s**	$000s	**$000s**	$000s
Accrued salaries and wages	**1,142**	1,435	**1,142**	1,435
Annual leave	**5,799**	5,547	**4,483**	4,099
Sick leave	**25**	25	**25**	25
Total current portion	**6,966**	7,007	**5,650**	5,559
Non-current employee entitlements are represented by:				
Retirement and long service leave	**1,475**	1,451	**1,475**	1,451
Total non-current portion	**1,475**	1,451	**1,475**	1,451
Total employee entitlements	**8,441**	8,458	**7,125**	7,010

30 Inventory

Inventory held for use in the provision of goods and services	**9,475**	8,981	**9,317**	8,821

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 (2012: nil). No inventories were pledged as securities for liabilities, however some inventories are subject to retention of title clauses.

31 Capitalised Borrowing Cost

The assets under construction account includes capitalised borrowing costs amounting to $208,263 (2012: $234,911). The weighted average interest rate used to determine the amount of borrowing costs eligible for capitalisation is 4.3% (2012: 4.3%).

Notes to the financial statements

32 Events After Balance Date

On 1 April 2013, Northpower acquired a group of assets from Transpower New Zealand Limited in accordance with the Transfer of Assets Agreement dated 1 November 2012. The consideration transferred was $4.6 million. The group has recognised fair values of identifiable assets on acquisition date based upon the best information available as of the reporting date. The business combination accounting is as follows:

	Fair value at acquistion date	Carrying value at acquistion date
	$000s	$000s
Property, plant and equipment	4,554	4,554
Fair value of identifiable assets	4,554	
Purchase consideration transferred	4,554	
Net cash flow on acquisition	4,554	

The fair value of the acquired assets approximates the consideration paid.

33 Auditor's Remuneration

The auditor of Northpower Limited is Audit New Zealand	GROUP 2013	GROUP 2012	PARENT 2013	PARENT 2012
	$000s	$000s	**$000s**	$000s
Fees to Audit New Zealand for:				
Audit of financial statements	**135**	152	**135**	152
Special audits required by regulators	**24**	24	**24**	24
	159	176	**159**	176
Fees paid to non Audit New Zealand firms for:				
Audit of financial statements of subsidiary	**88**	88	**-**	-
Advisory services	**31**	-	**31**	-
	119	88	**31**	-

Directory

Northpower Limited:

Chairman
W W Moyes, BA, AM Inst D.

Directors:
D J Ballard, BE (Hons), MBA.
R J Black, BE (Civil) (Hons), FREng, FIPENZ.
N P Davies-Colley, BBS, MBA. AM Inst D.
K C Hames, B Ag, AM Inst D.
J J Ward, BE (Hons), MIPENZ.

Executive officers:

Chief Executive
M R Gatland, BE, MIPENZ, MBA.

Chief Financial Officer
D Molloy, BSC, BE (Hons).
(from 28 September 2012)
B Petersen, ACIS, ACCM, Dip. Mgt.
(to 27 September 2012)

General Manager, Network
G A C Dawson, NZCE.

General Manager, Business Support
B S Harrison, BBus.

General Manager, Contracting
L B Richards, NZCE, REA, Tec IPENZ.

General Manager, Business Development, Strategy & Marketing
S Horgan, BMS (Hons), MMS, AMS (INSEAD).

West Coast Energy Pty Limited:

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

Directors:
M Giglia, B.Bus, CA.
N P Davies-Colley, BBS, MBA. AM Inst D.

Executive officers:

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

Area Manager Perth
Wally Huia.

Area Manager Melbourne
Ross Wilson, NZCE Electrical.

Commercial Operations Manager
Nigel Ellett, BAppMgt, CSCP, AIMM.

HSQE and Technical Standards Manager
Alan Macleod

Northpower Electric Power Trust

Chairman
EA Angelo, CA ANZIM.

Deputy Chairman
RJ Drake, MNZM.

Trustees
R Provan.
T Davies-Colley, B Agr Sci.
B Rossiter.
S Mckenzie.
I Durham, BBM, Grad Dip (Fin).

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

"safe, reliable, hassle free service"

NEW ZEALAND

Auckland	09 274 4545	Tauranga	07 542 9310
Dargaville	09 439 3114	Tokoroa	07 886 1039
Hamilton	07 846 9760	Waiheke	09 372 7969
Matamata	07 888 4326	Warkworth	09 425 8015
Maungaturoto	09 431 8228	Wellington	04 912 2190
Paeroa	07 862 8412	Whangarei	09 430 1803
Rotorua	07 348 6800	Whitianga	021 497 340

AUSTRALIA

Melbourne	0061 3 9020 1820	Perth	0061 8 9456 9100

KEY NORTHPOWER CONTACT NUMBERS

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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

FAULTS 0800 10 40 40

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www.northpowerfibre.co.nz