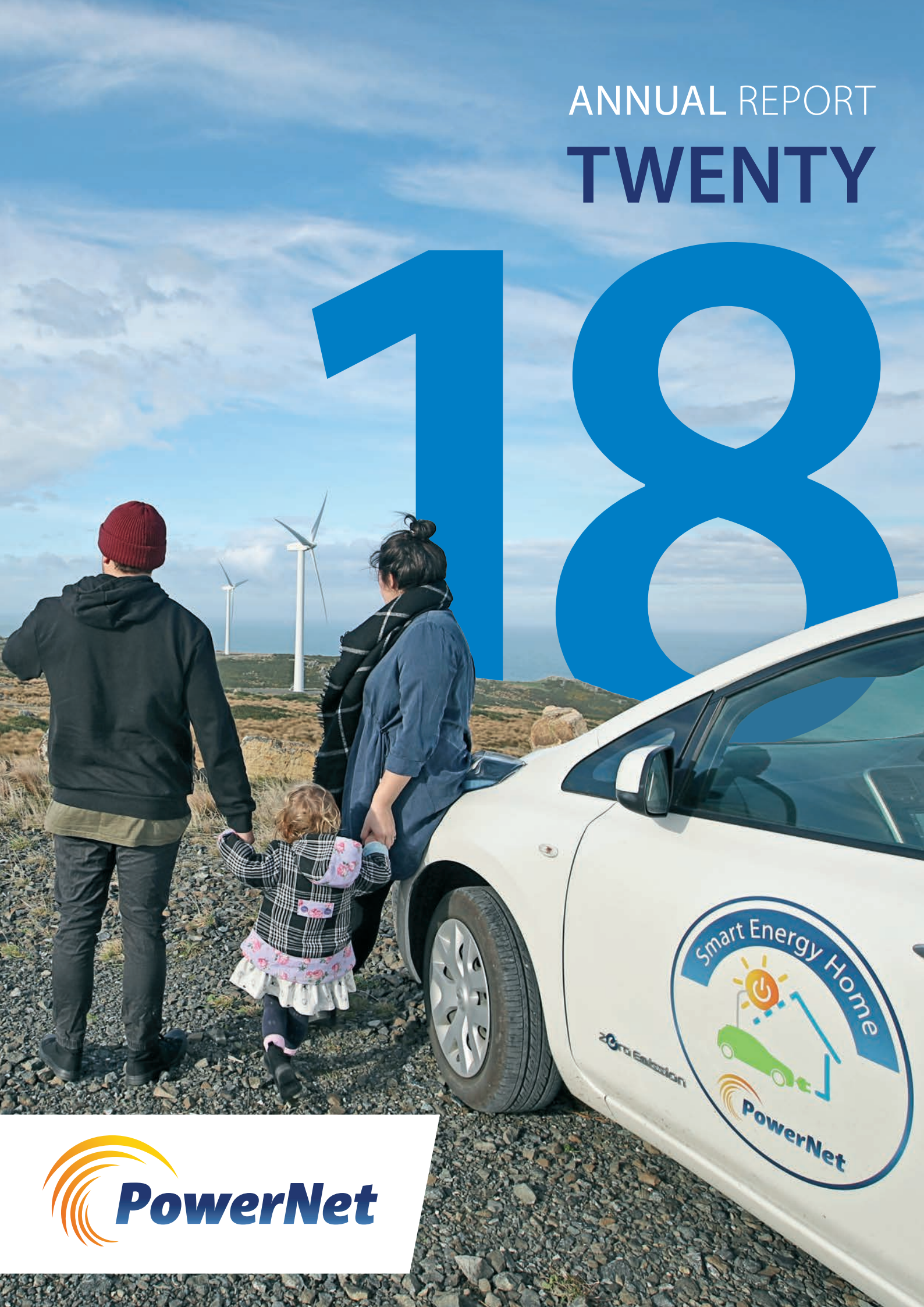
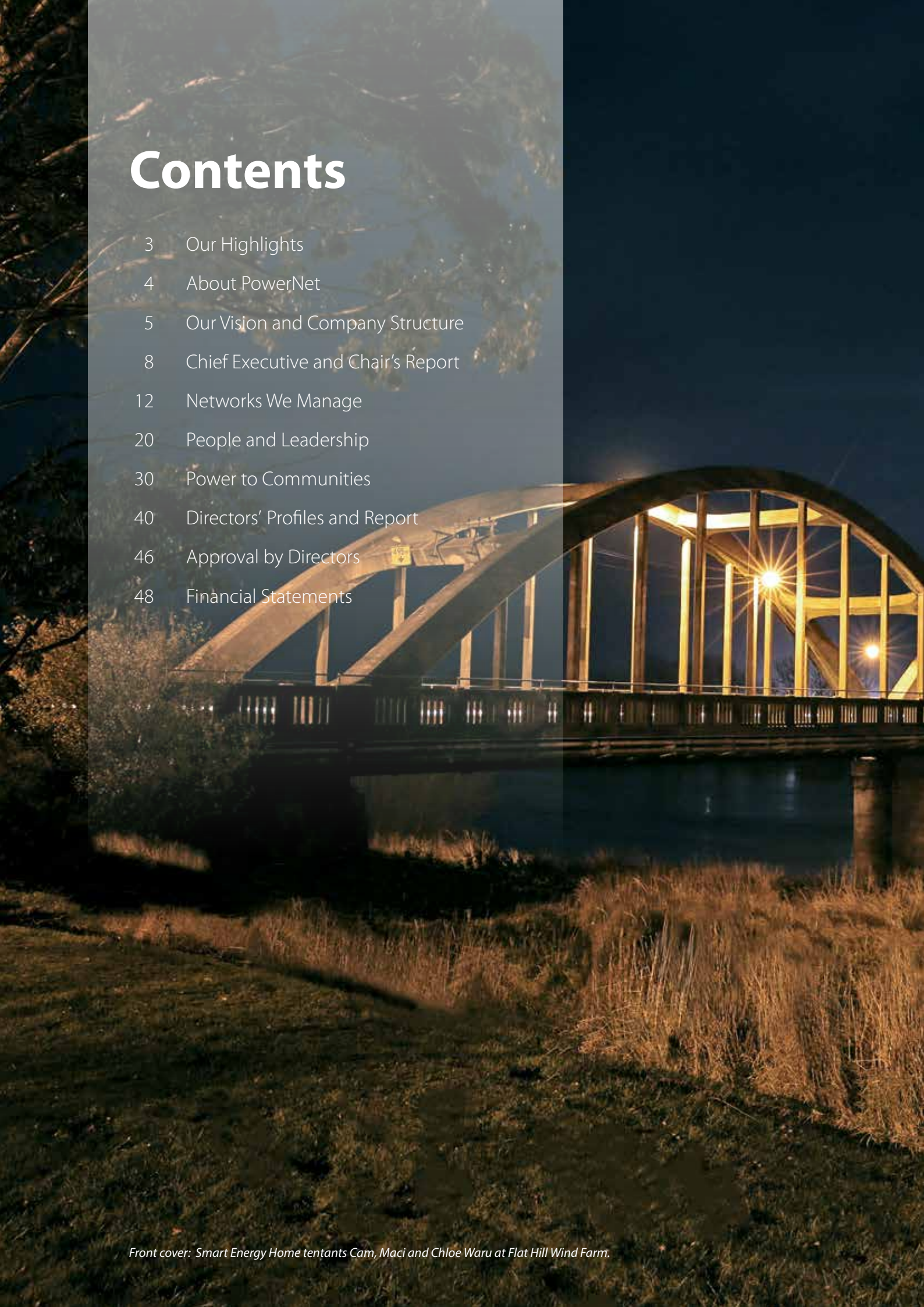
ANNUAL REPORT TWENTY 18



PowerNet

Contents



Front cover: Smart Energy Home tentants Cam, Maci and Chloe Waru at Flat Hill Wind Farm.

In **2017-18**

Net Profit after tax
$3.4 million

Capital Expenditure
$50.9 million

$23.0 million
Maintenance Expenditure

264
No. of Employees

Turnover
$201.1 million

On behalf of our stakeholders **We Manage**

$587 million
in Electricity Distribution Assets (Regulatory Value)

Lines and cables
14,095 kms

Transformers
15,917

Zone Substations
73

Customers
69,900

Investments in wind and hydro-electricity

$73 million
Renewable Generation Assets

38MW
Total Generation Capacity

Our Highlights…

1

Optimising our operations

Customers and shareholders are benefiting from the integration of our asset management, financial and technical systems, as we've centralised control of our business activities, reducing downtime and improving workflows.

2

Strengthening health and safety

We're prioritising initiatives that support workplace health and safety, and create safer communities.

3

Delivering a safe, reliable electricity supply to our communities

Southland's first high-tech mobile substation gives us the capability to deliver continuous electricity during unplanned outages and planned shutdowns, anytime, anywhere.

4

Supporting Southland's business growth

In a $4.5 million project, we're extending The Power Company Ltd's network in Eastern Southland to secure and future-proof supply for the new Mataura Valley Milk dairy nutrition plant at McNab.

5

Gaining business efficiencies

Through our Lean Management 5S initiative, we're standardising company work practices and equipment to build greater consistency and efficiency across our operations, as part of our 'One Way of Working' philosophy.

6

Delivering for our customers and shareholders

We've met the challenge to modify our work practices, enabling us to consistently deliver on regulatory quality limits for electricity interruptions and their frequency, despite the shift to working on safer, de-energised assets.

7

Building a better workplace

We've established one modern, unified collective employment agreement for unionised staff that supports stronger, more collaborative workplace relations.

8

Enhancing service delivery

We've introduced cloud-based process management software that reliably documents company processes and knowledge, refining service delivery for staff and stakeholders.

9

Realising new opportunities

We've extended our shareholding in Peak Power Services Ltd to over 90% and are steadily expanding our activities in the high-growth Queenstown Lakes and Central Otago areas.

About **PowerNet**

Who We Are

At PowerNet Limited (PowerNet) we're passionate about delivering safe, efficient and reliable power to our communities and about adding value for our stakeholders. We're New Zealand's fourth largest electricity management company. We manage most of the electricity assets in southern New Zealand. It's a responsibility we're proud to have.

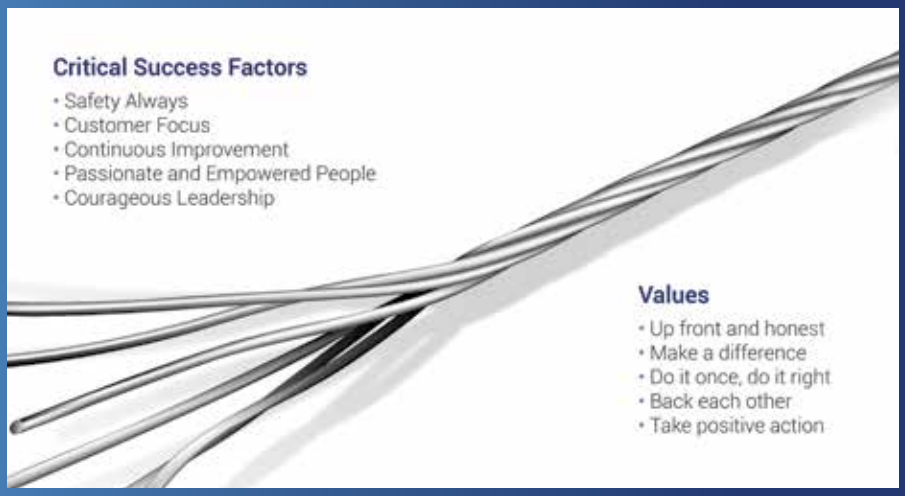
What We Do

We build, maintain and manage assets across Southland, West Otago, Queenstown Lakes, Central Otago and Stewart Island on behalf of electricity network owners—The Power Company Limited (TPCL), Electricity Invercargill Limited (EIL), OtagoNet Joint Venture (OJV) and the Southland District Council owned Stewart Island Electrical Supply Authority (SIESA). We proactively identify opportunities to enhance investment outcomes for shareholders, and monitor and manage these investments. We're jointly owned (50-50) by TPCL and EIL.

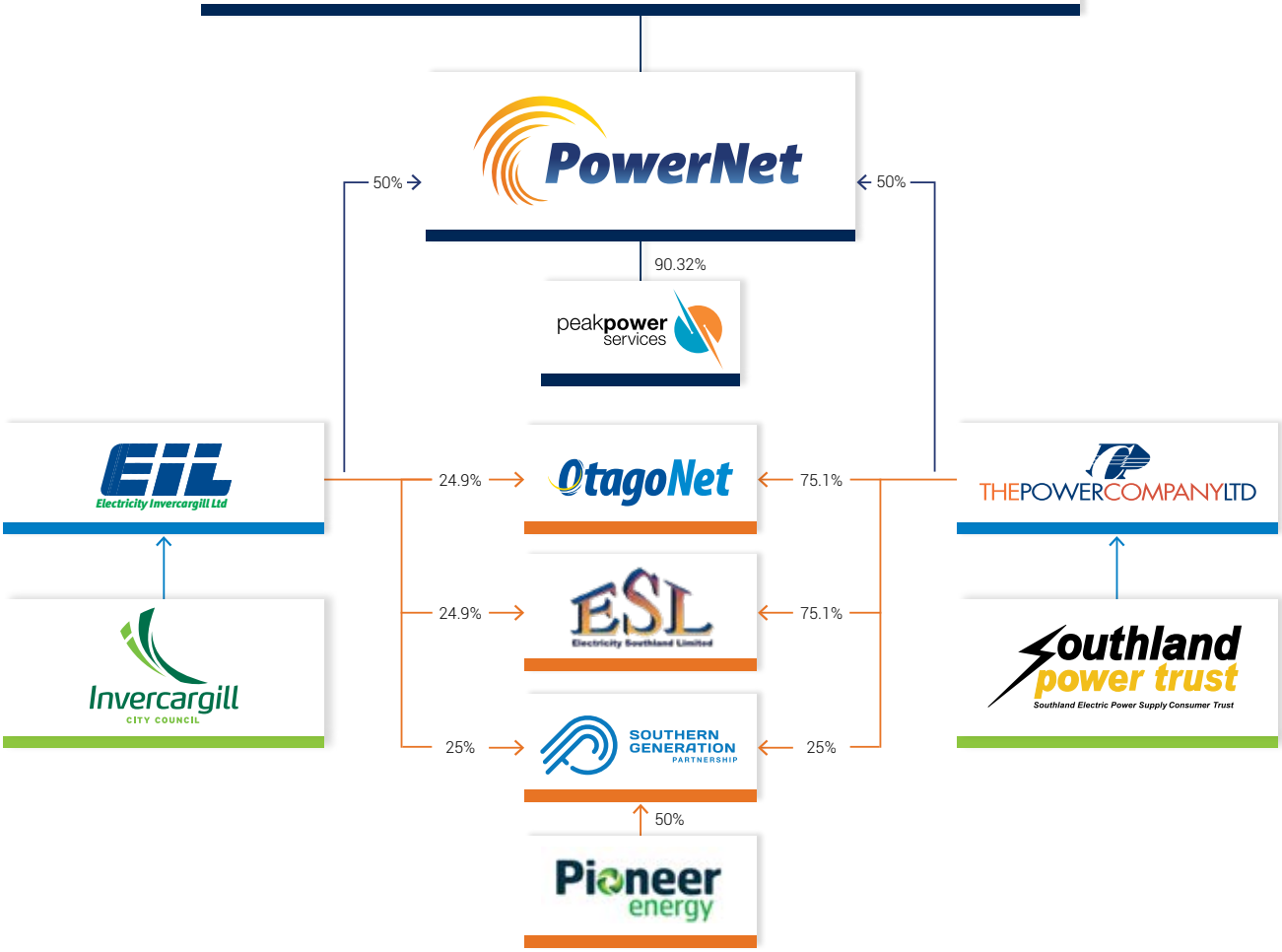
Our **Vision**

Safe | Efficient | Reliable

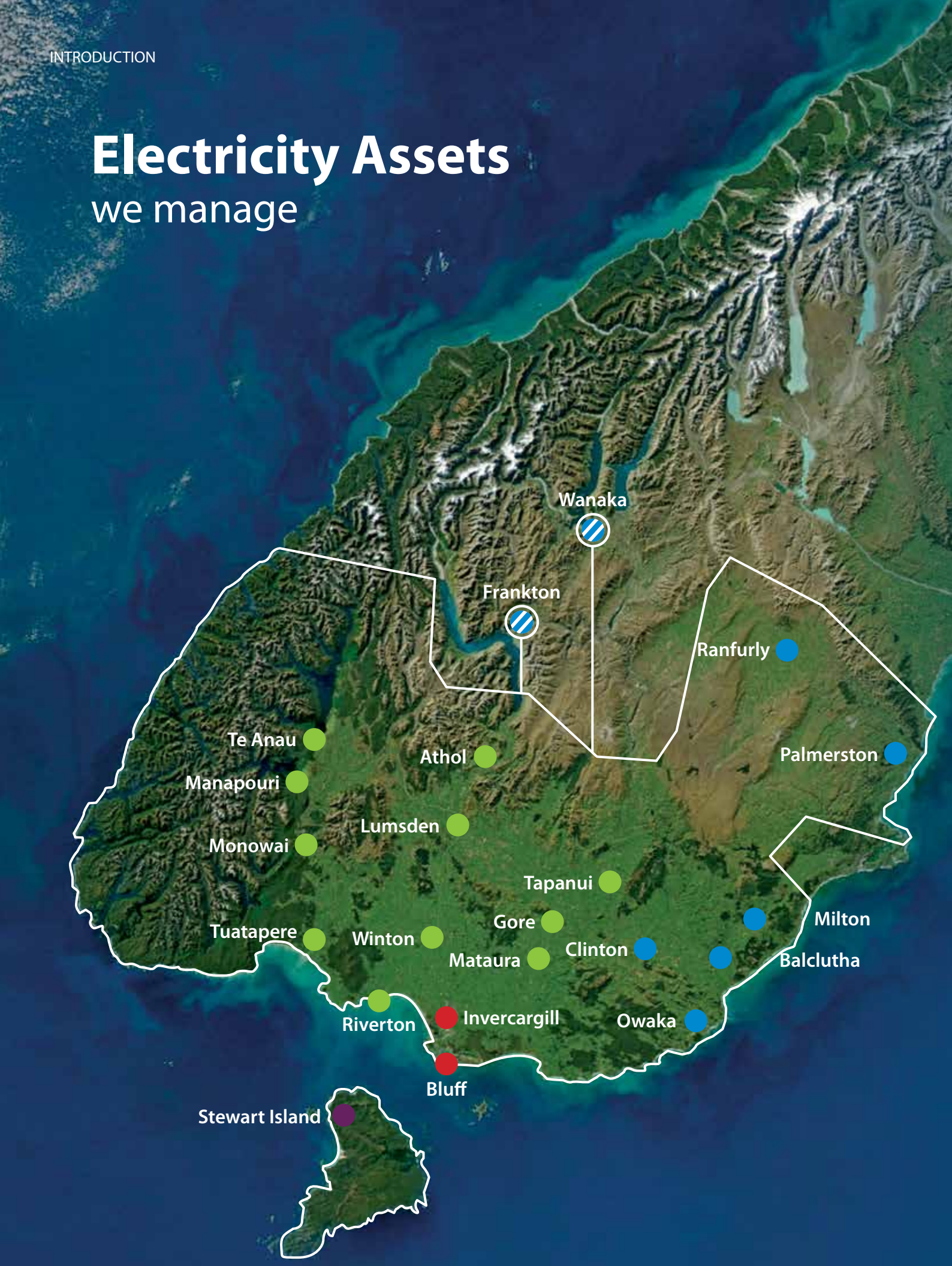
Power to Communities



Company Structure



Electricity Assets
we manage



We manage electricity assets for The Power Company Ltd, Electricity Invercargill Ltd and OtagoNet Joint Venture.

The Power Company Ltd (TPCL)

TPCL has a proud history of innovation in the south and owns electricity network assets across the Southland area (excluding Invercargill City and Bluff). TPCL is the largest electricity network PowerNet manages. Consumers connected to the TPCL network are its owners and the Southland Electric Power Supply (SEPS) Consumer Trust exercises ownership rights on their behalf. TPCL is one of New Zealand's best performing predominantly rural networks.

Electricity Invercargill Ltd (EIL)

EIL owns electricity network assets in Invercargill City and in the Bluff area. It is wholly owned by the Invercargill City Council through its subsidiary, Invercargill City Holdings Ltd (ICHL). The EIL network is ranked by the Commerce Commission as one of the most reliable and efficient networks in New Zealand.

OtagoNet Joint Venture (OJV)

OJV is the major electricity network services provider for most of Otago. The company is wholly owned by TPCL and EIL. The regulated OJV network also includes the Electricity Southland Ltd network in the Frankton and Wanaka areas.

Electricity Network Areas

- The Power Company Ltd
- Electricity Invercargill Ltd
- Stewart Island Electricity Supply Authority
- OtagoNet Joint Venture
- Electricity Southland Ltd

Chief Executive and Chair's Report

Jason Franklin
Chief Executive

Ross Smith
PowerNet Chair

Our activities and growth in 2017-18 have been guided by our shared vision—to deliver safe, efficient and reliable power to our communities.

This year has been one of solid development, productivity and continuous improvement for PowerNet. Our priorities to strengthen health and safety, enhance our business processes, and explore future growth opportunities, are underpinned by our goal to deliver the best possible service to our customers while adding value for our shareholders.

We have made real progress on many fronts this year, something our people can be truly proud of. Internally, we have invested further in skill development so our employees are well-equipped for their roles and to deliver on our shared vision. We've also refined and streamlined many of our business processes so that we're in the best shape to deliver efficiencies.

Externally, we've continued to seek opportunities for growth—investing in assets that will give us greater resilience to manage future changes in our operating environment. This includes exploring emerging technologies.

Strengthening Health and Safety

Our commitment to excellence in health and safety, both in the workplace and in our communities, remains critical and central to our success. This year we have continued to build on our investment in health and safety at all levels.

The expansion of the health, safety, environment and quality team in 2016-17 is reaping rewards. Our workplace safety goal is `zero harm' and this year we're seeing results, with dramatic improvements in our safety statistics. Initiatives, including Pause for Safety, (a new external field audit process), the introduction of improved safety equipment such as protective boots and gloves, and the actions of our health and safety committees, are all contributing to a safer workplace.

In the community, our highly successful sponsorship of St John—now into its fourth year—has been extended beyond Southland to include the OtagoNet area. Indications are that this sponsorship is strengthening our communities, as we partner with St John to achieve our goal of a first-aid trained responder in every southern home. The partnership supports the St John in Schools programme and includes donations of automated external defibrillators (AEDs) to key southern locations. Through this work we are making our communities safer and more resilient.

Health and safety in the community also encompasses our responsibility to keep people safe while we're working in a public space. We have made changes that mean best practice is now the norm, and we have a much improved traffic management process when working close to public roads. We've also formed a safety communication group which is developing initiatives to promote safety in our community, including using branded safety messages on our vehicles.

Enhancing Our Business

Our highly skilled and committed staff are critical to our continuing success. This year we've continued to support our people through the Shared Vision orientation and Leading with Courage programmes and through training opportunities.

We've also worked with the E tū union to forge a unified, modern employment agreement. This new agreement replaces two separate agreements that featured antiquated terms and conditions. The agreement is intended to reflect the culture of our workplace today and is built on a relationship of trust between employer and employee.

Our business processes are now more integrated, more efficient and more reliable than ever. This year we've implemented an integrated solution that provides for a seamless and automated process for day-to-day purchasing, linking our asset management, financial accounting and material ordering systems. The project is part of our drive for continuous improvement in work and information flow.

The introduction of cloud-based process mapping software standardises in-house business processes across all depots and networks, including system control. Over time, this information tool will provide greater visibility of our business progress, increasing consistency and efficiency.

We're also making practical changes that bring greater efficiencies in daily work routines. Using the Lean Management 5S principles (sort, set in order, shine, standardise and sustain), we've been working with staff to standardise how we organise our faults trucks to optimise stock and equipment levels. This increases fleet safety and our staff benefit from a consistent, well-organised layout that's familiar, straightforward to use and aligned to our `One Way of Working' philosophy.

As we've modified our work practices and made the transition to working on safer, de-energised lines, we've been able to consistently deliver on regulatory quality limits for supply interruptions and their frequency (SAIDI and SAIFI). This represents a significant change from traditional live-line working. We're pleased to have been able to implement safer work practices without exceeding supply delivery standards for our customers.

Roger Scott and Steven Wallace at Lumsden zone substation.

Positioning PowerNet for Growth

We operate in an industry that is constantly evolving. This year we have focused on positioning ourselves for the future. We have done this by using and exploring emerging technologies to ensure greater efficiency in the distribution of electricity to customers, by creating a more sustainable business, and by growing our presence in the south.

We've turned our attention to emerging technologies to prepare and future-proof the networks we manage. Extensive research and development has been undertaken on electric vehicles, solar generation and battery storage. From this, projects such as our Smart Energy Home and Southland businesses EV initiative have been borne. So too, has a relationship with ChargeNet. We will be working with ChargeNet to facilitate the installation of more network EV fast chargers across the south.

The construction of Mataura Valley Milk's dairy nutrition plant at McNab, near Gore, represents a significant investment for Southland. To secure and future-proof the plant's electricity supply, we're undertaking a $4.5 million project to extend TPCL's network in Eastern Southland. This is vital infrastructure that supports the growth of Southland's economy.

As a company, we're also realising new opportunities. PowerNet has increased its foothold in the rapidly developing Queenstown Lakes area. This year we extended our shareholding in Peak Power Services Ltd to over 90%. The two companies' interests are closely aligned and there are good opportunities for us to maximise the synergies that exist for the benefit of customers and shareholders.

Team Fuse, Back row L-R: Lyndon Whale, Matthew Brown, Gary Lewis (Generator Rental Services), Samantha Maurangi. Front row: Hector Diamond (team leader).

In 2017-18 we've reaped the benefits of using TPCL's mobile substation, commissioned in March 2017. It gives us great flexibility to support both unplanned outages and planned shutdowns. Over the year the substation has been deployed to provide continuity of supply for customers who would have been impacted by the line upgrade and new zone substations at Centre Bush and Dipton, as part of the Oreti Valley upgrade project.

Staff and community achievements

We can be proud of many successes this year, as a company, as teams and as individuals. For the second year running, we were finalists in the national Deloitte Energy Excellence Awards. Our two line mechanic crews, team Fuse and team Switch exemplified teamwork to bring home five first placings from the Connexis Annual Line Mechanic Competition (pictured).

This year long-term director, Alan Harper, stepped down from the PowerNet board and as TPCL chair. Alan has given extraordinary service, and we thank him for his enormously valuable contribution. We welcome Wayne Mackey as a new PowerNet director.

Team Switch, Back row L-R: Daniel Marshall, Brad Osmet (HTC), Cole Birse. Front row: Paul Ashby and Shane Lawson (team leader).

We also farewelled GM human resources, Trish Hazlett. In her five years with PowerNet, Trish had many achievements: shaping the business, overseeing amalgamations, integrating HR and business practices, and implementing our culture and leadership programmes. We wish her well in her retirement. We welcome new GM human resources, Marcus Waters, to our executive team. Marcus is a highly experienced HR professional and business leader who brings excellent skills to the position.

In conclusion, PowerNet has achieved much in the 2017-18 year, as we've steadily progressed our business goals. Our thanks to PowerNet's staff for their commitment and valuable contributions.

Jason Franklin
Chief Executive

Ross Smith
PowerNet Chair

Networks
we manage

PowerNet's core business is to provide a safe, efficient and reliable electricity supply to Southern communities. This year PowerNet has again achieved this goal—maintaining and future-proofing the networks we manage, delivering on our critical success factors, and developing long-term value for our shareholders—TPCL and EIL.

Network Management

PowerNet manages the EIL, TPCL, OJV and ESL networks on behalf of their owners and has long-term management contracts in place for these networks. It also has a service contract agreement with the Southland District Council-owned Stewart Island Electrical Supply Authority (SIESA). The four major networks—EIL, TPCL, OJV and ESL—have a combined Regulatory Value in electricity distribution assets of $587 million. Each month, PowerNet reports to the boards of these networks and undertakes all regulatory management, and reporting to the Commerce Commission and Electricity Authority on their behalf.

PowerNet Relationship

The networks contract PowerNet to manage, construct and maintain their network and metering assets. PowerNet's costs are recovered through a charging regime on capital and maintenance work and an agency fee for management services.

PowerNet acts as agent for the networks, charging line and metering revenue to electricity retailers, paying transmission costs and passing the gross revenue and expenses through to the networks. The revenue provides a return on investment to the networks and recovers their overheads, depreciation and operating costs.

Nathan Donnelly and MVM project engineer Brent Robinson.

Mataura Valley Milk plant.

35,799
CONNECTED CONSUMERS

8,826km
Network LENGTH

CONSUMER DENSITY **4.1 consumers/km**

11,120
distribution transformers

THEPOWERCOMPANYLTD

In 2017-18, significant investment continued in new and existing assets on the TPCL network. Many projects were completed to maintain and improve service levels and created additional network capacity. Capital expenditure totalled $28.4 million with a further $10.3 million spent on maintenance. The most significant projects on the TPCL network this year have been extending the network to supply the new Mataura Valley Milk (MVM) dairy nutrition plant at McNab, and the continuing work on the Oreti Valley Project.

Mataura Valley Milk

This significant project is focused on extending the TPCL network to supply the MVM dairy nutrition plant at McNab. Stage one of the project totalling $4.5 million involves installing two new 33kV cables underground from South Gore zone substation to the plant site. Although these cables will initially operate at 11kV, 33kV cables are being installed to accommodate any requirement for future growth. A new substation at McNab will also be installed to cater for increased supply needs. An 11kV cable will also be installed around the MVM plant. The plant will have an initial electrical capacity of 4MVA supplied from the South Gore zone substation.

"The PowerNet team is proud to be part of this project, which is bringing significant benefits to Southland in both economic growth and employment opportunities."

PowerNet MVM project manager, Nathan Donnelly

The mobile substation at the Centre Bush zone substation.

The Oreti Valley Project

This project focuses on extending the 66kV network from Winton to Centre Bush, Dipton, Lumsden and Mossburn zone substations by 2020. Stage four of the project progressed in 2017-18, with the commissioning of the Dipton zone substation in December 2017. This followed the upgrade of the Centre Bush zone substation in 2016-17.

The first section of the Centre Bush to Mossburn 66kV line upgrade is complete (at a cost of $4.7 million) and work is underway to upgrade the line from Dipton to Lumsden. Major civil works for the new Lumsden zone substation are finished with the remainder of the work scheduled for completion around October 2018.

Mobile Substation

TPCL's investment in a $2.5 million mobile substation in 2016-17 has delivered continuity of supply to customers during planned works on the Oreti Valley Project. The mobile substation is available for use on most sites across PowerNet-managed networks. Work has been undertaken to ensure that all single transformer sites have the suitable area and infrastructure to allow the substation to be deployed promptly when required.

Customer Connections and Asset Replacements

New customer connections on the TPCL network totalled $2.6 million. This was a slight increase from the 2016-17 year.

In total, $4.8 million was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a reliable and safe network.

The Power Company Ltd Projects

Project	Approximate Expenditure
Line and pole replacements	$4,831,000
Centre Bush to Mossburn 66kV line	$4,676,000
Mataura Valley Milk connection - stage 1	$4,532,000
New customer connections	$2,580,000
Lumsden zone substation upgrade to 66kV - stage 1	$2,431,000
Dipton zone substation upgrade to 66kV completion	$1,649,000

Evacuation work at the site of Invercargill's substation 511 (Troopers Memorial).

Electricity Invercargill Ltd

Activity on the EIL network continues to focus on projects that aim to ensure network reliability and safety. The total capital investment in 2017-18 was $5.8 million and a further $1.4 million was spent on maintenance.

Underground Substations

A total of $2.8 million is being invested in a three-year project to replace Invercargill's 13 underground substations because of staff safety concerns. The project is now in its second year and due for completion in 2018-19. These substations house 11kV switchgear, distribution transformers and low voltage distribution boards. This year, four sites were moved above ground at Sub 511 (Dee/Tay Street intersection), Sub 512 (corner of Dee and Don Streets), Sub 518 (Deveron north of Yarrow Street), and Sub 517 (Kelvin north of Spey Street). Up to four further substations are due for replacement in the coming financial year.

Link Boxes

The project to relocate 400V underground link boxes above ground across Invercargill's central business district continues. Twenty link boxes were replaced in 2017-18, with a further 16 scheduled to be replaced in 2018-19. When the project is completed, 130 link boxes will be located above ground, in what will be a safer working environment for maintenance crews.

Customer Connections and Asset Replacements

New customer connections to the EIL network totalled $237,000 and remained at a moderate level.

Work continues to replace distribution transformers and ring main units that are reaching the end of their life. This regular replacement work is vital to maintain reliability of supply and safety on the EIL network.

Seismic strengthening work has begun at the Southern zone substation as part of the first stage of a three-year substation upgrade. All EIL sites have now been seismically strengthened to as much as possible to ensure continuing supply after a major earthquake.

17,422
CONNECTED CONSUMERS

656 km
Network LENGTH

CONSUMER DENSITY **26.6**
consumers/km

442
distribution transformers

Electricity Invercargill Ltd Projects

Project	Approximate Expenditure
Underground substation replacements	$2,834,000
400V link box replacements	$688,000
Southern zone substation building seismic strengthening	$407,000
Distribution transformer replacements	$362,000
Power transformer refurbishments	$341,000
New customer connections	$237,000
Ring main unit replacements	$222,000

Michelle Henderson at Elderlee Street substation.

OtagoNet

In 2017-18, $14.3 million was invested in capital on the OJV network (including ESL network) and another $4.8 million on maintenance.

Customer Connections and Asset Replacements

New customer connections on the OJV network continue to increase, largely due to growth in the Queenstown Lakes area. In 2017-18, $5.0 million was invested in new customer connections across the network.

A total of $6.7 million was also invested in maintaining and upgrading line and pole replacements to ensure reliability and safety.

Neutral Earthing Resistors

Improving public safety on the OJV network is at the core of a project to install neutral earthing resistors (NERs). NERs significantly reduce the risk of harm when an earth fault occurs. These are being installed at all zone substations.

OtagoNet Projects

Project	Approximate Expenditure
Line and pole replacements	$6,720,000
New customer connections	$4,977,000
Neutral earth resistor installations	$621,000
Remote control of field circuit breakers	$368,000
Chrystalls Beach line rebuild	$299,000

14,975
CONNECTED CONSUMERS

4,511 km
Network LENGTH

CONSUMER *DENSITY* 3.3
consumers/km

4,257
distribution transformers

The 300kVA transformer installed at Remarkables Park.

Electricity Southland Limited

Formed in 1995, the ESL network in Central Otago is owned by EIL and TPCL.

The network supplies subdivisions that include Shotover Country, Lakes Edge, Remarkables Park, Shotover Park, Bridesdale Farm, Hanley's Farm and Northlake in Wanaka. In September 2017, the ESL network reached a milestone of 1000 installation connection points.

With strong population and commercial growth in the Queenstown Lakes region, the ESL network continues to expand rapidly. This is largely due to new residential subdivisions and commercial developments, with assets now totalling $19.3 million.

1,257
CONNECTED CONSUMERS

Network LENGTH
77 km

CONSUMER DENSITY
16.3
consumers/km

55
distribution transformers

Johnny Rabbitt, Chris Dillon and Steve Lawrence.

STEWARTISLAND electrical supply authority

The Stewart Island Electrical Supply Authority (SIESA) network is managed by the Southland District Council (SDC) and it provides businesses and homes on Stewart Island with a reliable power supply.

PowerNet has a service contract agreement with SDC, providing general maintenance services and engineering support across the SIESA network through our field services teams. The work includes servicing generators, lines and cables as well as fault management.

450
CONNECTED CONSUMERS

Network LENGTH
25 km

CONSUMER DENSITY
18
consumers/km

43
distribution transformers

Electricity Sector and Government

This year the work of the Electricity Networks Association continued through a number of working groups. These groups included the Vegetation Management Working Group attended by PowerNet's arborist manager, the Distribution Pricing Working Group attended by our commercial manager and the Regulatory Working Group attended by our chief financial officer. The groups actively take roles in providing industry direction in areas including two regulators, the Commerce Commission and the Electricity Authority. Issues include tree regulations, tariff consolidation, input methodologies, transmission pricing issues and low fixed charge regulations. It is with the low fixed charge regulations that PowerNet and the energy sector have serious concerns. The politically-driven legislated tariff option is providing significant cross-subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower-cost generation options. The regulated tariff is subsidising inefficient investment which is not in the long-term interest to New Zealand consumers.

People and Leadership

People are our greatest asset. PowerNet has 264 staff working hard every day and night to ensure the people of Southland and Otago have a safe, efficient and reliable electricity supply for their homes and businesses.

Our People

Our goal is always to recruit the best people, whether it's experienced veterans or new apprentices starting their careers. Developing a diverse workforce is also important to us. Women make up approximately 20% of our workforce and, in 2017-18, we recruited another female apprentice. We have a strong focus on increasing the number of women in our traditionally male-dominated industry.

Our main offices are in Invercargill, Balclutha, Frankton and Gore, with smaller depots in Ranfurly, Palmerston, Frankton, Te Anau, Lumsden and Stewart Island. During 2017-18 we closed the Winton depot and relocated staff to Invercargill. This move creates efficiencies for our daytime and fault rostering, and helps us to achieve consistent operating standards.

Achieving our Business Goals

PowerNet continues to work with our people to align their behaviours and work outputs with the company's vision of providing safe, efficient, reliable power to our communities. The Human Resources (HR) team refreshed its business strategy in 2017-18 so that it continues to positively influence and impact on our organisational culture.

Our Shared Vision Orientation and Leading with Courage programmes are important initiatives that influence our culture and enable us to achieve our goals. The orientation programme is delivered to new employees who learn about PowerNet's Shared Vision and spend time with our senior leadership team. Similarly, a number of aspiring leaders have gone on to fill leadership and supervisory roles after completing our Leading with Courage programme.

"The opportunity to learn more about PowerNet and get to know our senior leaders on a personal level is one of the highlights for participants of our Shared Vision Orientation and Leading with Courage programmes."

Programme facilitator and HR people capability and development advisor, Faye McLeod

Standing L-R: Marcus Waters, Karron Pink, Lourens Van Heerden, Shrutika Chavan, Rachel Saunders, Jin Lo
Sitting L-R: Tracy South, Suzanne Hotton.

As part of the drive to create one team with one way of working, E tū and PowerNet successfully negotiated a single collective employment agreement in December 2017. This replaces the existing two collective employment agreements and means employment terms and conditions are consistent across the organisation. The goodwill created through the negotiations sets the platform for positive industrial relations over the next few years.

During the year, a performance incentive programme was introduced. This programme creates a financial incentive for staff to achieve safety, efficiency and reliability targets. These targets are challenging but achievable. The programme helps to focus work activities on goals that are important to PowerNet's vision and values.

Other staff achievements have been celebrated throughout the year during team briefs. These are events hosted at depots by senior leaders to keep staff informed of the company goals and activities. A popular section in the team briefs is the `shout out' awards which recognise extra effort, new ideas and initiatives, or great examples of safe working practice.

Human resources general manager, Trish Hazlett, retired at the end of 2017. Marcus Waters has taken up the role. Marcus brings 20 years of human resources experience and worked in the contracting industry during the Christchurch earthquake rebuild.

People Development and Wellbeing

Over 2017-18, significant progress has been made in gathering the data required so that our field teams are equipped with the right skills, knowledge and training to carry out their roles safely and effectively.

This information is now programmed into PowerNet's Human Resources Information System, with the capacity to provide competency assurance, gap analysis and refresher requirements for field teams. It means we have `the right person with the right skills, in the right place, doing the right job'. The framework will further support personal development plans, workforce planning and profiling. Additional resource has been added to the HR team to enhance this important work and to create and source other training options as we add more roles to our capability framework.

Early in 2018, it was proposed that a base core competency framework be developed nationally, with common competencies and requirements established throughout the electricity distribution businesses. PowerNet is part of a project group supported by Connexis and the Electricity Networks Association that is defining this framework and developing a common competency evidence system. We have been a key contributor to the group because of the work we have already completed in this area.

The Network Access Certificate (NAC), which replaced the former permit holders certificate, has been validated amongst our staff with certification and refresher training provided for our teams. NAC assessment and training of external contractors continues to be a priority.

During the year we employed an occupational health nurse, Karron Pink. Karron is an experienced emergency department nurse with a strong interest and passion for workplace health and wellbeing. The ability to conduct in-house health testing, education and monitoring means we can take greater interest in the health of our staff and provide advice and support to encourage healthy lifestyles.

Karron Pink and Joseph Reti.

Enhancing Business Processes

In 2017-18 we've continued to optimise our operations, eliminating non-value adding activities from our processes and integrating work and information flows. The overall goal is to improve future productivity and efficiency, and to add value for customers.

Purchasing Integration Project

We've integrated our asset management (Maximo) and financial (Finance 1) systems with Corys Advantage to improve the quality of work estimating, purchasing, receipting and reporting.

Work estimates are created in Maximo to produce purchase requisitions for external service providers that are approved via the delegated financial authority workflow process in Finance 1. Approved purchase order data is automatically transmitted to Corys to validate the orders and generate electronic invoices that PowerNet retrieve overnight.

A custom-built, line-by-line validation application processes the Corys invoice data and any validation errors are displayed on a dashboard in Finance 1.

Promapp

We've also continued implementing cloud-based software, Promapp. Promapp documents company processes and knowledge, standardising processes across depots, networks and system control. It is also a useful management tool.

To date, over 160 in-house business processes have been mapped with Promapp. More will be added over time and existing processes will be reviewed regularly and updated as required. Senior and office-based staff have been trained in how to access and use Promapp and more staff will be trained in the coming year.

Lean Management

Work practices and equipment are being standardised through our Lean Management 5S initiative, which is building greater consistency and efficiency across our operations.

5S encourages staff to take control of their workspace by eliminating clutter and keeping it orderly, safe and clean, based on the motto `a place for everything and everything in its place.' Although 5S initially focussed on depots, the programme is being extended to office spaces, vehicles and field-based workspaces.

The most recent Lean Management 5S initiative centred on standardising the way faults trucks are organised to optimise stock and equipment levels. Good organisation at this practical level improves fleet safety and means the fleet layout is consistent, well-organised and familiar for all staff.

Top: *Duncan Fea (director) and Wade Mason.*
Middle: *Promapp.*
Bottom: *Joe O'Connell (director) and Trevor Simmonds.*

PowerNet fault trucks before and after Lean management 5S.

Workplace Health and Safety Initiatives

Workplace health and safety is a business priority and a critical success factor for PowerNet—we're committed to a `safety always' culture and `continuous improvement' actions in health and safety. Last year we established a stand-alone health, safety environment and quality team, a structure that is the foundation for initiatives in safety leadership, training and competency.

Health and Safety Systems Implementation

The most significant piece of work over the 2017-18 year has been the implementation of a new health and safety environment risk management system. The new system displays all information about incidents, hazards, risks, actions and audits on one platform, presenting incident workflows with ready access to investigation details and resolution actions. All leaders are now using the system, which allows for easier management of incidents and actions to ensure they are resolved to prevent future harm. Work is also underway to include all contractor pre-qualification information on the platform.

Leaders Coaching in the Field

Prioritising workplace health and safety means fostering a commitment to safe behaviours amongst leaders and staff. This includes field and team leaders maximising opportunities to coach staff in good health and safety practice. As part of this approach, our chief operating officer, Michelle Henderson, spends time in the field encouraging awareness of positive health and safety practice. Michelle is also regularly coaching other leaders when on field visits.

L-R: Roger Scott and Roger Paterson with directors Don Nicolson and Ross Smith.

Pause for Safety

Pause for Safety initiatives continued to raise staff awareness about safety in 2017-18. This initiative—introduced to field and office teams in 2016—involves a simple yet effective exercise when a team leader asks their team to stop briefly to consider an aspect of workplace safety. A successful Pause for Safety exercise was held in 2017-18 focusing on drop zones. More are planned to draw attention to heightened workplace risk factors or safety successes.

Insulated Equipment Rollout

This year we equipped our staff with specially insulated boots and gloves that make working with electrical lines and equipment safer. The new equipment protects the user from livening situations which adds another safety layer when staff are working in potentially hazardous step and touch situations, such as induced voltage or accidental line re-energisation.

Managing Critical Risk

Managing critical risk is integral to PowerNet's operations. A critical risk implementation project is underway that will enable PowerNet to more effectively manage critical risk to keep staff and members of the public safe. Activities or equipment that have the potential to kill or seriously injure are a key focus.

Working with critical risk experts, Oreti Group, we are reviewing critical controls that keep people safe. The information gathered will assist us in implementing the critical risk project over the next few years. Our review includes looking at failure modes and current controls, as well as monitoring and verifying controls that are working. Over the next year, we will identify controls that can be improved to reduce residual risk. Subject-matter experts from our operational and health and safety teams work on this project and a full-time implementation manager is being employed.

Safety Representatives

In line with our critical success factor `safety always' we continue to strengthen our health and safety leadership and expertise.

In 2017-18, 11 PowerNet staff were trained as health and safety representatives in topics that included the Health and Safety at Work Act 2015 and risk management. As good safety leaders, these representatives are a critical lynchpin in the effective management of health and safety. Under health and safety legislation, their role is important in upholding high safety standards and in articulating their peers' safety concerns at committee level. More health and safety representative training is scheduled in the upcoming year.

Front row: *Former Minister of Workplace Relations and Safety, Hon. Michael Woodhouse, Invercargill MP, Sarah Dowie, Jason Franklin, Justin Peterson, Jim Matheson.* ***Middle row:*** *Ione Pau and Sheamus McGuigan, Phil Johnson.* ***Back row:*** *Samantha Maurangi and Paul Ashby.*

Live-line Methods

Requirements of the Health and Safety at Work Act 2015 meant that live-line working methods were reviewed in 2017-18. Changes mean that work needs to be completed on lines that are de-energised, isolated and if necessary earthed in the first instance, unless there is a justification for live work methods.

Work practices have been modified to meet this new health and safety requirement. We've also been able to meet the challenge of achieving regulatory quality limits for electricity disruptions and their frequency, despite the shift to working on safer, de-energised lines.

Communications

Clear communications with the right messages are vital. Over the 2017-18 year, PowerNet created simple, effective communications tools to support the dissemination of internal safety messages. These include revamped incident investigation closeout fliers—safety learnings that are circulated to staff if an incident occurs, and safety messages to external audiences through mediums such as advertising and social media.

Collective Networks Operations Group (CNOG)

Comprising representatives from South Island electricity lines companies, CNOG's aim is to standardise operating processes in key areas to improve safety, operational efficiency, reduce errors and to support high-quality customer service. CNOG meets quarterly to share information and work collaboratively.

CNOG, working through the Electricity Networks Association, has recently reached a common understanding with retailers on terminology relating to customer connections. Another project nearing completion is the implementation of a single point of contact for transport operators moving high loads throughout the South Island. The aim is to standardise the way individual networks manage high loads and ensure that operators receive consistent and useful information about their responsibilities. This single point of contact approach may be extended to manage authorisations to operate machinery near network lines and cables.

Another project on the group's work programme is the establishment of common processes for assessing understanding of safety rules and assessing competencies for network access authorisation.

In our Industry

Many of our staff contribute to the electricity industry through their involvement in industry-related bodies.

Chief executive, Jason Franklin, is a director of both SmartCo Ltd, the Electricity Engineers Association and the Electricity Networks Association.

Chief engineer, Roger Paterson is on the New Zealand National Committee of CIGRÉ (the International Council on Large Electric Systems).

A number of our staff are on Electricity Networks Association (ENA) working groups.

Chief financial officer, Greg Buzzard is a member of the ENA regulatory working group.

GM health, safety, environment and quality, Justin Peterson, and customer and metering services manager, Alaister Marshall, are on the ENA customer service lines working group.

Commercial manager, Aaron Sinclair, is on the ENA distribution pricing working group.

Arborist manager, Mark Way, is chair of the utility arborist committee of the NZ Arborist Association, and a committee member of the permanent external advisory committee.

IT manager, Waric Cross, is a member of the New Zealand Control Systems Security Information Exchange (CSSIE).

L-R: Craig O'Callaghan, Sean Christensen, Slade Evans, Nic Boyle, Jack Senior, Tristan Swain, Murray Hamilton.

Michelle Henderson pictured with Alexandra Meldrum, chair of the education and innovation committee, Engineers Australia, at the 6th Annual Women in Engineering Leadership Summit 2017 in Brisbane.

Staff Successes

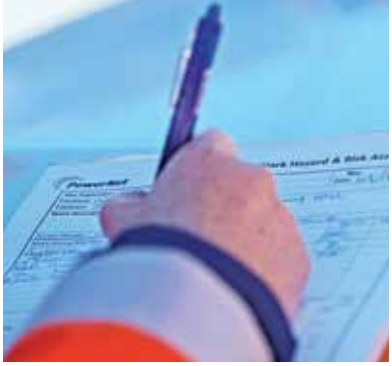
PowerNet staff are regularly acknowledged in the community for their commitment to the industry.

PowerNet entered two teams in the 2017 Connexis annual line mechanic competition held in Hamilton in September. The teams achieved five first-placings across the competition.

Sixteen of our staff gained their TradeQual Southland qualification this year.

PowerNet's chief operating officer, Michelle Henderson, joined other power system industry key players as a guest speaker at the NZ CIGRÉ 2017 event in Auckland in September. CIGRÉ (International Council on Large Electric Systems) is the leading worldwide organisation on electric power systems. Michelle was also a guest speaker at the Women in Engineering Leadership Summit 2017 in Brisbane in May.

PowerNet was also named a finalist in the Deloitte Energy Excellence Awards for the second year running, with its entry that outlined the challenges of relocating the Spey Street zone substation in Invercargill City's inner-city residential zone.

Shared Vision


Our People




Our Greatest Asset

Staff Success






Safe Efficient Reliable



Our Executives

Jason Franklin
Chief Executive

Roger Paterson
Chief Engineer

Justin Peterson
GM Health, Safety,
Environment and Quality

Marcus Waters
GM Human Resources

Michelle Henderson
Chief Operating Officer

Greg Buzzard
Chief Financial Officer

Tim Brown
Chief Information Officer

Rachael Watt
Business Improvement Manager

Power to **Communities**

PowerNet's highest priority continues to be the safety of our communities and of the staff and contractors who work on the networks we manage.

Public Safety

The company continues to develop robust procedures designed to protect the public and anyone working on our networks from potential risks or property damage that could occur from equipment and operations. Assets are regularly inspected to ensure they comply with safety and regulatory requirements and to gather data about their condition.

In a best practice initiative, a traffic management process has been introduced this year. Staff have upskilled in traffic management with the goal of keeping themselves and the public safe while working near or on roads.

PowerNet has an ongoing investment in vegetation management across the networks. This aims to keep trees and other vegetation clear from power lines and equipment. Trees that touch power lines can cause power outages and represent a significant public safety risk.

Our online cable location service, Before U Dig, reduces the risk of contractors, farmers and the public encountering buried cables and potentially harming themselves or causing property damage. Staff use specialised equipment to locate buried cables and cable routes are marked so that all parties are aware of danger areas.

PowerNet has a Safety Management System (SMS) which complies with the requirements of NZS 7901:2008 Electricity and Gas Industries – Safety Management System for Public Safety. The SMS is audited annually to retain a current audit certificate. Telarc undertook its fourth annual compliance audit of our SMS in April 2016 and the audit report indicated that the SMS was functioning well.

We continue to be proactive in promoting safety messages to the community. This year we ran key advertising campaigns to highlight issues that relate to staying safe around electricity. This included print advertising highlighting the need to control vegetation around electrical infrastructure.

Our Facebook page is a key tool for disseminating safety messages to Southern communities. We've also formed a safety communication group with a focus on promoting safety in our community, including using branded public safety messages on our vehicles.

PowerNet's arborists trimming trees on the OtagoNet network.

PowerNet's float in the 2017 Christmas parade.

Customer Satisfaction

This year PowerNet surveyed 1200 customers across the EIL, TPCL and OJV networks to assess areas of our business that include safety, efficiency and outage management.

Conducted by an external consultant, these confidential annual surveys ask customers about service satisfaction levels, including their views on the faults response service and on the frequency and duration of supply interruptions.

In 2017-18, knowledge of who PowerNet is increased by 13% amongst customers surveyed, to 84%. There was a 5% decrease in overall familiarity with PowerNet's faults response number when compared with 2016-17. In total, 78% of customers surveyed were satisfied with the information they received from PowerNet system control and thought they received enough information when an outage occurred. This is a decrease of 4% when compared with 2016-17.

Twenty-two commercial customers were also surveyed to review their level of engagement with PowerNet. The results from these interviews continue to be favourable, with the overall performance rating staying the same at 8.6 out of 10 in line with the 2016-17 result.

Commercial customers were positive about the continuity and reliability of supply across the networks, with this being the highest-ranking expectation at 80%, and about our rapid response to unplanned outages.

Commercial customers also identified areas where PowerNet could assist them further. These included ongoing communication to keep them up-to-date with latest plans and more flexibility in relation to contracts.

Asset Management Plans

Asset management plans—which outline planned capital and maintenance expenditure on the EIL, TPCL and OJV networks—have been updated for the 2018-2028 period.

The plans outline how network assets will be managed to meet stakeholder requirements and provide a safe, efficient and reliable electricity supply to communities.

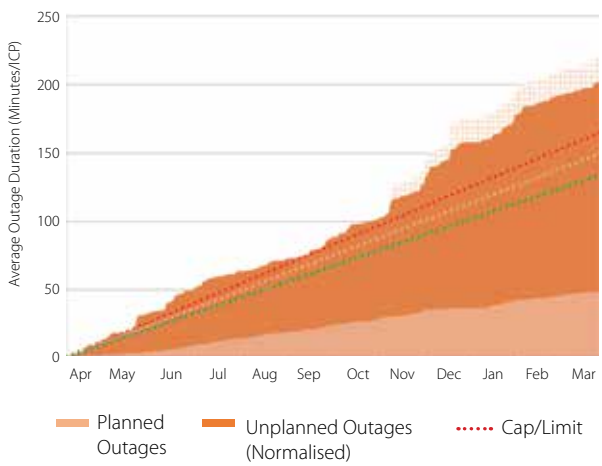
Considerations include drivers such as cost, equipment and life cycle, as well as regulatory requirements, demographic changes, environmental impact and required service levels. The plans can be viewed at PowerNet's website: **www.powernet.co.nz**.

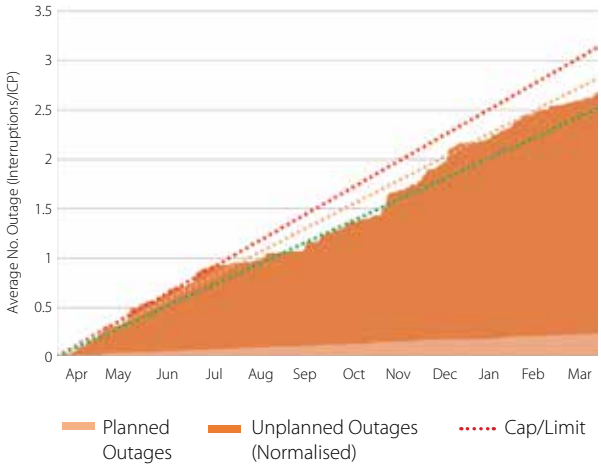
SAIDI and SAIFI

There are two reliability indexes that are commonly used by electricity management companies. They are SAIDI (the system average interruption duration index) and SAIFI (system average interruption frequency index).

SAIDI is a measure of the average outage duration for each customer served and is measured in minutes or hours over the course of a year. SAIFI is a measure of the average number of interruptions that a customer would experience over a year, measured in units of interruptions per customer.

THEPOWERCOMPANYLTD

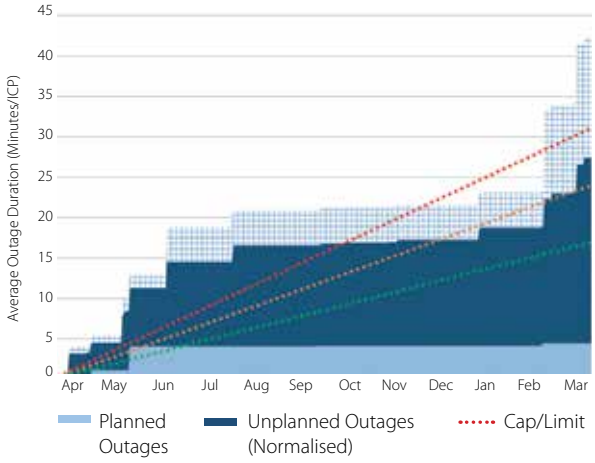


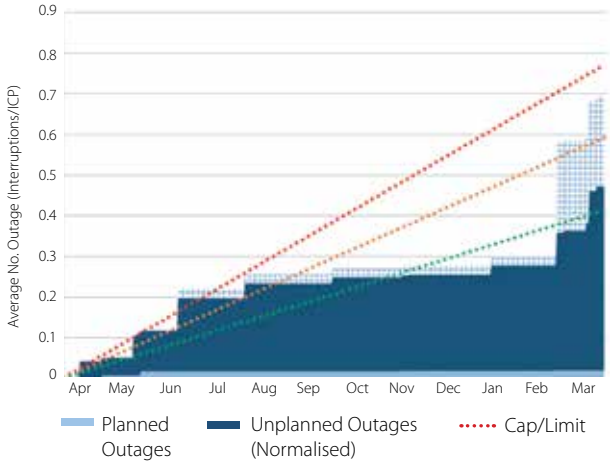


SAIDI			
Planned	Unplanned	Quality Limit	Actual
48.13	154.42	165.67	202.55

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.23	2.45	3.16	2.69

As a customer-owned business, TPCL is exempt from complying with a supply quality limit; but to measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt. The normalised SAIDI for TPCL of 202.55 minutes was higher than the supply quality limit of 165.67 due predominantly to a combination of less live-line work and storm events. All significant events and outages over PowerNet managed networks are investigated to identify failure modes. Once identified improvement plans are implemented. The normalised SAIFI for TPCL at 2.69 was also comfortably below the supply quality limit of 3.16.

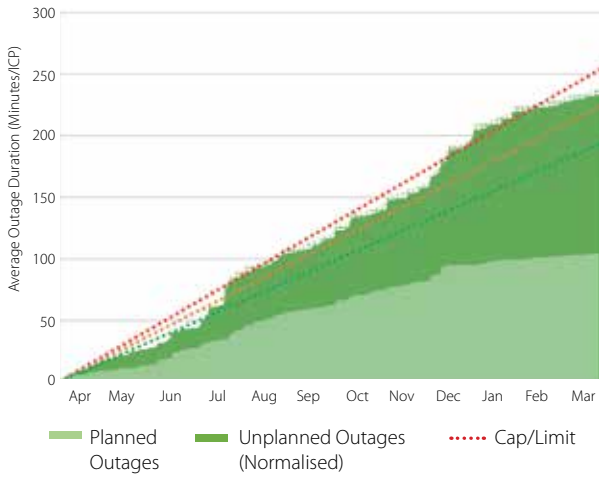


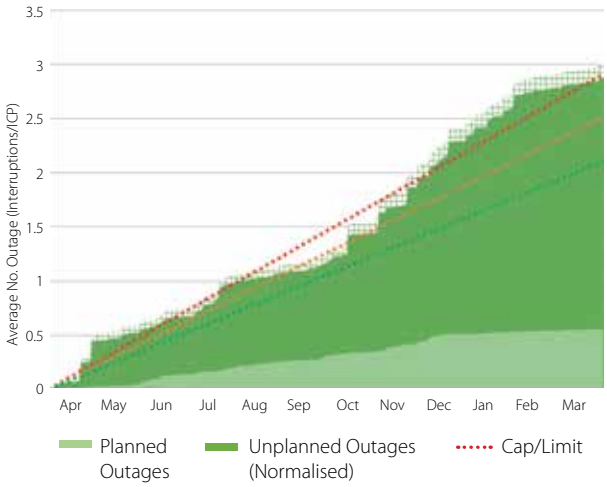


SAIDI			
Planned	Unplanned	Quality Limit	Actual
4.50	22.98	31.13	27.49

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.02	0.45	0.77	0.47

EIL's normalised SAIDI of 27.49 minutes was under the supply quality limit of 31.13 minutes. The company's normalised SAIFI at 0.47 was also well under the supply quality limit of 0.77. Although these outage statistics were below the quality limits, they were higher than normal. These outages were due to cable and switch failures, as well as unexpected third-party damage to network assets, which was much higher than normal. Asset renewal programmes already underway are likely to reduce EIL outages in the future.





SAIDI			
Planned	Unplanned	Quality Limit	Actual
105.14	128.13	254.92	233.26

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.56	2.31	2.93	2.88

The network had a normalised SAIDI of 233.26, which was comfortably under the supply quality limit of 254.92. OJV's normalised SAIFI of 2.88 was closely managed to ensure it remained under the supply quality limit of 2.93. The increase in both measures when compared with 2016-17 reflects the impact on work practices, including significant reduction in live-line activities. Several projects are underway to improve network reliability by reducing unplanned outages in the future.

L-R: Tim Brown (PowerNet), Debbie Pipson and Felicia McCrone (St John).

Sponsoring St John

Empowering our communities is an important part of PowerNet's customer focus and a core component of PowerNet's shared vision. We participate in our communities in ways that are wide ranging—in the management of network assets, in how we engage with customers in the community and through specific programmes such as our sponsorship of St John.

With far-reaching benefits for Southern communities, our partnership with St John is now into its fourth year and set to expand.

The programme supports first-aid training as well as other St John-related activities. A key goal is to achieve a trained first responder in every home—someone who can deal with a medical emergency until specialist assistance arrives. This is both a practical and powerful way that PowerNet can join with St John to support Southern communities, particularly those in more isolated areas without immediate access to medical assistance.

Between November 2014 and March 2018, 748 people received first-aid training as part of the programme. The 48 first-aid public and community courses were held in 13 Southern locations: Invercargill, Mataura, Gore, Frankton, Bluff, Winton, Riverton, Fiordland, Lumsden, Lawrence, Ranfurly, Milton and Balclutha.

Since 2015, 23,112 students from 213 schools were visited within the PowerNet and OtagoNet regions through the ASB St John in Schools programme.

"It's really great to see the appreciation and acknowledgment, but even better to know the courses are helping children in the Southern region to be trained in first aid."

PowerNet Chief information officer, Tim Brown

Nine AEDs have been donated since 2015 to Southern community groups across the PowerNet-managed networks. The donation also includes 'How to use an AED' training for 10 participants.

St John Clutha Mud Trudge

This year PowerNet was a business sponsor of the St John Clutha Mud Trudge and some of the company's local Balclutha staff volunteered as marshalls. The event raised $8,000 for Balclutha St John.

L-R: Jason Franklin (PowerNet), Samantha Lee, Janice Lee and Nicole Murch (Koha Kai) at the Westpac Southland Business Awards.

Other Community Activities

Westpac Southland Business Excellence Awards

PowerNet continued its sponsorship of the new and emerging business award in the Westpac Southland Business Excellence Awards. CE, Jason Franklin, presented the winner, Koha Kai, with the award trophy.

Waihopai Stabicraft Corporate Rowing Challenge

PowerNet again supported staff in the Waihopai Stabicraft Corpor8 Rowing Challenge, an annual event where teams from Southland businesses and organisations compete against each other in eights and quads events. The team finished fourth in the B Final and 8th overall.

Supporting Skills Growth

Supporting the development of new skills and talent in the engineering industry is another way that PowerNet gives back to the community. This year we continued our association with the University of Canterbury engineering faculty, supporting electrical engineering students with a scholarship for students in their first year of a Bachelor of Engineering degree. The three-year scholarship provides for course fees and vacation employment that satisfies practical degree requirements.

PowerNet continued its support of the Southern Institute of Technology, by providing the Most Improved Student Award in the Electrical Pre-trade course.

Tour of Southland

The PowerNet-sponsored cycling team performed well in the 2017 SBS Tour of Southland, taking out third place overall in the team classification.

The week's racing provided many highlights beginning with the PowerNet team winning the opening prologue and rider Brad Evans winning stage five.

The PowerNet-sponsored team of Brad Evans, Roman van Uden, Paul Odlin, Alex Heaney, Matt Ross and Ollie Jones all performed impressively. Roman van Uden wore the race leader's yellow jersey for the first three tour days, finishing 11th overall. Paul Odlin dominated the over-35 class wearing the jersey for all but one racing day. Brad Evans finished as PowerNet's top individual rider, placed 5th overall.

PowerNet staff and their families managed and supported the team throughout the tour week.

L-R: Smart Energy Home tenants Maci, Cam and Chloe Waru.

Emerging Technologies

PowerNet has continued to explore emerging technology initiatives that build a picture of likely future energy-use trends and support a transition away from fossil fuels.

Smart Energy Home

In an innovative project, PowerNet has fully equipped a company-owned house with smart energy technologies and tenanted it to a family for a year rent-free. Over the tenancy, PowerNet is gathering data on the family's daily use of existing and emerging smart technologies, and their efficiencies and benefits. Analysing this information is the next step in understanding future energy-use trends and planning for good electricity management.

Our EV use

PowerNet is a leader in the use of EVs, operating two EVs and five hybrid EVs in its own fleet. The company continues to explore ways to reduce its impact on the environment throughout its operations.

EVs for Southland businesses

In 2017-18, PowerNet committed to supporting 10 Southland businesses with the purchase of an electric vehicle (EV) as part of their fleet, in a project jointly funded by PowerNet and the national Energy Efficiency and Conservation Authority (EECA). The project's primary goals are to promote the uptake of electric vehicles and to positively influence wider public perceptions about the practicalities of EV use.

For participating businesses, PowerNet installed an onsite EV charging unit cost-free. These businesses have also received support and advice. They will also have access to shared data transmitted from the unit. The data will be used to plan for an increase in EV use in the future.

L-R: Brent Esler, HWR Group CEO and Jason Franklin.

L-R: Lana Goodmanson (Pride Property), Jim Hargest (SWHT) and Shirley Latta (Pride Property).

Supporting Our Environment

PowerNet continues to support community initiatives that encourage sustainable energy options and support the transition from fossil fuels.

PowerNet already supports the development of rapid DC charger infrastructure in the south through a joint agreement with ChargeNet NZ. During 2017-18, charging stations were installed in Winton, Frankton, Gore, Lawrence and Ranfurly. Further charging stations are under construction in Milton, Lumsden and Athol. We continue to work with ChargeNet and explore further opportunities to expand the public charging infrastructure in the Southern region.

PowerNet hosted the fourth annual Leading the Charge tour when it came through Invercargill in mid-March. An electric vehicle (EV) enthusiasts group supported by the Better NZ Trust, Leading the Charge vehicles travel from Bluff to Cape Reinga promoting and encouraging more New Zealanders to use electric vehicles.

Southland Warm Homes Trust

PowerNet continues to provide administration services to the Southland Warm Homes Trust (SWHT). The SWHT, in conjunction with the EECA Healthy Homes Programme, has completed more than 6,200 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under the Healthy Homes Programme is targeted to those who would benefit most from having their homes insulated—low income households with high health needs, including families with children and the elderly.

Under the current EECA Rental Programme, due to end on 30 June 2018, home owners and landlords with eligible occupants can have the cost of insulating their properties subsidised by 50%. To be eligible, homes must have been built prior to 1 January 2000, the occupants require a community services card and those with high health needs must be referred through an approved service. Homeowners and landlords with eligible occupants are required to make a 50% contribution towards the insulation cost, with EECA providing 25 percent and the SWHT providing the remaining 25 percent from community funding.

From 1 July 2018, a new four-year programme called Warmer Kiwi Homes is being introduced. It will target home-owners on low incomes with a high health need or living in a low socio-economic area. EECA will administer the $142 million funding committed by the Government, through similar agreements with service providers in each region, such as the SWHT.

In addition to the EECA/SWHT programme, SWHT and Awarua Synergy offer a subsidy of up to $2,000 for households to install insulation.

The SWHT presents an award annually to property managers who actively promote energy efficiency ideas that improve the living conditions of tenants and support SWHT's vision. In 2017, for the second year running, Pride Property Management won the award.

Recycling gravel.

Managing Waste

We continue to monitor best practice in managing network waste and adopt a reduce, reuse or recycle approach.

Waste oil is a by-product of the transformers and switchgear used in electricity distribution. Disposing of oil in an environmentally sensitive manner is important to PowerNet—all the oil we use is either sold or returned to the supplier for recycling.

PowerNet aims to have zero uncontrolled spillages or leakages. There were no waste oil spills during the 2017-18 year.

Our critical success factor of continuous improvement includes lean management and elimination of waste through our 5S Lean Management programme.

PowerNet continues to work on reducing office waste and to recycle where possible. All staff recycle paper and other items to keep landfill waste to a minimum.

Power poles are replaced as required because of public safety or network performance. The poles that are removed are either recycled or disposed of safely.

If a situation allows, PowerNet contractors extract the gravel from excavation holes where concrete power poles will be installed. The extracted gravel is crushed off-site to AP40 grade before being reused as packing around the newly-installed poles. Recycled gravel has been used on the Oreti Valley project on a section of the line between Centre Bush and Mossburn.

Sulphur Hexafluoride (SF6) is a potent, colourless, odourless, greenhouse gas used as an insulating medium in high voltage circuit breakers. SF6 is only used in sealed, well-contained units. PowerNet has stringent procedures for monitoring gas-filled equipment and uses specialised equipment to regularly check for loss of pressure. Substitutes for SF6 gas have been trialled without success but we continue to search for alternatives. The estimated total SF6 gas on the PowerNet managed networks is 460 kilograms.

Directors' Profiles

1. Ross Smith BCom (Chair)

Ross joined the board of PowerNet in November 2003 and is currently chair. He was group managing director/CEO of SBS Bank from 1992-2014 and served as a director on three SBS Group subsidiary companies from 2001-2014.

Ross is also a director of Electricity Invercargill Ltd and past chair of Peak Power Services Ltd.

Ross is a member of the Institute of Directors.

2. Donald Nicolson (Deputy Chair)

Don joined the board of PowerNet in 2015 after being appointed a director of The Power Company Ltd. Currently also a member of the OtagoNet Joint Venture governing committee, he was a former trustee of the Southland Electric Power Supply Consumer Trust and a former local and national president of Federated Farmers of New Zealand.

Don is a member of the Institute of Directors.

3. Douglas Fraser BSc (Chemistry)

Doug farms sheep and dairy cows on 595 hectares in Western Southland.

He is chair of The Power Company Ltd and a member of the OtagoNet Joint Venture governing committee. He was also chair of Otago Power Services Ltd until its amalgamation with PowerNet on 31 March 2016. Previous governance roles include NZ Wool Board, Wools of NZ, Woolpro and AgITO.

Doug is a chartered fellow of the Institute of Directors.

4. Thomas Campbell BSc (Metallurgy) ChFInst D

Tom is chair of Electricity Invercargill Ltd and chair of Southern Generation GP Ltd, a former managing director of Comalco and general manager of the Tiwai Smelter. He now works as an independent company director.

His directorships include Todd Corporation, and chair of the Energy Efficiency and Conservation Authority (EECA).

Tom was chair of the Southland Regional Development Strategy until 30 June 2017.

Tom is a chartered fellow of the Institute of Directors.

5. Sarah Brown LLB BA

Sarah joined the board of PowerNet in October 2015.

She is a director of Electricity Invercargill Ltd and is on the Provincial Growth Fund Advisory Panel. She was project manager for the Southland Regional Development Strategy.

Sarah is a member of the Institute of Directors.

6. Duncan Fea BCom CA

Duncan is a managing partner in Crowe Horwath, Central Otago, Chartered Accountants and Business Advisors.

He has a number of directorships which include The Power Company Ltd and Southern Generation GP Ltd. He is chair of the OtagoNet Joint Venture governing committee and is a past director of Peak Power Services Ltd, Pioneer Generation Ltd and Queenstown Airport Corporation Ltd.

Duncan is a chartered fellow of the Institute of Directors.

7. Karen Arnold

Karen joined the Boards of Electricity Invercargill Ltd and PowerNet Ltd in November 2016.

She is a former multi award-winning investigative journalist and is a second-term Invercargill City Councillor.

Karen is chair of the Council's Urban Rejuvenation Committee, deputy chair of the Hearings Committee and a trustee of both Southland Warm Homes Trust and Invercargill Recreation and Sports Trust.

Karen is a member of the Institute of Directors.

8. Alan (Joe) O'Connell BCom CA

Joe joined the boards of PowerNet and Electricity Invercargill Ltd in December 2016. He serves as a director on a number of companies and was chairman of Invercargill Airport Ltd from 2011-2016.

He has worked in many industries including transport, timber, concrete, petroleum distribution, drilling exploration, property and growing media.

Joe is a chartered accountant and a member of the Institute of Directors.

9. Lachlan McGregor

Locky joined the boards of PowerNet and The Power Company Ltd in September 2016.

Locky is a member of the management team in McGregor Concrete Ltd and is also a director of Mainland Shotcrete Ltd.

He has been an owner of a mountain bike tourist business in Queenstown and part-owner of a concrete pumping company which operated in five locations throughout New Zealand.

10.Wayne Mackey B.E. (Electrical)

Wayne was CEO of Network Tasman Ltd for 18 years. He has also held directorships with Nelson Electricity Ltd and SmartCo Ltd.

From 1991-1998, he was CitiPower's general manager and prior to that city energy engineer with the Nelson City Council.


MSA
MSA

Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Financial Statements of PowerNet for the year ended 31 March 2018.

Principal Activities

The principal activity of the parent entity PowerNet is the management of electricity networks and the provision of contracting services to the electricity distribution sector.

The Group consists of PowerNet and its subsidiary Peak Power Services Ltd.

The parties to the PowerNet joint venture are The Power Company Ltd and Electricity Invercargill Ltd and their interests are represented through their respective wholly owned subsidiaries Last Tango Ltd and Pylon Ltd.

Result and Distribution

The Directors report that the Group's after tax profit for the year under review was $3,364,226.

A dividend has been declared of $691,069, payable June 2018. The dividend will be imputed at 28%.

State of Company's Affairs

With the continuing support of PowerNet's shareholders, the Directors consider the state of the Company's affairs to be satisfactory.

Directors

The Shareholding Companies have appointed Directors as follows:

Appointed by Electricity Invercargill Ltd are:

Ross Smith (Chair)

Karen Arnold

Sarah Brown

Thomas Campbell

Joe O'Connell

Appointed by The Power Company Ltd are:

Douglas Fraser (Deputy Chair) until 31 August 2017

Donald Nicolson (Deputy Chair) from 1 September 2017

Duncan Fea

Alan Harper until 31 August 2017

Lachlan McGregor

Wayne Mackey from 6 September 2017

Directors' Interests

The following entries were made in the Interests Register of the Company with regard to the Directors:

General:

All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests:

(a) Owner, either alone or jointly with others.

(b) Parent, child or spouse of another person who may have a material interest in a property.

(c) Director, officer or shareholder of a body corporate which may have a material interest in a property.

(d) Trustee or beneficiary of a trust which may have a material interest in a property.

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Ross Smith

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
Pylon Ltd	Director

Douglas Fraser

Electricity Southland Ltd	Director
Last Tango Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
The Power Company Ltd	Chair/Director

Karen Arnold

Electricity Invercargill Ltd	Director
Invercargill City Council	Councillor
Invercargill Community Recreation and Sports Trust	Trustee
Pylon Ltd	Director
Southland Warm Homes Trust	Trustee

Sarah Brown

Electricity Invercargill Ltd	Director
Provincial Growth Fund Advisory Panel	Panelist
Pylon Ltd	Director
Southern Institute of Technology	Chair
Southland Regional Development Strategy	Project Manager

Thomas Campbell

Electricity Invercargill Ltd	Chair
Energy Efficiency and Conservation Authority	Chair
Pylon Ltd	Director
Roaring Forties Energy GP Ltd	Director
Southern Generation GP Ltd	Director
Southland Regional Development Strategy Governance Group	Chair
Todd Corporation Ltd	Director
Todd Offshore Ltd	Director
Venture Southland	Director

Duncan Fea

Crowe Horwath	Partner
E-Type Engineering Ltd	Director
Electricity Southland Ltd	Chair/Director
JK's & WBE Ltd	Director
Last Tango Ltd	Director
OtagoNet Joint Venture	Chair/Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
Roaring Forties Energy GP Ltd	Director
Southern Generation GP Ltd	Director
The Power Company Ltd	Director

Alan Harper

AWS Legal	Partner
Barnes Oysters Ltd	Director
Campbelltown Seafoods Ltd	Director
Electricity Southland Ltd	Chair
GWD Russells Ltd	Director
Last Tango Ltd	Director
OtagoNet Joint Venture	Chair, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
The Power Company Ltd	Chair

Lachlan McGregor

Last Tango Ltd	Director
McGregor Concrete Ltd	Manager
McGregor Group Ltd	Director
Mainland Shotcrete Ltd	Director
The Power Company Ltd	Director
Proact Ltd	Director
Southland Serpentine Ltd	Director
WBM Holdings Ltd	Director

Wayne Mackey

The Power Company Ltd	Director
Last Tango Ltd	Director

Donald Nicolson

Electricity Southland Ltd	Director
Last Tango Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
The Power Company Ltd	Director

Joe O'Connell

AJO Management Ltd	Director
Electricity Invercargill Ltd	Director
Fraser Properties Ltd	Director
K G Richardson and Sons Ltd	Association
KGR Properties Ltd	Association
Log Logistics Ltd	Director
Log Marketing New Zealand Ltd	Director
McNeill Drilling Company Ltd	Association
Niagara Sawmilling Company Ltd	Association
O'Connell Holdings Ltd	Director
OKC Holdings Ltd	Director
Property South Ltd	Director
Pylon Ltd	Director
R Richardson Ltd	Director
R W Transport Ltd	Director
SBS Bank	Director
Southfuels Ltd	Director
TNZ Growing Products Ltd	Director

Remuneration of Directors

The following Directors held office during the year under review and were paid fees accordingly:

Ross Smith	-	Chair, Member Audit and Risk Committee, Chair Remuneration Committee
Douglas Fraser	-	Deputy Chair, Member Health, Safety and Environment Committee, Member Remuneration Committee
Karen Arnold	-	Director, Member Audit and Risk Committee
Sarah Brown	-	Director, Member Health, Safety and Environment Committee
Thomas Campbell	-	Director, Chair Health, Safety and Environment Committee (until 31 August 2017)
Duncan Fea	-	Director, Member Audit and Risk Committee
Alan Harper	-	Director (until 31 August 2017)
Lachlan McGregor	-	Director, Member Health, Safety and Environment Committee
Donald Nicolson	-	Deputy Chair, Director, Chair and Member Audit and Risk Committee
Joe O'Connell	-	Director, Chair Health, Safety and Environment Committee (from 1 September 2017)
Wayne Mackey	-	Director (from 6 September 2017)

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity, during the year was:

Ross Smith	$67,300	Alan Harper	$12,500
Douglas Fraser	$37,200	Lachlan McGregor	$33,000
Donald Nicolson	$41,450	Thomas Campbell	$32,500
Sarah Brown	$33,000	Joe O'Connell	$33,500
Karen Arnold	$33,000	Duncan Fea	$33,000
Wayne Mackey	$17,083		

Employee Remuneration

Thirty nine continuing or former employees received remuneration in the following bands:

$100,000 - $110,000	8	$190,000 - $200,000	2
$110,000 - $120,000	9	$210,000 - $220,000	1
$120,000 - $130,000	6	$220,000 - $230,000	1
$130,000 - $140,000	4	$260,000 - $270,000	1
$140,000 - $150,000	2	$300,000 - $310,000	1
$150,000 - $160,000	1	$330,000 - $340,000	1
$180,000 - $190,000	1	$520,000 - $530,000	1

Scholarships, Awards and Donations

Donations were made by the Company during the year totalling $5,000.

Use of Company Information

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

Directors' and Employees' Indemnity and Insurance

Liability Insurance was effected for Directors and certain Executives of the Company.

Accounting Policies

There have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in the previous year.

Auditor

Refer to Note 3 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Ross Smith
Chair

Don Nicolson
Deputy Chair

Approval by Directors

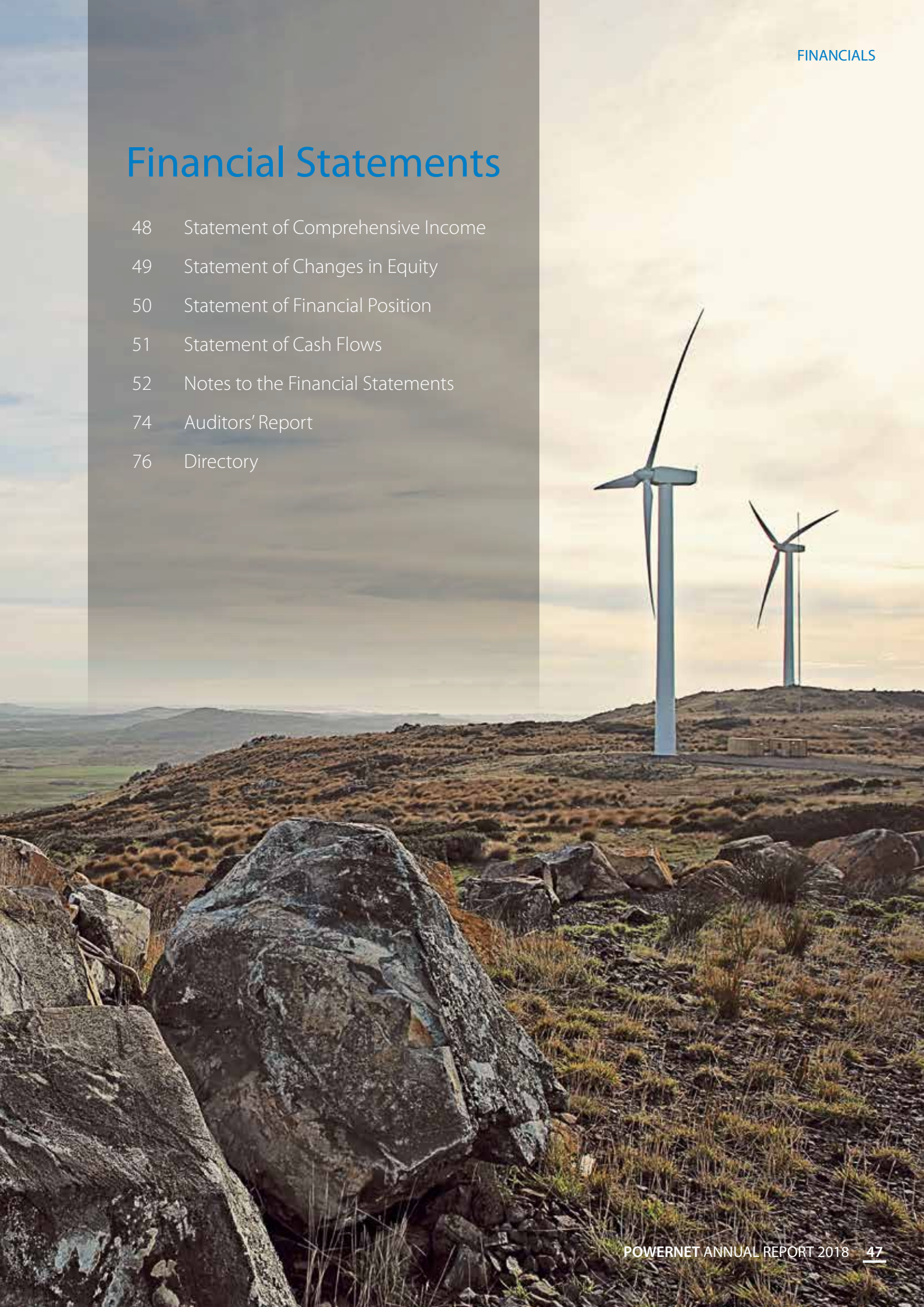
The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2018 pages 47 to 73.

For and on behalf of the Board of Directors.

Ross Smith
Chair
31 May 2018

Donald Nicolson
Director
31 May 2018

Financial Statements



STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 March 2018

		GROUP	
	Notes	2018 $'000	2017 $'000
Operating Revenue	2	86,468	75,957
Operating Expenses	3	(80,223)	(71,544)
Financial Expenses	3	(1,524)	(1,030)
Operating Surplus/(Deficit) Before Taxation		4,721	3,383
Taxation (Expense)/Benefit	4	(1,357)	(970)
Net Surplus/(Deficit) after Taxation		3,364	2,413
Total Comprehensive Income		3,364	2,413
Net Surplus/(Deficit) Attributable to Minority Interests		45	246
Net Surplus/(Deficit) Attributable to Parent		3,319	2,167

The accompanying notes on pages 52-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 March 2018

		GROUP	
	Notes	2018 $'000	2017 $'000
Total Comprehensive Income			
Net Surplus/(Deficit) for the Year comprising:			
Parent Interest		3,319	2,167
Minority Interest		45	246
		3,364	**2,413**
Contributions from Shareholders			
Change of Ownership in Minority Interest		(258)	-
		(258)	-
Distributions to Shareholders			
Minority Interest		-	(465)
Dividend Paid/Declared		(3,141)	(2,559)
Changes in Equity for the Year		**(35)**	**(611)**
Equity at beginning of the year, comprising			
Parent Interest		4,730	5,122
Minority Interest		321	540
		5,051	**5,662**
Equity at End of Year comprising:			
Parent Interest		4,907	4,730
Minority Interest	10	109	321
		5,016	**5,051**

The accompanying notes on pages 52-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	GROUP 2018 $'000	GROUP 2017 $'000
Assets			
Current Assets			
Cash and Cash Equivalents	6	3,569	2,217
Receivables and Prepayments	7	16,903	19,898
Construction Work in Progress	9	6,067	6,251
Inventories	8	2,675	4,006
Taxation Receivable		-	75
Total Current Assets		**29,214**	**32,447**
Non Current Assets			
Property, Plant and Equipment	16	15,700	15,509
Capital Work in Progress		1,719	1,219
Intangibles	17	9,279	8,954
Deferred Taxation Asset	15	958	913
Total Non Current Assets		**27,656**	**26,595**
Total Assets		**56,870**	**59,042**
Liabilities			
Current Liabilities			
Creditors and Accruals	11	10,810	10,690
Employee Entitlements	12	3,401	3,261
Dividend Payable		691	156
Finance Lease	14	15	18
Taxation Payable		324	-
Total Current Liabilities		**15,241**	**14,125**
Non Current Liabilities			
Advances	13	35,993	39,328
Deferred Taxation Liability	15	620	524
Finance Lease	14	-	14
Total Non Current Liabilities		**36,613**	**39,866**
Total Liabilities		**51,854**	**53,991**
Net Assets		**5,016**	**5,051**
Equity			
Share Capital		4,000	4,000
Retained Earnings/(Accumulated Deficit)	5	907	730
Parent Equity		4,907	4,730
Minority Interest Equity	10	109	321
Total Equity		**5,016**	**5,051**

The accompanying notes on pages 52-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF CASH FLOWS

For The Year Ended 31 March 2018

	Notes	GROUP 2018 $'000	GROUP 2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		89,198	76,356
Interest Received		17	20
		89,215	**76,376**
Cash Was Applied To:			
Payments to Suppliers and Employees		75,526	64,791
Income Tax Paid		911	843
Interest Paid		1,464	1,030
		77,901	**66,664**
Net Cash Flows From Operating Activities	21	**11,314**	**9,712**
CASH FLOWS FROM INVESTING ACTIVITES			
Sale of Fixed Assets		519	210
		519	210
Cash Was Applied To:			
Purchase of Fixed and Intangible Assets		3,972	3,450
Investments		550	-
		4,522	**3,450**
Net Cash Flows From/(Used In) Investing Activities		**(4,003)**	**(3,240)**
CASH FLOWS FROM FINANCING ACTIVITES			
Cash Was Provided From:			
Advances, Loans and Finance Leases		4	-
		4	-
Cash Was Applied To:			
Advances, Loans and Finance Leases		3,357	5,687
Payment of Dividends – PowerNet		2,606	2,559
Payment of Dividends – Subsidiary to Minority Interest		-	465
		(5,963)	**(8,711)**
Net Cash Flows From Financing Activities		**(5,959)**	**(8,711)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		1,352	(2,239)
Add Opening Cash and Cash Equivalents Brought Forward		2,217	4,456
Closing Cash and Cash Equivalents To Be Carried Forward	6	**3,569**	**2,217**

The accompanying notes on pages 52-73 form part of and should be read in conjunction with these Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For The Year Ended 31 March 2018

1 Statement of Accounting Policies

Reporting Entity

PowerNet Limited (PowerNet) is a profit oriented Limited liability company that was incorporated in New Zealand on 21 April 1994 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is a joint venture company and is registered under the Companies Act 1993. The parties to the joint venture are The Power Company Ltd and Electricity Invercargill Ltd and their interests are represented through their respective wholly owned subsidiaries Last Tango Ltd and Pylon Ltd.

The principal activity of PowerNet is the management of electricity distribution networks and provision of management and accounting services. PowerNet also provides contracting services to the electricity distribution sector.

The Parent Entity, PowerNet, is a company registered under the Companies Act 1993. The Group consists of PowerNet and its subsidiary Peak Power Services Ltd.

PowerNet manages the networks of The Power Company Ltd, Electricity Invercargill Ltd, OtagoNet Joint Venture and Electricity Southland Ltd with those entities retaining ownership of their respective Network Assets.

The financial statements were approved by the Board of Directors on 31st May 2018.

Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit oriented entities.

The Group is eligible and has elected to report in accordance with Tier 2 for profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) on the basis that it has no public accountability and is not a large for profit public sector entity.

In adopting NZ IFRS RDR, the Group has taken advantage of a number of disclosure concessions.

Use of Estimates and Judgements

The preparation of financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

In particular, estimates and assumptions have been used in the following areas:

- Property, Plant and Equipment
- Intangibles
- Employee Benefits

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

Specific Accounting Polices

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

(a) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of goods and services tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and probable return of the goods can be estimated reliably and there is no continuing management involvement with the goods.

(i) Line and Metering Charges

Line and Metering charges represent amounts invoiced to retailers based on their usage of the network and metering assets owned by the joint venture parties and is now recorded as turnover for PowerNet who is acting in the capacity of Agent for Electricity Invercargill Ltd, The Power Company Ltd and Otago Net Joint Venture.

(ii) Network Revenue

Network Revenue comprises amounts charged to the joint venture parties in relation to asset construction on their behalf.

(iii) Financial Income

Financial Income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective income method.

(iv) Other Revenue Management Services

Management services comprise income from management and administration of electricity distribution networks.

(v) Construction Contracts

The surplus on a construction contract is recognised when it can be estimated reliably. The full amount of an anticipated loss including that relating to future work on the contract is recognised as soon as it is foreseen.

(b) Financial Expenses

Financial expenses comprise interest expense on borrowings. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest method, unless they are directly related to the construction of qualifying assets when they are capitalised.

(c) Construction Work in Progress

Construction Work in Progress relates to The Power Company Ltd's, Electricity Invercargill Ltd's and OtagoNet Joint Venture's Capital Work and includes direct material and labour costs plus an accrual for the proportion of work completed at the end of the period, plus a mark up designed to cover PowerNet's associated indirect overheads. Where charges relate to external customers, profit is recognised on a percentage completion basis.

Mark ups on contracts are recognised progressively over the period of each contract. Foreseeable losses on a contract are recognised immediately.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

(d) Inventories

Inventories are stated at the lower of cost at weighted average cost price, and net realisable value. Cost in the case of constructed goods includes: direct materials, labour and production overheads. Obsolete items of inventory (if any) have been written off.

(e) Property, Plant and Equipment

All property, plant and equipment is initially recognised at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the fair value of the consideration given to acquire the assets and the value of other attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The deemed value of property, plant and equipment at 1 April 2006, the date of transition to NZ IFRS, was determined by reference to its fair value at that date.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if, when that cost is incurred, it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

(f) Depreciation

Depreciation is charged to the Statement of Comprehensive Income on a combination of straight line and diminishing value bases on all tangible assets with the exception of land, at rates calculated to allocate the assets' fair value, less any residual value, over their useful lives. The primary annual rates used are:

Buildings and Building Fit Out	2.0 – 67.0%	Straight line/Diminishing value
Plant and Equipment	7.0 – 80.4%	Straight line/Diminishing value
Motor Vehicles	7.0 – 48.0%	Straight line/Diminishing value
Office Furniture	7.0 – 80.4%	Straight line/Diminishing value
Computer Hardware	10.0 – 48.0%	Straight line/Diminishing value
System Control Assets	11.4 – 48.0%	Straight line/Diminishing value

(g) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. Costs for a specific project are transferred to Property, Plant and Equipment once the project is commissioned and then depreciated.

(h) Impairment

At each reporting date the Group reviews the carrying amounts of its assets (with the exception of inventory and deferred tax assets) and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amounts are estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

(i) Intangible Assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, and the acquisition date fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Computer Software

Under NZ IFRS computer software is classified as an intangible asset and is amortised on a straight line or diminishing value basis over its estimated useful life.

(iii) Amortisation

Amortisation is charged to the Statement of Comprehensive Income on a straight line or diminishing value basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated amortisation rates for current and comparative periods are as follows:

Software	12.5 – 48.0%	Straight line/Diminishing value

(j) Goods and Services Tax (GST)

All amounts in the financial statements are shown exclusive of GST, with the exception of receivables and payables which are shown inclusive of GST.

(k) Taxation

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at Balance Sheet date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxation profit or loss.

Deferred tax is recorded using tax rates enacted or substantially enacted at the Balance Sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised in the periods when they are incurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

(m) Employee Benefits

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

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at 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 date.

(n) Seasonality

The Group's revenues and profits are generally evenly distributed throughout the year hence the results are not subject to seasonality.

(o) Financial Instruments

(i) Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

(ii) Receivables

Trade and Other Receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(iii) Trade and Other Payables

Trade and Other Payables are stated at cost.

(iv) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after balance date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

(p) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the Statement of Financial Performance in the period of acquisition.

The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that controls ceases.

Minority interests in the results and equity of subsidiaries are shown separately in the Statements of Comprehensive Income and Statements of Financial Position.

(ii) Transactions Eliminated on Consolidation

All significant inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

New standards applied in the period

No new standards were adopted or applied in the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

2 Income

	GROUP	
	2018 $'000	2017 $'000
Turnover		
Line Charges	110,136	107,564
Metering	4,514	4,543
	114,650	112,107
Less		
Transmission	31,494	30,574
Net Turnover	83,156	81,533
Operating Revenue		
Contracting Revenue	10,706	5,542
Equipment Sales	369	223
Capital Works Programme	50,652	46,694
Maintenance Fees	17,156	16,834
Agency Fees	7,143	6,502
Interest Revenue	17	20
Other Revenue	425	142
	86,468	75,957

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

3 Expenses

	GROUP	
	2018 $'000	2017 $'000
Expenses Include:		
Network Costs (excl. Depreciation)	52,128	52,544
Interest Expense	518	1,030
Deficit/(Profit) on Disposal of Property, Plant and Equipment	(178)	(34)
Operating Lease Expenses		
Tenancy and Repeater Site Leases	667	603
Motor Vehicle Leases	298	336
Office Equipment Leases	30	36
Total Operating Leases	995	975
Amortisation of Intangibles	369	350
	-	-
Auditors' Fees		
Audit of Financial Statements - PwC	62	81
Internal Audit Fees - Deloitte	46	16
Depreciation		
Buildings	194	200
Plant and Equipment	998	1,016
Motor Vehicles	1,189	1,187
Office Equipment	96	103
Computer Hardware	167	217
Total Depreciation	2,644	2,723
Directors' Fees	413	340
Donations	5	5
Employee Benefit Expenses	13,365	11,468
Scholarships and Awards	-	6

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

4 Taxation

Current Tax

Current tax expense is the expected tax payable on the taxable income for the year.

Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred Tax

Deferred tax expense arises from the origination and reversal of temporary differences.

	GROUP	
	2018 $'000	2017 $'000
Operating Surplus/(Deficit) Before Income Tax	4,721	3,383
Prima Facie Taxation at 28% made up of:	1,322	947
Permanent Differences	36	62
Prior Period Adjustments	(52)	(39)
Tax on Taxable Income	**1,306**	**970**
Current Tax	1,306	1,075
Prior Period Adjustments in respect of Current Tax	-	(54)
Deferred Tax	51	(65)
Prior Period Adjustments in respect of Deferred Tax	-	14
Taxation Expense/(Benefit) for the year	**1,357**	**970**
Effective Tax Rate	**29%**	**29%**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

5 Equity

The authorised and issued share capital consists of 4,000,000 ordinary shares which are divided into two groups. Group A comprises 2,000,000 ordinary shares and Group B comprises 2,000,000 ordinary shares.

Group A and Group B shares have the same rights and privileges and are subject to the same restrictions. However, dividends are distributed to Group A or Group B shares in accordance with the equity invested and activity level on the networks owned by each joint venture party.

	GROUP	
	2018 $'000	2017 $'000
Share Capital	4,000	4,000
Closing Balance	**4,000**	**4,000**
Minority Interest	108	321
Retained Earnings		
Opening Balance	730	1,122
Net Surplus/(Deficit) for the Year	3,319	2,167
Dividend Declared/Paid	(3,141)	(2,559)
Closing Balance	908	730
Total Equity	5,016	5,051

6 Cash and Short Term Bank Deposits

	2018 $'000	2017 $'000
Current Account	1,257	421
Short Term Bank Deposits	2,312	1,796
Total Cash and Short Term Bank Deposits	3,569	2,217

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

7 Receivables and Prepayments

	GROUP	
	2018 $'000	2017 $'000
Trade Debtors	3,771	2,830
The Power Company Ltd	7,513	10,395
Electricity Invercargill Ltd	2,426	1,029
Electricity Southland Ltd	558	604
OtagoNet Joint Venture	1,876	4,406
M Popenhagen	-	3
I Boud	-	2
Other Staff	-	3
	16,144	19,272
Prepayments and Other Receivables	759	626
Total Receivables and Prepayments	**16,903**	**19,898**

Trade and other receivables are stated at their cost less any impairment losses. The carrying amounts of the Group's receivables are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any indication exists, the receivable's recoverable amount is estimated.

At balance date 5% of the Group's trade receivables were 30-90 days past due and 1% of the Group's trade receivables were >90 days past due (2017: 2% 30-90 days past due, 2% >90 days past due)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

8 Inventories

	GROUP	
	2018 $'000	2017 $'000
Network Spares and Sundry Network Consumables	2,675	4,006

Network Spares includes Smart Meters totalling $2,154,000 (2017: $3,345,000).

9 Construction Work in Progress

	2018 $'000	2017 $'000
On behalf of:		
The Power Company Ltd	3,769	4,030
Electricity Invercargill Ltd	318	416
OtagoNet Joint Venture	1,412	1,320
External Customers	568	485
Total Construction Work in Progress	6,067	6,251

10 Minority Interest

	2018 $'000	2017 $'000
Opening Balance	321	540
Minority Interest in Dividend	-	(465)
Change in Shareholding	(258)	-
Minority Interest Share on Net Surplus/(Deficit)	45	246
Closing Balance	108	321

The Minority Interest relates to Peak Power Services Ltd. At the beginning of the year the parent company purchased a further 38.62% leaving the Minority holding 9.68%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

11 Creditors and Accruals

	GROUP	
	2018 $'000	2017 $'000
Trade payables	8,157	7,560
Accruals	1,610	1,719
Inland Revenue – GST Payable	612	1,063
Inland Revenue – RWT Payable	-	32
The Power Company Ltd	342	271
Electricity Invercargill Ltd	78	34
OtagoNet Joint Venture	11	10
M Popenhagen	-	1
	10,810	10,690

12 Employee Entitlements

	2018 $'000	2017 $'000
Opening Balance	3,261	2,506
Additional Accrued	2,884	3,229
Amount Utilised	(2,744)	(2,474)
Total Employee Entitlements	3,401	3,261

Employee entitlements include accrued wages, bonuses, accrued holiday pay, and long service leave where settlement is expected to be less than one year with the exception of the long service leave accrual. The item(s) are discounted using the Group's weighted average cost of capital.

The Directors' consider that the carrying amount of the employee entitlements approximates their fair value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

13 Advances

	GROUP	
	2018 $'000	2017 $'000
Advances from:		
The Power Company Ltd	28,505	31,038
Electricity Invercargill Ltd	7,488	7,760
M Popenhagen	-	424
I Boud	-	106
Total Advances	**35,993**	39,328

Interest on the Advances is paid quarterly. The interest rate in respect of the advances is 2% above the 90 day Bank Bill Rate at the end of each month. The advance facility is repayable on demand but with a 13 month notice period.

14 Finance Lease

	2018 $'000	2017 $'000
Finance Lease Payable		
Not later than one year	15	18
Later than one year, not later than five years	-	14
	15	**32**
Comprising:		
Current	**15**	**18**
Non Current	-	14

The Finance Lease Payable relates to Motor Vehicle Leases in Peak Power Services Ltd.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

15 Deferred Taxation

	GROUP	
	2018 $'000	2017 $'000
Opening Balance	389	339
Charged to Income Statement		
- Depreciation (non current liability)	(76)	(88)
- Tax Losses (current assets)	-	-
- Employee Entitlements (current assets)	45	157
- Other (current assets)	-	-
- Other (current liabilities)	-	(6)
- Losses Utilised	(20)	(13)
Timing differences now treated as permanent adjustments	-	-
Total Deferred Taxation Asset/(Liability)	**338**	**389**

The movement in deferred tax during the year is mainly the difference between tax and accounting depreciation and the movement in holiday pay accruals. No significant reversal of deferred tax is expected in the next 12 months.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

16 Property, Plant and Equipment

	Land $'000	Buildings $'000	Plant & Equipment $'000	Office Equipment $'000	Motor Vehicles $'000	Computer Hardware $'000	Total $'000
Cost							
Balance at 1 April 2016	509	5,672	11,333	1,530	11,840	1,817	**32,701**
Additions	-	10	765	38	1,085	110	**2,008**
Disposals	-	-	(65)	-	(474)	(13)	**(552)**
Balance at 31 March 2017	**509**	**5,682**	**12,033**	**1,568**	**12,451**	**1,914**	**34,157**
Balance at 1 April 2017	509	5,682	12,033	1,568	12,451	1,914	**34,157**
Additions	-	-	1,388	50	1,329	410	**3,085**
Disposals	(97)	-	(254)	-	(872)	(1)	**(1,224)**
Balance at 31 March 2018	**412**	**5,682**	**13,167**	**1,618**	**12,908**	**2,323**	**36,018**
Depreciation and Impairment							
Balance at 1 April 2016	-	1,196	6,401	893	6,408	1,405	**16,303**
Depreciation for Period	-	200	1,016	103	1,187	217	**2,723**
Disposals	-	-	(40)	-	(326)	(12)	**(378)**
Balance at 31 March 2017	**-**	**1,396**	**7,377**	**996**	**7,269**	**1,610**	**18,648**
Balance at 1 April 2017	-	1,397	7,377	996	7,269	1,610	**18,649**
Depreciation for Period	-	194	998	96	1,189	167	**2,644**
Disposals	-	-	(208)	-	(675)	-	**(883)**
Balance at 31 March 2018	**-**	**1,591**	**8,167**	**1,092**	**7,783**	**1,777**	**20,410**
Carrying Amount/Book Value							
Book Value at 31 March 2017	**509**	**4,286**	**4,656**	**572**	**5,182**	**304**	**15,509**
Book Value at 31 March 2018	**412**	**4,091**	**5,000**	**526**	**5,125**	**546**	**15,700**

Deemed Cost

The carrying amount of Property, Plant and Equipment as at 1 April 2006, the date of transition to NZ IFRS, is now taken as the deemed cost of the Property, Plant and Equipment at that date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

17 Intangible Assets

	Goodwill $'000	Computer Software $'000	Total $'000
Cost			
Balance at 1 April 2017	7,234	6,697	13,931
Additions	400	294	694
Balance at 31 March 2018	7,634	6,991	14,625
Amortisation and Impairment			
Balance at 1 April 2017	-	4,977	4,977
Amortisation for period	-	369	369
Disposals	-	-	-
Goodwill on Acquisition	-	-	-
Balance at 31 March 2018	-	5,346	5,346
Carrying Amount/Book Value			
Book Value at 31 March 2018	7,634	1,645	9,279

Goodwill in respect of acquisition is stated at cost. Goodwill is not amortised but tested for impairment annually. The additional goodwill in the current year relates to the further purchase of shares in PPSL.

The Goodwill above is in respect of the acquisition of Power Services Ltd, Otago Power Services Ltd and Peak Power Services Ltd.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

18 Commitments

Capital Commitments

Capital Commitments as at 31 March 2018 total $763,000 (2017: $Nil)

	GROUP	
	2018 $'000	2017 $'000
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
Not later than one year	1,487	1,324
Later than one year and not later than two years	1,220	1,147
Later than two years and not later than five years	2,069	2,031
Later than five years	9,974	10,612
Total Operating Lease Commitments	**14,750**	**15,114**

Operating Leases consist of Vehicle Leases, Property, Transpower Investment Charges and Office Equipment Leases.

19 Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2018 (2017: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

20 Transactions with Related Parties

The parties to the PowerNet Joint Venture consist of The Power Company Ltd and Electricity Invercargill Ltd through their respective subsidiaries Last Tango Ltd and Pylon Ltd. Electricity Southland Ltd has the same ownership as the OtagoNet Joint Venture. Effective from 30 September 2014, Pylon Ltd and Last Tango Ltd jointly hold a 100% interest in OtagoNet Joint Venture. All transactions between PowerNet, its joint venture parties, Electricity Southland Ltd and its subsidiary Peak Power Services Ltd relate to the normal trading activities of PowerNet.

Material transactions PowerNet has had with the above mentioned related parties during the year, excluding on charges incurred on behalf of related parties, are as follows:

	GROUP	
	2018 $'000	2017 $'000
Asset Construction, Management Fees, Agency Fees and Directors Fees Supplied To:		
The Power Company Ltd	47,824	42,001
Electricity Invercargill Ltd	10,879	8,931
Electricity Southland Ltd	4,583	3,826
OtagoNet Joint Venture	16,269	16,766
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Ltd	7,513	10,395
Electricity Invercargill Ltd	2,426	1,029
Electricity Southland Ltd	558	604
OtagoNet Joint Venture	1,876	4,406
M Popenhagen	-	3
I Boud	-	2
Other Staff	-	3
Miscellaneous Charges Supplied By:		
The Power Company Ltd	1,631	1,174
Electricity Invercargill Ltd	294	160
Electricity Southland Ltd	183	192
OtagoNet Joint Venture	109	109
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Ltd	342	271
Electricity Invercargill Ltd	78	34
OtagoNet Joint Venture	10	10
M Popenhagen	-	1
Advances Supplied By/(Repaid To):		
The Power Company Ltd	(2,535)	5,538
Electricity Invercargill Ltd	(272)	(356)
Last Tango Ltd	-	(5,314)
Pylon Ltd	-	(5,314)
M Popenhagen	(424)	424
I Boud	(106)	106

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

20 Transactions with Related Parties *continued*

Other Related Parties

There have been no transactions with Directors with the exception of the following:

PowerNet uses AWS Legal as solicitors, of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the year amounted to $144,362 (excl GST) (2017: $200,770 excl GST) of which $64,956 (incl GST) is owing at balance date (2017: $65,424 incl GST). Alan Harper held office as a director until his resignation on 31 August 2017.

PowerNet uses Crowe Horwath Ltd as its tax advisors, of which Duncan Fea is a Principal. Fees for taxation advice paid to Crowe Horwath Ltd during the year amounted to $48,419 (excl GST) (2017: $45,950 excl GST) of which nil (incl GST) (2017: $nil incl GST) is owing at balance date.

PowerNet has a rental agreement with McGregor Concrete in Winton, of which Lachlan McGregor is the Manager and Director of McGregor Group Ltd. Rent paid to McGregor Concrete for the year amounted to $13,867 (excl GST) (2017: $13,866 excl GST).

Key Management Personnel

Compensation of the Directors and Executives, being the key management personnel of the Group is as follows:

	GROUP	
	2018 $'000	2017 $'000
Salaries and Short Term Employee Benefits	2,720	2,357

Executive staff remuneration comprises salary and other short term benefits. PowerNet Executives appointed to the boards of related companies do not receive Directors' fees personally.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

21 Net Cash Flow from Operating Activities

The following is a reconciliation for the Group between Net Surplus After Taxation shown in the Statement of Comprehensive Income and the Net Cash flows from Operating Activities:

	GROUP	
	2018 $'000	2017 $'000
Net Surplus After Taxation	3,364	2,413
Add/(Less) Non Cash Items:		
Amortisation	369	350
Depreciation	2,644	2,723
Deferred Tax	50	(51)
Dividend Proposed	-	156
Deficit/(Profit) on Sale of Plant Property and Equipment	(178)	(34)
	2,885	3,144
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	661	1,543
Receivables and Prepayments	2,903	367
Inventories	1,236	2,355
Construction Work in Progress	278	(250)
GST Payable/ (Receivable)	(409)	(38)
Taxation Payable	396	177
	5,065	4,154
Net Cash Flow From/(Used In) Operating Activities	11,314	9,711

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For The Year Ended 31 March 2018

22 Financial Instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short term investments and trade receivables. Cash and short term investments are placed with banks with high credit ratings assigned by international credit rating agencies, or other high credit quality financial institutions.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Group is exposed to a concentration of credit risk with regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 7 Receivables and Prepayments (amongst Trade Debtors). However, these entities are considered to be high credit quality entities

Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations.

The Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

The Group has interest bearing debt which is subject to interest rate variations in the market.

Fair Value

The estimated fair value of the Group's financial instruments are represented by the carrying values.

Capital Management

The Group's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements.

23 Subsequent Events

There were no events subsequent to balance date.

AUDITORS' REPORT

For The Year Ended 31 March 2018

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Independent Auditor's Report

To the shareholders of PowerNet Limited

The financial statements comprise:

- the statement of financial position as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies.

Our opinion

In our opinion the financial statements of PowerNet Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of valuation modelling and regulatory advice. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

AUDITORS' REPORT *continued*

For The Year Ended 31 March 2018

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Robert Harris.

For and on behalf of:

Chartered Accountants Christchurch
31 May 2018

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Auditors
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Christchurch

Solicitors
AWS Legal

Materials Procurement and Management
Corys Ltd

PowerNet