



PowerNet
Limited

2013

Annual Report

Index

01	Introduction
	- Highlights
02	- Company Structure and Profile
05	- Chair's and Chief Executive's Report
09	Our Stakeholders
21	Our People
27	Our Customers
33	Our Environment
35	Our Communities
38	Directors' Profiles
40	Directors' Report
	Financials
43	- Approval by Directors
44	- Statement of Comprehensive Income
44	- Statement of Changes in Equity
45	- Statement of Financial Position
46	- Statement of Cash Flows
47	- Notes to the Financial Statements
64	- Auditors' Report
66	Our Management Team
67	Directory

Highlights



PowerNet Tour of Southland

It was our 12th and final year as major sponsor of the PowerNet Cycle Tour of Southland.



Massive new project for ESL

Electricity Southland Limited secured the contract for exclusive network rights to the 770-lot Shotover Country subdivision in Frankton.



Safety Management System

Our new accredited Safety Management System meets new standards and is improving safety and business processes.



Stage 1 & 2 Mossburn-Athol upgrade

A new 66kV line will provide Northern Southland with an improved quality of supply.



Staff participation

PowerNet staff gave their all in the Corpor8 rowing challenge and the Harrex Group Corporate Pursuit cycling event.



Process improvements

Our Semi-Quantative Risk Assessment (SQRA) identified 200 potential improvements to make our work smarter, safer and more efficient.



Kennington Substation

Two new 33/11kV transformers will provide increased capacity and supply security for future growth in an area of industrial expansion.



Staff performance management

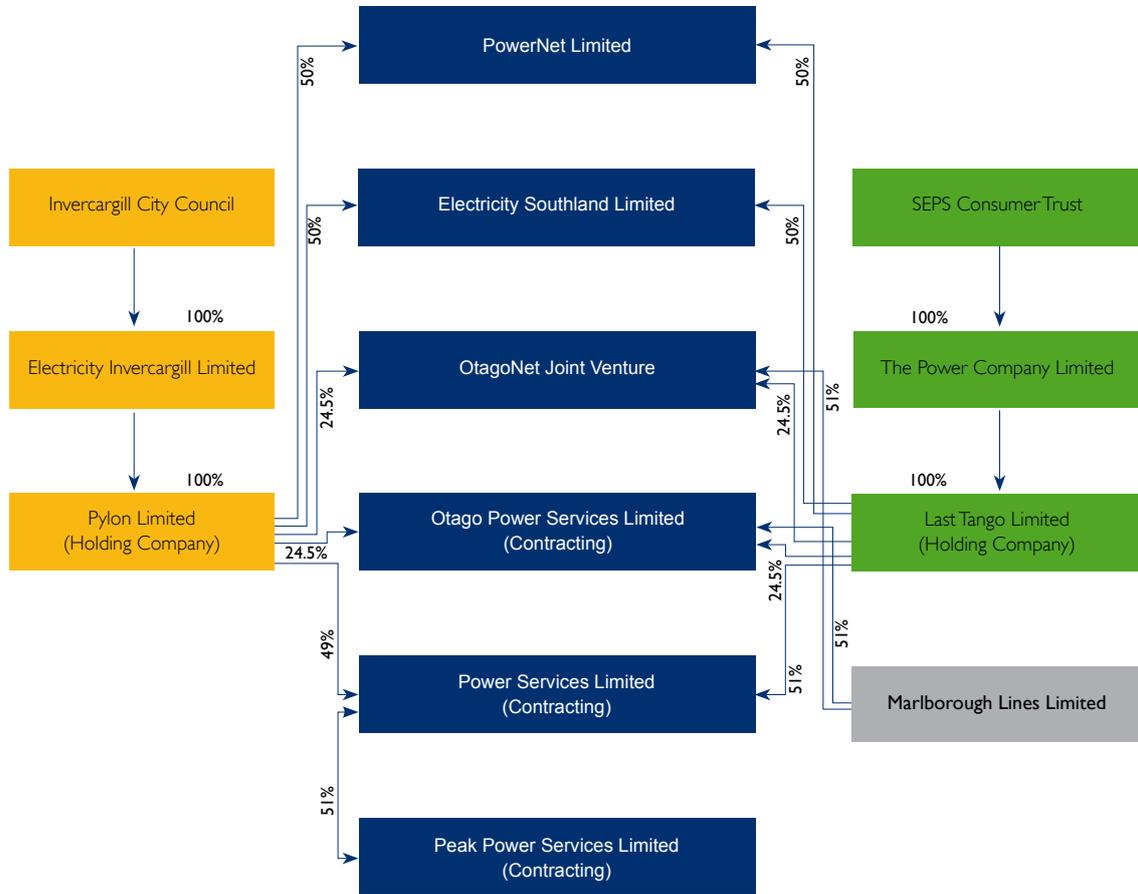
PowerNet introduced a new staff performance management system during the year.



Monowai Substation

An upgrade of the Monowai Substation including a replacement of the transformer, ensures security of supply to the Blackmount and Monowai areas.

Company Structure



Company Profile

PowerNet is an electricity network management business completing its nineteenth year since its formation in 1994.

PowerNet's shareholders are Electricity Invercargill Limited and The Power Company Limited.



Electricity Invercargill Limited (EIL) was formed in 1992 and owns the electricity network assets in Invercargill City and the Bluff township area, with approximately 17,200 consumers.

EIL has provided power to Invercargill since 1905, operating under a variety of different names over the years, most notably the Invercargill Municipal Electricity Department.

EIL is owned by the Invercargill City Council through its subsidiary, Invercargill City Holdings Limited. Invercargill City Holdings retains 100% ownership of the Company and receives an annual dividend from EIL.



The Power Company Limited (TPCL) was formed in 1991 and owns the network assets in the Southland/West Otago area, excluding parts of Invercargill City and the Bluff township area. TPCL has approximately 34,600 consumers.

TPCL has a long, proud history of being innovative and proactive in providing electricity to the people of the south. The Company has operated under a variety of names over the years including the Southland Electric Power Board and Southland Electric Power Supply.

TPCL is owned by the consumers connected to the network and the Southland Electric Power Supply Consumer Trust exercises the ownership rights on behalf of those consumers.



PowerNet has a network management agreement with OtagoNet Joint Venture (OJV). The joint venture partners are EIL, TPCL and Marlborough Lines Limited (MLL). OJV was formed in 2002 following the purchase of the electricity network assets from the shareholders of the consumer co-operative company Otago Power Limited.

OtagoNet has approximately 14,800 consumers spread over a vast area of coastal and inland Otago from Shag Point in the north east, inland through to St Bathans then south down to the Chaslands.



PowerNet manages the Lakeland network in Frankton that is owned by Electricity Southland Limited, the shareholders of which are EIL and TPCL.



PowerNet's sixty-five staff work from the main office in Invercargill, Balclutha and a 24/7 faults call centre and control room located at the Invercargill Transpower Substation. The PowerNet staff are engaged in carrying out analysis, design, construction and maintenance of electricity network assets along with managing regulatory and financial reporting.

All field services are contracted out by PowerNet to the main service providers, Otago Power Services Limited, Power Services Limited and Transfield Services NZ Limited.

As EIL and TPCL have retained ownership of their meters and ripple receivers, these are also managed by PowerNet.

The total Regulatory Value of the three major networks managed by PowerNet is over \$506 million with 13,762kms of lines and cables, 71 zone substations and 15,553 transformers. The three main networks represent diverse topography, climate zones, customer density, technical design and equipment. PowerNet is equivalent to the fifth largest network company in New Zealand, delivering electricity to over 66,000 consumers.

EIL and TPCL are sole shareholders of Power Services Limited and also joint shareholders with MLL of Otago Power Services Limited. Power Services is a shareholder in Peak Power Services Limited.

INTRODUCTION



Chair's and Chief Executive's Report

The 2012-2013 year was a significant one for PowerNet and the networks we manage.

The year has been marked with the tragic death of Stuart Kenning, an employee of one of our alliance contractors, Power Services. Stuart's death in October 2012 occurred while attending a fault in the Mossburn region. His passing has had a profound impact on us all. We offer our sincere condolences to Stuart's family.

We achieved some important milestones during the year.

From a business process perspective, we have placed a particular focus on streamlining our common practices. In January 2013, the Boards of the network owners approved their individual Five Year Business Plans and Ten Year Asset Management Plans.

This was a major achievement as the process for these plans is not normally completed until March each year. We have changed our processes to have these important working documents to the respective network owners earlier so that they can be considered and approved. This gives us certainty and also allows us to focus on completing the current year's works programme.

Another significant change introduced was the approval of a two year works programme as part of the Five Year Business Plan for each network. This gives PowerNet the approval to proceed with all planned works up to the end of March 2015. This flexibility and certainty provides PowerNet with the best possible opportunity to deliver the works programmes and to the standard expected.

Once again, PowerNet completed significant major projects across the electricity networks. Total capital expenditure for the year was over \$31.5 million, with the maintenance works programme totalling \$12.4 million.

Continuing to upgrade the networks not only ensures they have the capacity and reliability required by customers, but also brings down the average life of the network.

Major projects completed in The Power Company Limited (TPCL) network included the first two stages of the Mossburn-Athol upgrade. The project, upgrading 14.5km of 11kV line to include an additional 66kV line, will provide the region with an improved quality of electricity supply. The project will increase the network load capability for the future growth in the region and improve voltage quality with large-scale irrigation now being utilised in areas such as Athol, Riversdale and Mossburn.

The Monowai Substation transformer replacement was also completed during the year, which will give security of supply for the Blackmount and Monowai areas, and the important upgrade of the South Gore Substation to replace older equipment with state-of-the-art 11kV switchboard and modern protection and control systems.

The Electricity Southland Limited (ESL) network took a step change in its development, with ESL being awarded the contract to design and reticulate the 770-lot Shotover Country subdivision in Frankton. Work has already begun on stage one, including the ducting of a 22kV line from Glenda Drive under the Shotover Bridge to the Shotover Country development.

Further developments at Remarkables Park and the opening of the Hilton Hotel at Kawarau Falls have shown the capability and capacity of the ESL network and PowerNet's ability to supply major projects in the Queenstown region.

In the Electricity Invercargill Limited (EIL) network, the project for development of a new CBD substation in Spey Street is progressing, with work approved on EIL's selected site. The new substation will replace the Doon Street Substation, while a new 33kV cable from Transpower's Invercargill Grid Exit Point and substation in Findlay Road to the CBD site will offer increased capacity for growth in the city.

INTRODUCTION



Left to right - Liam Mahon, Simon Windle - Otago Power Services, Peter Eastwood - PowerNet and Anthony Lima - PortaCat Industries

Chair's and Chief Executive's Report *continued*

The OtagoNet network saw a lot of replacement work in the 2012-13 year, and also major new assets. Included in the \$9.66 million of capital works was the new Milburn Substation which will service the noteworthy business growth in the area, and a new substation to service the new Gardians dairy factory at Clydevale.

OtagoNet also completed important overhead line replacement projects in the Catlins area to make sure the growing tourism industry and the burgeoning dairy business have secure and reliable supply.

The achievement of the Works Programmes across all the networks was a credit to the staff and contractors involved.

In addition to making considerable efforts on capital works, upgrading and maintenance, PowerNet was extremely proud that all the networks the company manages operated within regulatory limits in the 2012-13 year. We have a key focus on network reliability, so this result was extremely pleasing.

In line with our continuous improvement ethos, PowerNet initiated an extensive improvement process as part of our workplace safety programme. The Semi-Quantitative Risk Assessment (SQRA) programme brought together a group of people from linesmen from various contractors, to project managers and estimators.

The two-week workshop assessed existing workplace risk profiles and identified where improved controls could be implemented. An action plan from the SQRA group is being finalised to ensure we work smarter, safer and more efficiently.

Our sponsorship of the PowerNet Cycle Tour of Southland came to an end in 2012. We have been proud sponsors of the iconic event for the last 12 consecutive years, but all good things must come to an end. PowerNet has worked with Cycling Southland for the last two years to ensure a managed exit as the major sponsor of the event.

We are confident we leave the Tour in very good hands. Our sponsorship journey has been a rewarding experience and we have genuinely enjoyed our association with a great event that brings so much pride and excitement to our province and wider region.

Finally, PowerNet's staff and contractors have done another exceptional job this year, and their contribution has kept us to the fore as one of the leading network managers in the country. Thank you for your hard work on behalf of the company.

We would also like to thank our Board of Directors for providing strategic guidance and support in the past year, and overseeing a successful year.

We look back over the past year in this report, all the while looking forward to the future.



Maryann Macpherson
Chair



Jason Franklin
Chief Executive



Delta Utility Services working on the Mossburn to Athol line upgrade

Connecting **WITH** OUR STAKEHOLDERS



Arthur Everson - Transfield Services working on the Kennington Substation switchboard

Connecting with our Stakeholders

PowerNet's stakeholders are as diverse as the Southland and Otago terrain. This section of the Annual Report looks at PowerNet's shareholders, service providers and networks that it manages. Further sections look at PowerNet's staff, customers and the communities that we serve.

Shareholders

PowerNet is jointly owned by Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL).

Both EIL and TPCL own electricity network assets and formed PowerNet in 1994 to take advantage of efficiencies of scale through common management.

PowerNet's core business is the management of electricity networks and the Company is actively seeking to increase its portfolio of asset management. During the year it managed four electricity networks in Otago and Southland. Engagement and communication with these network owners is key to PowerNet and open dialogue is welcomed to ensure that the Company understands differing perspectives and drivers.

PowerNet continues to manage the InverNet fibre optic initiative on behalf of EIL. This fibre optic ring continues to be extended and as the network is improved it will interconnect offices, the control room and substations around Invercargill.

PowerNet also provides administration and financial reporting services to the Southland Warm Homes Trust, a joint initiative between EIL, the Southland Power Trust, local authorities and businesses.

PowerNet has continued investigations into smart metering with the joint venture company SmartCo. The joint venture has gained strength and industry status. Good progress has been made in negotiations with retailers, which moves towards being able to develop a formal business case for expanding into this investment area. Plans for the recertification of Category 1 meters by 2015 remains a focus in the event the smart meter rollout does not proceed.

Network Owners

PowerNet managed four networks in Otago and Southland, the network owners being four of PowerNet's key stakeholders: Electricity Invercargill Limited (EIL), The Power Company Limited (TPCL), OtagoNet Joint Venture (OJV) and Electricity Southland Limited (ESL).

PowerNet also provides a network control centre function to the Stewart Island Electrical Supply Authority (SIESA).

PowerNet provides monthly administration and financial reporting, as well as operational reporting, for each of the three major networks, EIL, TPCL and OJV. This includes preparation of annual Information Disclosure Statements, Commerce Commission Default Price Quality Path Compliance Statements, Asset Management Plans and Annual Reports; all of which have met governance and regulatory requirements.

PowerNet and all three network owners once again received unqualified financial audit reports.

Monthly reports are also prepared for the ESL owners.

The Company operates a 24-hour, 7 days a week, manned control room providing a high level of monitoring and control of network operations and customer service for the 66,800 customers connected to the networks. It is only one of two such facilities in the South Island providing an informed and efficient faults call centre service for its customers and a safety enhancing operations control room. This facility also enables PowerNet to meet the network owners' Commerce Commission quality limit regulation monitoring and reporting requirements in an efficient and technologically effective manner.

We have actively managed our vegetation control programme ensuring compliance with the Tree Regulations on behalf of the network owners. The vegetation management programme has resulted in a reduction in unplanned outages across the networks.

PowerNet has in general met the expectations of the network owners in accordance with the respective service level agreements.



Kennington Substation before the upgrade, and



after the upgrade

Connecting **WITH** OUR STAKEHOLDERS



Connecting with our Stakeholders *continued*

Electricity Invercargill Limited

The Regulatory Value of the EIL network assets is \$63 million which includes 658km of predominantly underground cables and lines and 447 distribution transformers with a capacity of 150 MVA.

EIL has 17,236 consumers and contracts PowerNet to manage its network assets and charges PowerNet a fee for the use of the network. PowerNet adds operating costs to this and the total costs are on-charged to the electricity retailers through the line charges.

The farsighted decision of EIL's owners in the late 1960's to underground the EIL network in the city continues to make it one of the most reliable networks in the country, as well as enhancing the vista of the city.

The System Average Interruption Duration Index (SAIDI) this year at 31.79 minutes. This was well below the Business Plan target of 40.06 minutes and the Commerce Commission Reliability Limit of 45.65. The System Average Interruption Frequency Index (SAIFI) figure for EIL of 0.33 times was below the Commerce Commission Reliability Limit of 1.13 and the Business Plan target of 0.77 times.

The overall performance reflects the benefits from the completion of EIL's overhead to underground programme and positions EIL as a leading electricity network.

The EIL network expenditure on technical and distribution maintenance was \$1.8 million with all planned maintenance completed, compared to \$1.4 million for the previous year. EIL capital expenditure reached \$3.8 million against a budget of \$4.9 million. A substantial development project is underway for a new zone substation at a site in Spey Street. This development has been triggered following a seismic study that highlighted the existing Doon Street Substation site is less than optimal. In conjunction with this project, a new 33kV cable will also be laid from the Transpower Invercargill grid exit point (GXP) to the new substation. This work is planned for 2013-2014.

A \$404,000 cabling project along Queens Drive was undertaken as the second stage of a three stage programme. The work included a portion of 11kV cable replacement in anticipation of the new Spey Street Substation. Transformer replacement costs were \$800,000 against a budget of \$477,000 with more replacements than anticipated due to condition assessment.

Just over 190 connection-related projects were completed during the year, ranging in complexity from simple alterations to new supplies for industrial complexes. There was also a number of distributed generation sites using photovoltaic systems during the year. Customer-generated connection work exceeded expectations by 75% over the original budget figures. Noteworthy projects included new developments in Bond Street and Arena Avenue and the reconfiguration of the power supply for Stadium Southland.



A cooling system for a transformer at Leven Street Substation



Project

Approximate Expenditure

Doon Street Zone Substation Transformer Replacement	\$1,436,000
Distribution Transformer Replacements	\$800,000
Spey Street New Substation	\$749,000
Invercargill Transpower Substation to Spey Street Zone Substation New 33kV Cable	\$671,000
Queens Drive 11kV Cable Upgrade	\$404,000
New Customer Connections	\$324,000

The new 66/11kV transformer being lifted on site at Monowai Substation



The 66/11kV transformer in place at Monowai Substation

Connecting with our Stakeholders *continued*

The Power Company Limited

The Regulatory Value of the TPCL network assets is \$308 million, made up of 8,691km of lines and cables and 10,897 distribution transformers with a distribution capacity of 403 MVA.

TPCL has 34,602 consumers and contracts PowerNet Limited to manage its network assets and charges PowerNet a fee for the use of the network. PowerNet adds operating costs to this and the total costs are on-charged to the electricity retailers through the line charges. TPCL is one of the better performing predominately rural networks in New Zealand.

The SAIDI for TPCL of 191.40 minutes did not meet the Business Plan target of 162.16 minutes. Storm conditions during November and an extensive maintenance and capital works programme contributed to the year end results. The SAIFI figure for TPCL of 2.59 was better than the Business Plan target of 3.22.

All planned technical and distribution maintenance was completed on the TPCL network with \$7.022 million spent against a budget of \$7.126 million. The budget variance was due in part to more stable weather patterns leading to lower reactive contractor costs. A total of \$673,000 was spent on the Gore to Riversdale, Gore to Kelso and Mataura to Edendale sub-transmission circuits.

TPCL capital programme expenditure was \$18.6 million compared to a budget of \$18.5 million. Work included:

- Replacing the old 11kV switchboard at Underwood Zone Substation, which had to be managed within the shut-down window of the nearby meat processing plant
- Replacing the old 11kV switchboard at South Gore Zone Substation
- A major upgrade at Kennington Zone Substation to improve the capacity and reliability of the supply

- The installation of a 66/11kV transformer and other equipment at Monowai Zone Substation to properly separate TPCL's network from that of Pioneer Generation
- The installation of a new 66/11kV transformer at Ohai Zone Substation to provide a spare transformer for many of TPCL's rural substations
- The upgrade of Kelso Substation to improve capacity and reliability

Excellent progress was made on other ongoing projects during the year, including the Mossburn to Athol 66kV line and new zone substations at Hedgehope, Athol and Isla Bank.

There were around 700 connection-related projects during the last year. Activity in the dairy sector fluctuated during the year, with the monthly applications for new dairy sheds ranging from zero to nine applications. The year-end total was 34, compared to 42 for 2011-2012.



Project

Approximate Expenditure

Mossburn-Athol New 66/22kV Line - Stage Two	\$3,151,000
New Customer Connections and Reticulation of New Subdivisions	\$2,708,000
11kV Line Refurbishment	\$2,459,000
Network Switchgear Replacement	\$2,195,500
Distribution Transformer Replacements	\$1,525,000
Monowai Zone Substation Upgrade	\$1,455,000
Kennington Zone Substation Upgrade	\$1,343,000
Vegetation Management	\$1,225,000

Connecting **WITH OUR STAKEHOLDERS**



Connecting with our Stakeholders *continued*

OtagoNet Joint Venture

OtagoNet Joint Venture (OJV) was formed in July 2002 and owns the electricity network assets throughout coastal and inland Otago from Shag Point in the north east, inland through to St Bathans and south down to the Chaslands.

OJV has 14,812 consumers and contracted PowerNet to manage the assets on its behalf.

OJV's Regulatory Value is \$135 million made up of 4,394km of lines and cables and 4,197 distribution transformers, with a capacity of just over 162MVA. OtagoNet has one of the lowest density of consumers in New Zealand at 3.37 consumers per km of line.

PowerNet charges OtagoNet a network management fee. OtagoNet then adds operating costs, depreciation, overheads and a return on investment to the PowerNet charges. The total costs are on-charged to electricity retailers.

In December Transpower required a shut down at the Palmerston grid exit point for urgent transformer maintenance after discovering a poor connection that was in danger of failure. By working with Transpower the shutdown was planned to be completed during an eight hour period during the night when the load was at its lowest and all customers could remain connected, with OtagoNet installing multiple large generators in the Waikouaiti area to provide the extra power.

A 33kV zone substation was built and commissioned for the new Gardians Dairy Factory at Greenfield between Balclutha and Clydevale. The factory was commissioned during the late winter and was ready to start production at the start of the spring dairy season. It is supplied from three transformers with a total capacity of 2,300 kVA.

Other zone substations had new transformers and 11kV switchgear commissioned during the year at Milburn, Waipiata, Wedderburn and Paerau. At the same time the 33kV subtransmission lines to the Milton, Clinton, Kaka Point and Owaka Zone Substations were partially rebuilt to improve supply security.

During the year some 38 individual 11kV or 22kV line rebuilding projects were completed throughout the network area from Tahakopa in the south through to Danseys Pass in the north. These projects had an average value of \$120,000 each, with all work being performed by Otago Power Services operating out of depots in Balclutha, Palmerston and Ranfurly. Together with on-going vegetation control throughout the network, these projects continue to improve the reliability and quality of supply to OtagoNet's rural customers.

The SAIDI for OJV at 253.00 minutes was less than both the Business Plan target of 326.21 minutes and the Commerce Commission reliability limit of 361.08 minutes. The SAIFI figure for OJV of 2.30 was less than both the Commerce Commission reliability target of 3.12 and the Business Plan target of 2.69. Continued investment in vegetation management, network maintenance and network upgrading assisted OJV in meeting all targets and operating within regulatory limits.



Project

Approximate Expenditure

Refurbishment of 11kV Lines and Distribution Transformer Replacements	\$2,440,000
11kV & 22kV Single Wire Earth Return Line Refurbishment	\$2,085,000
New Customer Connections	\$2,054,000
Substation Switchgear and Transformer Replacements	\$1,560,000
Refurbishment of 33kV Subtransmission Lines	\$1,151,000
Vegetation Management	\$705,000

Connecting **WITH** OUR STAKEHOLDERS



Connecting with our Stakeholders *continued*

Electricity Southland Limited

Electricity Southland Limited (ESL) is an electricity network asset company that was formed in March 1995 by EIL and TPCL. It owns the Lakeland electricity network at Frankton in the Queenstown Lakes area and has contracted PowerNet to manage the assets on its behalf.

Assets comprise of 19.5km of cables, twelve distribution transformers with a distribution capacity of 5.4MVA and 173 consumers.

There was continued growth within the Frankton network, mainly around the continuing expansion of the Remarkables Shopping complex. The planning is underway for even greater growth in the coming year, as several new developments are added to Remarkables Park.

An exciting development arose at the end of the year with the proposal to extend the ESL network to the east of the Shotover River to supply a large new residential subdivision called Shotover Country. This work is planned for the 2013-2014 year.



Remarkables Park

Network Comparisons

Network Ownership	 Southland Electric Power Supply Consumer Trust	 Invercargill City Holdings Limited	 Joint Venture	 Electricity Invercargill Limited/The Power Company Limited
Connected Consumers				
Total	34,602	17,236	14,812	173
- Residential	25,060	15,059	11,271	23
- Industrial	166	126	24	-
- Commercial	9,376	2,051	3,517	150
Network Length	8,691km	658km	4,394km	19.5km
Consumer Density	4.0 consumers/km	26.2 consumers/km	3.3 consumers/km	8.8 consumers/km
Number of Distribution Transformers	10,897	447	4,197	12
Distribution Transformer Capacity	403MVA	150MVA	162MVA	5.4MVA
Distribution Transformer Density	46kVA/km	227kVA/km	36kVA/km	277kVA/km
Maximum Demand	134MW	66.7MW	60.7MW	2.2MW
Total Energy Conveyed	755GWh	279GWh	422GWh	9.7GWh
Regulatory Value	\$308 million	\$63 million	\$135 million	-

Connecting **WITH** OUR STAKEHOLDERS



Connecting with our Stakeholders *continued*



Transformers being moved at Corys

Service Providers

PowerNet continues to develop and value relationships with service providers that play a critical role in the success of the Company.

Faults and maintenance services are provided by Otago Power Services Limited (OJV and TPCL East), Peak Power Services Limited (ESL), Power Services Limited (EIL, TPCL West and SIESA) and Transfield Services NZ Limited (TPCL).

The contractors have provided project and maintenance field service delivery in addition to incident response and reactive repair work, pooling resources when required to meet the needs of PowerNet, consumers, network owners and the community.

Crane Distribution Limited, through its trading name Corys, has continued to provide a materials procurement and management service to PowerNet through its Invercargill and Balclutha inventory stores management. An agreement with Corys, which allows for the risks and gains associated with business activity to be shared between the parties, continues to operate well for both parties.

Asplundh, an international accredited vegetation management company, has continued to provide vegetation control services on the TPCL and EIL networks, along with a local operator Bruce Dickens. Otago Power Services provides vegetation management services on the OJV network.

Electricity Sector and Government

This year has seen the continuation of the work carried out by the Electricity Networks Association Regulatory Working Group to respond on behalf of the industry to the various Commerce Commission and Electricity Authority proposals relating to price and quality and information disclosure regulations and the ongoing impacts of other regulations and issues affecting the industry. PowerNet continued to take an active role in these issues through its Chief Financial Officer being a member of the Regulatory Working Group.

Amendments to the Electricity Industry Participation Code to become effective in June 2013 will require EIL and TPCL to manage all metering information onto the Registry. Significant preparation has begun towards correlating our existing metering data with that held by traders. The Electricity Authority created a working group, which has PowerNet representation through our Customer and Metering Services Manager.



Contactors Asplundh trimming trees



Trudy de Thierry - PowerNet and Bill Olausen from NZ Drug Detection Agency



Connecting with our People

The attraction, development and well-being of staff is a key priority for PowerNet.

“The strength of the business is our people. Our people are as much an asset to the company as the physical assets we manage and as such we focus on providing a positive, enjoyable and rewarding workplace for our staff.” Jason Franklin, Chief Executive.

Who we are

PowerNet employs sixty-five staff based in Invercargill who manage the EIL, TPCL and ESL networks and provide administration, commercial, regulatory, financial and some engineering services for the OJV network. There are an additional seven staff employed in Balclutha who manage the OtagoNet network.

All staff are on individual employment agreements with a combination of full-time and part-time workers. Some have flexible working arrangements.

Staff Turnover

The turnover of staff for the 12 month period was approximately 11% with eight staff leaving. Moving to other roles, family reasons, or career advancement were the main reasons for the turnover rate.

Eleven new staff members were employed during the year, mainly to replace those leaving or to fill vacancies where additional resource was needed.

Most staff were recruited from within Southland or Otago.

The age profile of PowerNet staff tends towards mature staff reflecting the depth of experience and skill required within the business.

Training and Personal Development

Continual learning and development is critical to our success and training and development is a key action in the Company Business Plan.

The total number of hours spent on training for all staff during the year was 6,315 and was an increase of almost 50% from last year. This is approximately 112 hours per full-time staff member compared to approximately 75 hours for last year. Enhanced and continued improvement in Safety Awareness and leadership development are two key reasons for the increase in training hours. The implementation of SQRA training and business interruption management training also added to the increased hours. Training undertaken during the year included:

- **Leadership Development**
During the year a focus was on leadership development. A training course involving all first line managers and leaders was held at Telford Rural Polytechnic focusing on core leadership skills.
- **Outward Bound**
PowerNet offers annual scholarships for employees to attend an Outward Bound Course. During the year Katie Lahman, GIS Technician, attended a eight day Outward Bound Navigator Course that focuses on personal and professional development.
- **Advanced Driver Training**
Each year 8-12 staff attend the Advanced Driver Training to assist with keeping safe on the roads.

- **First Aid Training**

All new staff are given the opportunity to attend a two day First Aid Course and all staff are encouraged to undertake two yearly Refresher Courses. It is encouraging that all staff keep their First Aid Certificates current.

- **Professional Development**

Professional development is encouraged and ongoing with many staff studying towards Diplomas, National Certificates or Degrees. As an example of this type of development Daniel Wijkstra and Phil Hartley are undertaking a National Diploma in Engineering through ESITO and two staff have continued working towards an MBA.

- **Conference and Industry Forum Workshop Attendance**

Attendance at industry specific or work related conferences has increased and is found to be beneficial for keeping up to date with industry practice and new thinking.

- **In-House Training**

In-house training ensures staff are proficient with the use of technology and changes to systems. This year the introduction of the MAXIMO Asset Management System to replace the WASP system has resulted in staff receiving training in the use of the new system.

A compliance seminar run by AWS Legal involved all staff and was beneficial in raising awareness of legal compliance obligations.

- **Drug and Alcohol Training**

With the introduction of an impairment policy all managers and staff have attended training sessions with NZ Drug Detection Agency on drug and alcohol impairment in the workplace.



Connecting **WITH OUR PEOPLE**



Katie Lahman - PowerNet attending the Outward Bound Course

Connecting with our People *continued*

Health and Safety

A safe and healthy workplace for staff and contractors working on our networks is of prime importance.

Tragically, a contractor employee died as a result of a workplace incident in October 2012. Thorough incident investigations were carried out by the company and external agencies. Eliminating all workplace injuries is the top priority for the company.

A comprehensive workplace safety assessment has been undertaken by the company. The Semi-Quantifiable Risk Assessment (SQRA) programme has provided a comprehensive framework to delivering workplace safety improvements.

This year continues our record of no Lost Time Injuries for PowerNet staff.

Notable Achievements/ Milestones

We were pleased to record and celebrate the completion of 40 years service to PowerNet and its predecessors by Metering and Customer Services Manager Alaister Marshall.

John Macdonald, System Controller achieved 45 years' service.

PowerNet's Staff Wellness Programmes

Subsidised medical insurance is provided to all staff. An increase of claims in the last year has confirmed the benefit to staff, allowing them to have readily accessible treatment and return to work quickly.

- Flu Vaccination**
 At least one-third of staff took up the option of being inoculated against flu and no adverse outcomes were reported.
- Eye Examinations**
 Staff regularly take the opportunity to have annual eye examinations.
- Healthy Eating, Healthy Living**
 Several staff took place in the BNZ Workplace Challenge and some have continued the regular walking activity. The team consisted of Sharon Johnston, Helana Middlemiss, Ann McDowall, Katie Lahman and Bevan Cooper and achieved an impressive ninth place overall out of 102 teams in the Office/Car-based category.



The fresh fruit bowl provided each day is appreciated by staff



Connecting **WITH OUR PEOPLE**

Connecting with our People *continued*

Staff Sporting Events

PowerNet continues to support staff involvement in sporting activities.

- **Corporate Cycling**

A PowerNet team participated in the Harrex Group Corporate Pursuit cycling event again this year. The team was Jason Franklin, Sally Mcleod, Blair Bernard, Shirley Whitaker, Dyson Gentle, Scott Murch, and Steven Wallace, ably coached by Tony Corkill and Alaister Marshall. The team had five races, winning two and losing three, but ended the event on a positive note with a personal best time in their final race.

- **Rowing Challenge**

GIS Technician Shirley Whitaker coordinated the PowerNet Team, half of whom were new to rowing but prepared to do the hard training and give it a go. The team of Shirley, Steve Labes, Blair Bernard, Greg Buzzard, Scott Murch, Dyson Gentle, Rachel Kincaid, Sally Mcleod, Jack Senior, Andie Dillon, Aaron Sinclair and Charlotte Whitaker (coxswain) came 2nd in the C final, achieving an overall result of tenth from 33 crews.

- **Cycling Tour of Southland**

Commercial Manager Aaron Sinclair was once again responsible for managing the PowerNet Tour of Southland cycle team with Alaister Marshall and Jim Phair assisting. Several other PowerNet staff were also involved over the six day event to assist with the team's requirements and promotion of the PowerNet sponsored event.

- **Supporting other events**

Business Process Analyst Tony Corkill was involved in a number of cycling activities in the last 12 months. He was an Assistant Commissaire at the New Zealand elite track championships, Yunca Junior Tour of Southland, Tour de Lakes and many of the track cycling events at the Stadium Southland Velodrome. He was also a volunteer at the UCI Juniors World Championships in Invercargill as a corporate host. Tony was one of the coaches of the PowerNet cycling team at the Harrex Group Corporate Pursuit cycling event and a member of the support team for the PowerNet team in the PowerNet Tour of Southland.

Business Compliance Advisor Tania Cribb volunteered at the annual NZ PGA Championship. The golfing event attracted both professional and amateur golfers from around the globe. The four day event was held at the Hills Golf Course in Arrowtown.



Tony Corkill assisting staff member Blair Bernard in the Harrex Group Corporate Pursuit cycling event

Staff Involvement in Industry

Greg Buzzard, Chief Financial Officer, is a member of both the ENA Regulatory Working Group and the Commerce Commission Information Disclosure Industry Forum.

Gary Pritchard, General Manager Network Operations, is a member of the Electricity Engineers' Association Safety and Strategy Policy Group, the Institute of Occupational Safety and Health (IOSH) and the Institute of Engineering and Technology (IET).

Roger Paterson, Chief Engineer, was re-appointed to the New Zealand National Committee of CIGRE, the International Council on Large Electric Systems.

During this year Alaister Marshall joined the Electricity Authority Data Clean Up Technical Group, a national group working to align metering records across meter owners and retailers.



Rodger Marwick and dog Ruby

Alaister Marshall - PowerNet and Norris Tait - South Pacific Meats



Connecting with our Customers

Electricity is an important part of the economy and of peoples' lives. PowerNet, as an electricity distributor, has a vital role in the community and has a primary responsibility to act with the highest possible safety standards within its community. PowerNet takes this responsibility seriously and commits to engage with customers as widely as possible.

PowerNet Customer Surveys

We obtain regular customer feedback on both our performance and that of our contractors when providing new or altered supply arrangements, following tree trimming work or after an unplanned power outage.

PowerNet customers who have recently connected to one of our networks, had a change in their supply arrangements or had trees trimmed are encouraged to complete a short survey. The survey asks customers to rate how they feel we and our contractors performed and how effectively we communicated with them. As in previous years the feedback was generally very positive and provided an opportunity to address any specific issues.

We also seek performance feedback from a random selection of customers who have reported a power outage on one of our networks. Customers are encouraged to complete the outage survey to rate how they feel about our level of communication, the response and restoration times and the services provided by our contractor. Customer feedback has continued to be positive.

External Consultant's Surveys

PowerNet engages an external consultant to conduct an annual confidential survey of customers connected to our networks. The consultant conducted a telephone survey of 800 customers from across the EIL, TPCL and OJV networks to determine the level of satisfaction with our services, including the faults response service and customers' views on the frequency and duration of supply interruptions.

Performance ratings generally remained steady and the customers' response on cost / quality trade-off was similar to previous years, with only a small number wishing to pay extra for improved network performance. There continued to be general acceptance of the frequency of interruptions for planned work and the time to restore supply following an unplanned interruption.

A number of our commercial customers were also interviewed by the consultant and the results continue to be very favourable. The customers were satisfied with the level of supply reliability and a number indicated they would like regular personal contact with PowerNet commercial and engineering staff.

These surveys provide valuable feedback about brand awareness, customer expectations and PowerNet's communication performance and assist us to continually improve customer service.

Asset Management Plans

PowerNet has completed Asset Management Plans for the EIL, OJV, and TPCL networks.

The Asset Management Plans span ten-years and detail the likely development and maintenance needed to achieve required service levels. Development options consider various drivers including cost, equipment life-cycle, regulatory requirements, demographic changes, environmental impact and customer required service levels. These plans detail PowerNet's approach to management of the network assets for the three companies to ensure stakeholder requirements are met.

As a result of the Christchurch earthquakes, an increased focus of the asset management planning process is seismic strengthening of assets and being able to maintain supply after major catastrophic events.

Connecting **WITH** OUR CUSTOMERS



Connecting with our Customers *continued*

Stakeholder participation to energy planning

PowerNet encourages stakeholder participation in the energy planning and infrastructure development decision-making process. Estimates of growth and decline factors are regularly provided to Transpower and the Electricity Authority to allow for the estimation of future regional energy demand.

Local developers are encouraged to discuss proposed development projects with the Company to help ensure availability of supply.

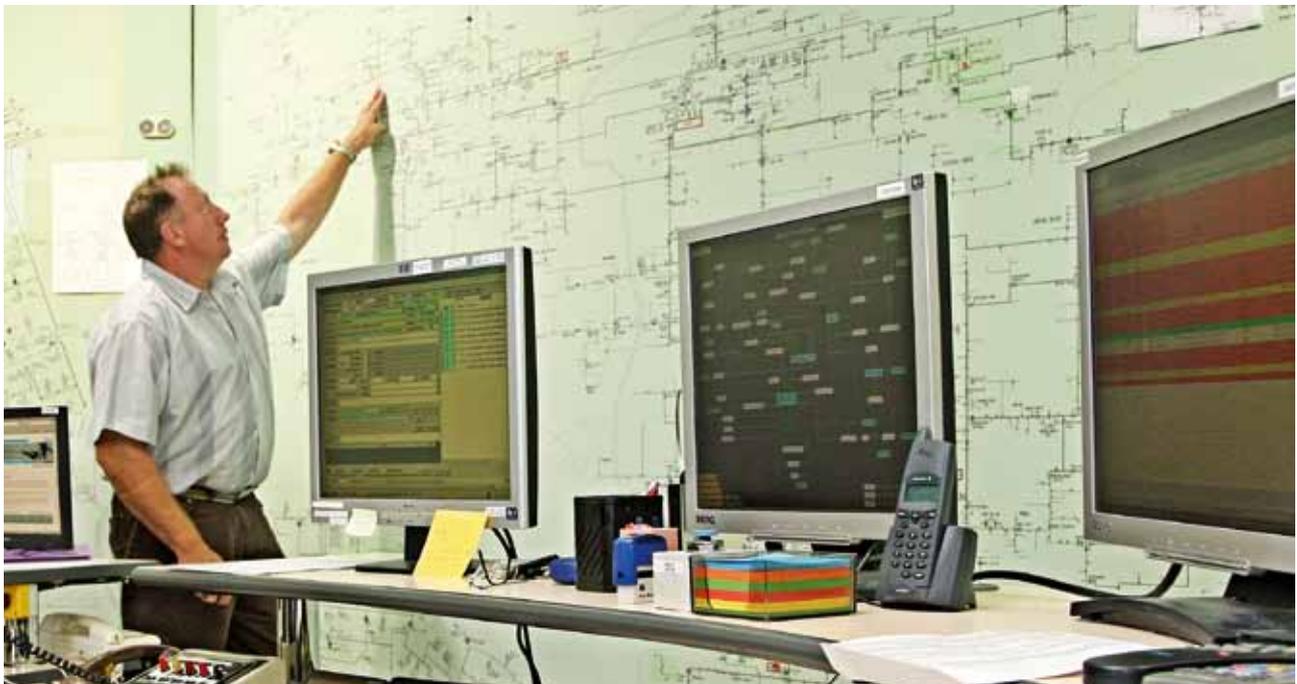
In the last year we have actively engaged and responded to consultation papers and information requests from the Government, Regulator and Transpower.

Customer Services

PowerNet recognises the importance of maintaining good communication with customers. Our Commercial Manager meets with a number of our commercial customers throughout the year to discuss line pricing options and help develop strategies to ensure their processes enable the best possible application of our pricing structure.

PowerNet's Customer and Metering Services Manager also assists customers when considering the different options relating to power supply, connections and capacity solutions and any related line pricing options.

The Company operates a 24-hour, 7 days a week, control room in Invercargill, providing a high level of monitoring and control of network operations and customer service for the 66,800 customers connected to the networks. The control room provides an informed and efficient service for reporting power outages, voltage fluctuations and authorisation for working close to electricity equipment. Our control room operation also manages the load on the network and planned power outage activity. The Company has two mobile generators available to help reduce the impact of planned outages on our customers.



Greg Wilson at PowerNet System Control

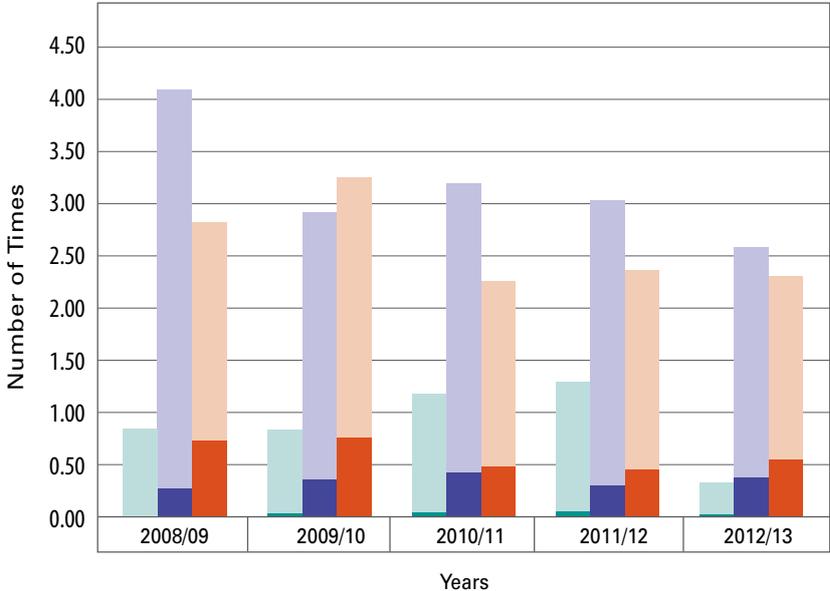
Connecting **WITH** OUR CUSTOMERS



Connecting with our Customers *continued*

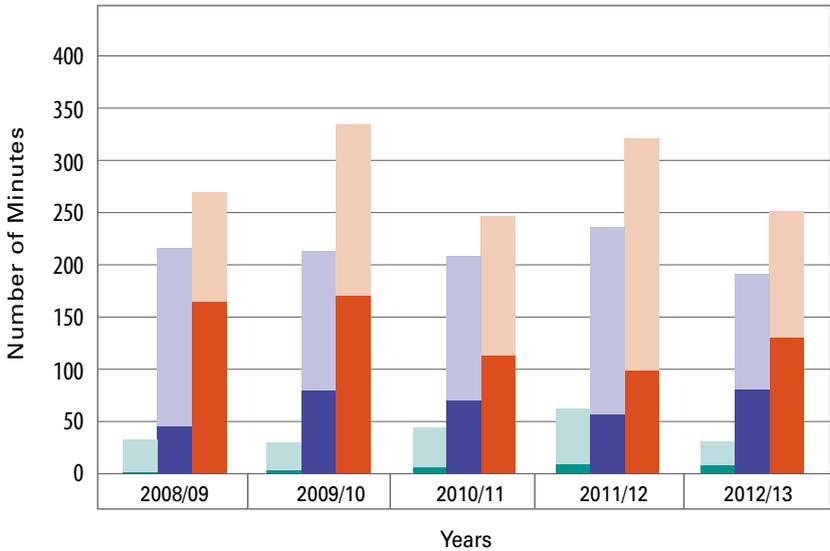
System Average Interruption Frequency Index (SAIFI)

The average number of times each customer connected to the network is without supply each year.



System Average Interruption Duration Index (SAIDI)

The average total time in minutes each customer connected to the network is without supply each year.



Graph Legend



Connecting **WITH** OUR ENVIRONMENT



Connecting with our Environment

We are committed to continual improvement in our sustainable business practises.

We are constantly looking to lessen our impact on the environment. Improving our sustainability practices applies within our work environment and also to our wider stakeholder community, including our contractors.

We are also encouraging wider participation in sustainable practices through our contracting and supplying partners.

Waste composition 2012-2013

Office Waste

During the year PowerNet has continued its recycling programme and our staff are very proactive in their approach to recycling and organic disposal of our office waste.

The waste to landfill from the office waste has reduced from 3,575kg per year in 2008-2009 to 240.5 kg per year this year. In terms of reducing waste to landfill we are pleased with the results and the maintenance of the recycling programme. Overall, the Company has significantly reduced the amount of waste ending up in landfill which also reduces the carbon footprint of our operations.

Network waste

There are three significant operational waste products resulting from our activities. These are insulating oil, SF6 gas and power poles.

Waste Oil

Waste oil is a by-product of the transformers and switchgear used in electricity distribution. The disposal of oil in an environmentally sensitive manner is of importance to PowerNet and transformer oil is, in the main, collected and disposed of by reputable oil disposal companies. After collection most of the oil is further tested for PCB contamination and refurbished before on-selling. 100% of oil used is either sold or returned to the supplier for recycling.

PowerNet aims to have zero uncontrolled leakages or spillages and it is pleasing to report this year there were no such incidents. A review of our environmental protection facilities is underway to look at improvements where they can be made.

SF6 Gas

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

The estimated total of SF6 used on the PowerNet managed networks is 328kg and there were no losses reported during the year.

Redundant Power Poles

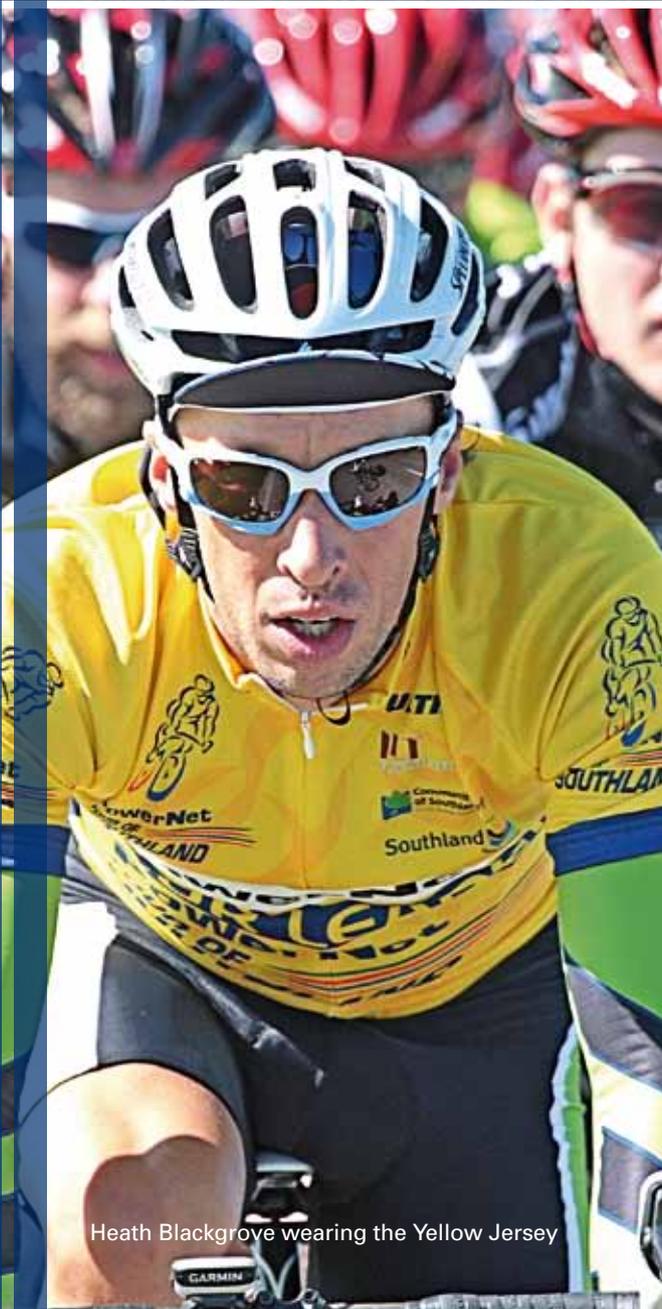
Power poles form the backbone of the PowerNet managed networks and maintaining them is one of PowerNet's key roles. Poles are typically replaced when their condition is determined as below that necessary to ensure the safety of the public and to maintain high performance of the networks. There were over 546 redundant poles this year, the majority of which were hardwood poles that were recycled.

PowerNet and Climate Change

PowerNet is also committed to being a good corporate citizen and will continue to look at ways to reduce the impact on the environment across all its operations including the reduction in carbon emissions in its everyday operations.



The PowerNet team on Stage 1 of the 2012 Tour



Heath Blackgrove wearing the Yellow Jersey



Lyn Daly, Shane Archbold and Kathryn McCoy



Cycle team - Shane Archbold, Heath Blackgrove, Myron Simpson with Dale Tye - Cycling Southland visiting Te Tipua School

Connecting with our Communities

PowerNet will continue to look at ways to support the communities we serve. In the last financial year PowerNet sponsored an iconic sporting event and supported tertiary training events.

PowerNet Tour of Southland



PowerNet's major sponsorship of the PowerNet Tour of Southland ended in 2012. This was the 12th year as major sponsor for New Zealand's premier multi-stage cycle road race. The six-day event is listed on the international cycling calendar and is a major Tour on the Australasian circuit.

The PowerNet Tour travels throughout much of Southland and into the Queenstown Lakes area, capturing the attention and support of the local communities along the way. The economic impact of the event to the region is reported to be approximately \$2.5 million.

The Tour attracts significant interest from local and national media as well as the international cycling media. Twenty-two sponsored teams started the event, with a total of 132 local, national and international cyclists among the teams of six riders. Just over 300 volunteer staff ensured the smooth running of the event.



Sharon Johnson - PowerNet with the Tour of Southland Cup

PowerNet sponsored a team in the event for the sixth consecutive year and again joined forces with Cycle Surgery to attract some of New Zealand's top young cyclists. A PowerNet advertising campaign was designed around the Company's team of Olympian Shane Archbold, Cameron Karwowski, Tom Scully, Myron Simpson, Heath Blackgrove and Ryan Wills. An early win of the prologue stage around Queens Park saw Heath Blackgrove beginning the Tour wearing the yellow jersey.

PowerNet's passionate staff and Cycle Surgery's expertise combined to provide superb support for both the team of riders, Cycling Southland and the media.

PowerNet's riders and Cycling Southland's coach, Dale Tye, visited schools prior to the Tour, delivering messages about how to keep safe around electricity and how to become involved in the sport of cycling. During the Tour week Dale developed a school chant competition, where schools were asked to create and present their chant to the pre-Tour team which consisted of staff from PowerNet and Cycling Southland. As in previous years the chants and cheering from the schools on the Tour route gave encouragement to the cyclists over the 895km event.



Stage 6 of the 2012 Tour of Southland

The Flying Mullet Campaign

During this year's Tour of Southland PowerNet proudly supported an initiative to raise money for the Child Cancer Foundation.

Shane Archbold - known in the cycling world as the 'Flying Mullet' - decided to have his trademark mullet cut at the end of the Tour in a bid to raise funds for the Foundation. Shane had been growing his distinctive hairstyle for four years. The motivation for Shane to have his mullet cut off came from a family friend in Timaru, Tim Leonard, who is a child cancer survivor. Tim and his father travelled from Timaru to see Shane finish the Tour and watch him shed his trademark locks.

The Flying Mullet campaign ran alongside this year's Tour and involved supporting TV coverage and newspaper advertising. PowerNet staff wearing mullet wigs collected donations from the public at the end of each stage. Donations to the Flying Mullet campaign could also be made online. PowerNet was proud to support Shane's successful campaign with over \$11,500 raised.



Collecting for the Flying Mullet Campaign - Kathryn McCoy and Helana Middlemiss - PowerNet



Pupils at Waitahuna School



The PowerNet display at the Southland Energy Conference

Connecting with our Communities *continued*

Southland Warm Homes Trust



PowerNet continues to provide administration and financial reporting services to the Southland Warm Homes Trust. The Trust was an initiative of the Southland Electric Power Supply Consumer Trust and Electricity Invercargill Limited, in conjunction with other funders.

The Trust offers support and a range of subsidies to Southland home owners and landlords to foster warmer, healthier homes. The Trust provides subsidies for heating assessments as well as insulation and heating retrofits. The project not only benefits the residents of these houses but also contributes to reducing generation demand and network investment.

Awarua Synergy holds the contract to project manage the assessments and installations on behalf of the Southland Warm Homes Trust. Awarua Synergy is locally owned by the Te Runaka o Awarua Charitable Trust in Bluff.

Other sponsorships

PowerNet was proud to support Rugby Southland through the sponsorship of the Southland Stags No. 7 jersey for the 2012 ITM Cup season. The jersey was predominantly held by talented openside flanker Tim Boys. Sponsorship of the Southland Outdoor Stadium Trust included signage on the Rugby Park scoreboard tower. The PowerNet branding remained on the tower for the 12 month period.

The Company continues to support both the Southland TradeQual Awards event that celebrates the success and achievements of Southland's trade graduates, as well as the Southern Institute of Technology Awards by providing two achievement awards for electro technology students.

PowerNet supported the Southland Energy Conference co-ordinated by Venture Southland and held at Hansen Hall in Invercargill. Within the PowerNet display informative hand-outs were displayed along with a presentation from Network Operations General Manager Gary Pritchard.

The NZ Grey Power AGM 2012 was an event that brought 120 people to the Southland region. This event was also supported by PowerNet. Chief Engineer Roger Paterson provided a presentation on subjects such as PowerNet's role, quality, price and efficiency.

PowerNet also assisted the Southland Red Frogs, a group that focuses on looking after the safety of youth.

PowerNet continues its support of the Power Engineering Excellence Trust (PEET), a charitable trust established to, amongst other things, encourage a greater number of students to study power engineering and we provided support to the Electric Power Engineering Centre at the University of Canterbury.

The above sponsorships reflect PowerNet and its shareholders' commitment to being good corporate citizens.

Public Safety

PowerNet's highest priority is the safety of the public, staff and contractors working on the network. We have reviewed all our existing safety and hazard management procedures and assessed any potential risks associated with network equipment and operational activity. Following this review, an external audit assessed our public safety management system as achieving to the required standard. The Company will continue to monitor and develop procedures to protect the public and anyone working on the network from any potential risks or property damage arising from network equipment and operations.

PowerNet continues to invest significantly in vegetation management across the networks to ensure trees are kept clear from power lines and equipment. Trees contacting power lines not only cause power outages but can also be a significant safety risk to the public.

The Company also provides a cable location service to reduce the risk of contractors, farmers and members of the public harming themselves or causing property damage by contacting a buried cable. Staff use specialist equipment to locate buried cables and the cable routes are marked to ensure all parties are aware of the danger areas.



Ian Roberston - PowerNet and SIT Student John Bennett

Directors' Profiles



Maryann Macpherson
(Chair)

Maryann currently operates a home and garden retail business in Invercargill.

Her career background is farming and taxation management.

Maryann is a Director of The Power Company Limited and Venture Southland.

Previous governance roles have included Chair of Southern Health Limited and Landbase Trading Society Limited.

Maryann is a Member of the Institute of Directors.



Philip Mulvey *BCom CA*
(Deputy Chair)

Philip joined the Board of PowerNet Limited on 1 February 2001.

In October 2011 Phil was appointed NZ Chief Executive of WHK (NZ) Limited. Previously he was Chief Executive of WHK, Southern.

Philip also holds a number of directorships, including Electricity Invercargill Limited.

He is an Accredited Member of the Institute of Directors.



Neil Boniface *JP*

Neil is Chair of Electricity Invercargill Limited, Member of the OtagoNet Joint Venture Governing Committee, an Invercargill City Councillor and Chairman of Council's Finance and Policy Committee and Chairman of the Southland Warm Homes Trust.

He operates a Driving School business in Southland and also serves on several charitable trusts.

Neil is a Member of the Institute of Directors.



Thomas Campbell *BSc (Metallurgy)*

Tom is a former Managing Director of Comalco and General Manager of the Tiwai Smelter who now works as an independent company director.

His directorships include Todd Corporation and Standards NZ, as well as being the Chair of both GNS Science and the Energy Efficiency and Conservation Authority (EECA).

Tom is an Accredited Member of the Institute of Directors.



Duncan Fea *BCom CA*

Duncan is a regional Managing Principal in WHK, Chartered Accountants and Business Advisors.

He has a number of directorships which include The Power Company Limited and Peak Power Services Limited and is a past Director of Pioneer Generation Limited and Queenstown Airport Corporation Limited.

Duncan is a Member of the Institute of Directors.



Douglas Fraser *BSc (Chemistry)*

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

He is a Director of The Power Company Limited and Power Services Limited.

Doug is a Member of the Institute of Directors.



Alan Harper *LLB BCom*

Alan is a partner in the law firm of AWS Legal. He has practised with the firm since 1979, specialising particularly in commercial and company affairs.

He is Chair of The Power Company Limited and Member of the OtagoNet Joint Venture Governing Committee.

Alan is also an Accredited Fellow of the Institute of Directors.



Ross Smith *BCom*

Ross joined the Board of PowerNet Limited in November 2003. He is Chief Executive of SBS Bank, the only member owned Building Society with Bank Registration in New Zealand.

Ross is also a Director of SBS Bank, Finance Now Limited, Funds Administration NZ Limited, Southsure Assurance Limited, Electricity Invercargill Limited and Power Services Limited.

Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Financial Statements of PowerNet Limited for the year ended 31 March 2013.

Principal Activities

PowerNet Limited is a joint venture company which manages the electricity networks of The Power Company Limited, Electricity Invercargill Limited, OtagoNet Joint Venture and Electricity Southland Limited. The parties to the PowerNet Limited joint venture are The Power Company Limited and Electricity Invercargill Limited and their interests are represented through their respective wholly owned subsidiaries Last Tango Limited and Pylon Limited. PowerNet Limited's core business is to efficiently and effectively manage the electricity networks under its control.

Result and Distribution

The Directors report that the Company's after tax loss for the year under review was \$49,831. The Directors have not declared a dividend for the year ended 31 March 2013.

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

Each of the Shareholding Companies has appointed four Directors.

Appointed by Electricity Invercargill Limited are:

Philip Mulvey (Deputy Chair)
Neil Boniface
Thomas Campbell
Ross Smith

Appointed by The Power Company Limited are:

Maryann Macpherson (Chair)
Duncan Fea
Douglas Fraser
Alan Harper

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.

Maryann Macpherson

Electricity Southland Ltd	Chair
Last Tango Ltd	Director
Peak Power Services Ltd	Director
Power Services Ltd	Director
The Power Company Ltd	Director
Venture Southland	Director

Philip Mulvey

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Deputy Chair
Forest Dynamics Ltd	Director
Otago Cricket Association	Director
Pylon Ltd	Director
Southland Cricket Association	Chair
Southland Outdoor Stadium Trust	Trustee
WHK	Chief Executive
WHK Cook Adam Ltd	Director
WHK (New Zealand) Ltd	Director
Zak Holdings Ltd	Chairman

Neil Boniface

Electricity Invercargill Ltd	Chair
Electricity Southland Ltd	Director
Invercargill City Council	Councillor
Invercargill Venue & Events Management Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
Pylon Ltd	Director
Southland Driving School	Director
Southland Warm Homes Trust	Trustee

Thomas Campbell

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Director
Energy Efficiency & Conservation Authority	Chair
GNS Science Ltd	Chair
NZ Standards Council	Director
Pylon Ltd	Director
Todd Corporation Ltd	Director

Duncan Fea

Electricity Southland Ltd	Director
Last Tango Ltd	Director
Peak Power Services Ltd	Director
The Power Company Ltd	Director
WHK	Principal
WHK Cook Adam Ltd	Director

Douglas Fraser

Electricity Southland Ltd	Director
Last Tango Ltd	Director
NZ Wool Board Disestablishment Company	Director
Power Services Ltd	Director
Telford Farm Management Board	Director
The Power Company Ltd	Director

Alan Harper

AWS Legal	Partner
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

Ross Smith

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Director
Finance Now Ltd	Director
Fraser Properties Ltd	Director
Funds Administration NZ Ltd	Director
Peak Power Services Ltd	Chair
Power Services Ltd	Chair
Pylon Ltd	Director
Southland Building Society	Director, Chief Executive Officer
Southsure Assurance Ltd	Director

Directors' Report *continued*

Remuneration of Directors

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

Maryann Macpherson	- Chair, Chair Remuneration Committee, Member Audit Committee, Member Health, Safety, Environment & Risk Committee
Philip Mulvey	- Deputy Chair, Member Audit Committee, Member Remuneration Committee
Neil Boniface	- Director, Member Health, Safety, Environment & Risk Committee
Thomas Campbell	- Director, Chair Health, Safety, Environment & Risk Committee
Duncan Fea	- Director
Douglas Fraser	- Director, Member Health, Safety, Environment & Risk Committee
Alan Harper	- Director, Chair Audit Committee
Ross Smith	- Director

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

Maryann Macpherson	\$39,875	Duncan Fea	\$22,000
Philip Mulvey	\$31,625	Douglas Fraser	\$22,000
Neil Boniface	\$22,000	Alan Harper	\$22,000
Thomas Campbell	\$22,000	Ross Smith	\$22,000

Employee Remuneration

Twenty four continuing or former employees received remuneration in the following bands:

\$100,000 - \$110,000	9
\$110,000 - \$120,000	6
\$120,000 - \$130,000	3
\$130,000 - \$140,000	1
\$180,000 - \$190,000	1
\$230,000 - \$240,000	1
\$240,000 - \$250,000	1
\$270,000 - \$280,000	1
\$350,000 - \$360,000	1

Scholarships, Awards and Donations

During the year the Company promoted learning through various scholarships and awards which totalled \$1,747. In addition, donations made by the Company totalled \$8,000.

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.



Maryann Macpherson
Chair



Philip Mulvey
Deputy Chair

Approval by Directors



Waipiata Substation

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2013 on pages 44 to 63

Maryann Macpherson
Chair

Philip Mulvey
Deputy Chair

For and on behalf of the Board of Directors

30 May 2013

Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	2013 \$000	2012 \$000
Operating Revenue	(2)	93,685	84,478
Other Income	(2)	3,119	2,908
Operating Expenses	(3)	(96,526)	(87,129)
Financial Expenses	(3)	(342)	(254)
Operating Surplus/(Deficit) Before Taxation		(64)	3
Taxation (Expense)/Benefit			
Current	(4)	(57)	(32)
Deferred	(4/13)	72	57
Net Surplus/(Deficit) After Taxation		(49)	28
Other Comprehensive Income		-	-
Total Comprehensive Income		(49)	28

Statement of Changes in Equity

for the year ended 31 March 2013

	2013 \$000	2012 \$000
Total Comprehensive Income		
Net Surplus for the Year	(49)	28
Other Comprehensive Income	-	-
	(49)	28
Distributions to Shareholders		
Dividend Paid/Declared	-	-
Changes in Equity for the Year	(49)	28
Equity at Start of Year	246	218
Equity at End of Year	197	246

The accompanying notes on pages 47-63 form part of and should be read in conjunction with these Financial Statements.

Statement of Financial Position

as at 31 March 2013

	Note	2013 \$000	2012 \$000
Equity			
Share Capital	(5)	20	20
Retained Earnings	(5)	177	226
Total Equity		197	246
<i>Represented By:</i>			
Current Assets			
Cash and Cash Equivalents	(6)	453	862
Receivables and Prepayments	(7)	13,550	9,294
Construction Work in Progress	(8)	4,785	5,841
Inventories	(9)	440	477
Taxation Receivable		47	47
Total Current Assets		19,275	16,521
Non-Current Assets			
Property, Plant and Equipment	(14)	1,316	1,252
Capital Work in Progress		937	360
Intangibles	(15)	560	773
Deferred Taxation Asset	(13)	232	216
Total Non-Current Assets		3,045	2,601
Total Assets		22,320	19,122
Current Liabilities			
Creditors and Accruals	(10)	10,913	11,203
Employee Entitlements	(11)	786	793
Total Current Liabilities		11,699	11,996
Non-Current Liabilities			
Advances	(12)	10,250	6,650
Deferred Taxation Liability	(13)	174	230
Total Non-Current Liabilities		10,424	6,880
Total Liabilities		22,123	18,876
Net Assets		197	246

The accompanying notes on pages 47-63 form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows

for the year ended 31 March 2013

	Note	2013 \$000	2012 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		93,701	84,112
Income Tax Received		43	-
Interest Received		11	24
		93,755	84,136
Cash Was Applied To:			
Payments to Suppliers and Employees		96,343	82,639
Income Tax Paid		100	90
Interest Paid		341	255
		96,784	82,984
Net Cash Flows From/(Used In) Operating Activities	(19)	(3,029)	1,152
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Property, Plant and Equipment Sales		20	35
		20	35
Cash Was Applied To:			
Property, Plant and Equipment Purchases		1,000	690
		1,000	690
Net Cash Flows From /(Used In) Investing Activities		(980)	(655)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Advances		7,600	6,400
		7,600	6,400
Cash Was Applied To:			
Advances		4,000	7,000
Dividend Paid		-	-
		4,000	7,000
Net Cash Flows From /(Used in) Financing Activities		3,600	(600)
Net (Decrease)/Increase in Cash Held		(409)	(103)
Add Opening Cash and Cash Equivalents Brought Forward		862	965
Closing Cash and Cash Equivalents To Be Carried Forward	(6)	453	862

The accompanying notes on pages 47-63 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 2013

1. Statement of Accounting Policies

Reporting Entity

PowerNet Limited 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 Limited and Electricity Invercargill Limited and their interests are represented through their respective wholly owned subsidiaries Last Tango Limited and Pylon Limited.

The principal activity of PowerNet Limited is the management of electricity distribution networks and provision of management and accounting services.

PowerNet Limited manages the networks of The Power Company Limited, Electricity Invercargill Limited, OtagoNet Joint Venture and Electricity Southland Limited with those entities retaining ownership of their respective network assets. PowerNet Limited also provides administration services to the contracting company Power Services Limited a company 100% owned by The Power Company Limited and Electricity Invercargill Limited.

The financial statements were approved by the Board of Directors on 30 May 2013.

Basis of Preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, and the Financial Reporting Act 1993. They follow New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) (to the extent that is required using differential reporting options referred to in (p)).

These financial statements have been prepared on the basis of historical cost unless otherwise noted in a specific accounting policy.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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 2013

Specific Accounting Policies

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 leased annually to the company.

(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.

(b) Financial Expenses

Financial Expenses comprise interest expense on borrowings. All borrowing costs are recognised in the Profit and Loss 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 Limited's and Electricity Invercargill Limited'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 Limited'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.

(d) Inventories

Inventories are stated at the lower of cost at weighted average cost price, and net realisable value. 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 Company 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 Company and the cost of the item can be measured reliably. All other costs are recognised in the Profit and Loss as an expense as incurred.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

Specific Accounting Policies *continued*

(f) Depreciation

Depreciation is charged to the Profit and Loss 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:

Motor Vehicles	15.6-36.0%	Diminishing value
Buildings	4.0-15.0%	Straight line/Diminishing value
Plant and Equipment	7.0-48.0%	Straight line/Diminishing value
Office Furniture	9.0-80.4%	Straight line/Diminishing value
Computer Hardware	20.0-48.0%	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 Company 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 Profit and Loss.

(i) Intangible Assets

(i) 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.

(ii) Amortisation

Amortisation is charged to the Income Statement 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
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(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.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

Specific Accounting Policies *continued*

(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 Profit and Loss 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.

(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 Company in respect of services provided by employees up to balance date.

(n) Seasonality

The Company'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 Company 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 Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company 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 2013

Specific Accounting Policies *continued*

(p) Differential Reporting

An entity is granted concessions from certain requirements of NZ IFRS if it meets the qualifying entity requirements of the Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime.

PowerNet Limited is a qualifying entity for Differential Reporting by virtue of the fact that it has no public accountability and all of its owners are represented on the governing body.

PowerNet Limited has not applied any differential reporting exemptions during the year.

New Standards Adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2013;

NZ IFRS 11 Joint Arrangements – NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture.

NZ IFRS 13 Fair Value Measurement – NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. PowerNet Limited has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

PowerNet Limited intends to adopt the above standards in the annual reporting period ending 31 March 2014.

Standards Approved but not yet Effective

The International Financial Reporting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective.

NZ IFRS 9 Financial Instruments – This standard replaces the parts of *NZ IAS 39 Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments. All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost. The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. PowerNet Limited intends to adopt the new standard in the annual reporting period ending 31 March 2015.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

2. Income

	2013 \$000	2012 \$000
<i>Operating Revenue:</i>		
Line and Metering Charges	67,800	63,774
Network Revenue	25,604	20,361
External Revenue	281	343
<i>Other Income:</i>		
Interest Revenue	11	24
Other Revenue	3,108	2,884
Total Income	96,804	87,386

3. Expenses

<i>Expenses Include:</i>		
Network Costs	31,930	26,488
Transmission Charges	18,455	15,029
Use Charges	33,419	32,997
Interest Expense	342	254
Deficit/(Profit) on Disposal of Property, Plant and Equipment	(7)	8
<i>Operating Lease Expenses</i>		
- Tenancy and Repeater Site Leases	181	166
- Motor Vehicle Leases	204	204
- Office Equipment Leases	21	20
Total Operating Leases	406	390
Amortisation of Intangibles	289	332
<i>Auditors' Fees</i>		
- Audit of Financial Report	34	32
- Other Services	26	18
Bad Debts Written Off	27	7
<i>Depreciation</i>		
- Buildings	20	20
- Plant and Equipment	94	107
- Motor Vehicles	11	24
- Office Equipment	37	43
- Computer Hardware	102	152
- System Control Assets	6	8
Total Depreciation	270	354
Directors' Fees	203	203
Donations	8	3
Employee Benefit Expenses	6,555	5,915
Scholarships and Awards	2	6
Subvention Payment	-	589

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

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.

	2013 \$000	2012 \$000
Operating Surplus/(Deficit) Before Income Tax	(64)	3
Permanent Differences	11	22
Utilised Tax Loss Offset	-	(674)
Subvention Payment claimed in the Prior Year	-	589
Taxable Income	(53)	(60)
Prima Facie Taxation at 28%	(15)	(17)
Made up of:		
Current Tax	57	41
Deferred Tax	(72)	(58)
	(15)	(17)
Timing Difference now treated as Permanent	-	-
Prior Period Adjustment	-	(8)
Taxation (Benefit)/Expense for Year	(15)	(25)
Effective Tax Rate	23%	-833%
Imputation Credit Account		
Opening Credit Balance	317	226
<i>Credits</i>		
Income Tax Payments	100	91
<i>Debits</i>		
Income Tax Refunded	(43)	-
Closing Credit Balance	374	317

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

5. Equity

The authorised and issued share capital consists of 20,000 ordinary shares which are divided into two groups. Group A comprises 10,000 ordinary shares and Group B comprises 10,000 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 net profit or loss contributed by each joint venture party's network as calculated in accordance with the allocation method used to allocate income and expenditure between the joint venture parties.

	2013 \$000	2012 \$000
Share Capital	20	20
Retained Earnings		
Opening Balance	226	198
Net Surplus/(Deficit) for the Year	(49)	28
Dividend Paid/Declared	-	-
Closing Balance	177	226
Total Equity	197	246

6. Cash and Cash Equivalents

Current Account	103	62
Short Term Bank Deposits	350	800
Total Cash and Cash Equivalents	453	862

Cash of \$1,000 (2012: \$1,000) is held on behalf of one retailer as a bond, this is not included in the above amounts.

7. Receivables and Prepayments

Owing by:

Trade Debtors	6,250	5,385
The Power Company Limited	5,073	2,657
Electricity Invercargill Limited	1,529	553
Electricity Southland Limited	11	12
OtagoNet Joint Venture	211	162
Otago Power Services Limited	9	8
Power Services Limited	25	41
	13,108	8,818
Prepayments and Other Receivables	442	476
Total Receivables and Prepayments	13,550	9,294

Trade and other receivables are stated at their cost less any impairment losses. The carrying amounts of the Company'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 1% of the Company's trade receivables were 30-90 days past due and 2% of the Company's trade receivables were >90 days past due. As most of these amounts are expected to be recovered, no provision for impairment has been created.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

8. Construction Work in Progress

	2013 \$000	2012 \$000
<i>On behalf of:</i>		
The Power Company Limited	4,208	4,459
Electricity Invercargill Limited	577	1,335
Third Party Customers	-	47
Total Construction Work in Progress	4,785	5,841

9. Inventories

Network Spares and Sundry Network Consumables	440	477
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10. Creditors and Accruals

<i>Owing to:</i>		
Trade Payables	6,133	5,596
Accruals	1,095	760
Inland Revenue - GST Payable	311	-
The Power Company Limited	2,865	3,826
Electricity Invercargill Limited	509	1,021
Total Creditors and Accruals	10,913	11,203

11. Employee Entitlements

Opening Balance	793	785
Additional Accrual	466	453
Amount Utilised	(473)	(445)
Total Employee Entitlements	786	793

Employee entitlements include accrued wages, bonuses, accrued holiday pay, and long service leave. Where settlement is expected to be greater than one year, the item(s) are discounted using the Company'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 2013

12. Advances

	2013	2012
	\$000	\$000
<i>Advances from:</i>		
The Power Company Limited	8,200	5,320
Electricity Invercargill Limited	2,050	1,330
Total Advances	10,250	6,650

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.

13. Deferred Taxation

Opening Balance	(14)	(71)
Charged to Income Statement		
- Depreciation (non-current liability)	57	69
- Other (current assets)	-	3
- Other (current liabilities)	-	-
Timing differences now treated as permanent adjustments	15	(15)
Total Deferred Taxation Asset/(Liability)	58	(14)

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 2013

14. Property, Plant and Equipment

	Land \$000	Buildings \$000	Plant & Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Computer Hardware \$000	System Control Assets \$000	Total \$000
Cost								
Balance at 1 April 2011	97	386	648	140	399	454	136	2,260
Additions	-	-	171	-	10	89	-	270
Disposals	-	(4)	(52)	(56)	(74)	(87)	(60)	(333)
Balance at 31 March 2012	97	382	767	84	335	456	76	2,197
Balance at 1 April 2012	97	382	767	84	335	456	76	2,197
Additions	-	21	49	-	20	257	-	347
Disposals	-	-	(39)	(49)	(17)	(9)	(18)	(132)
Balance at 31 March 2013	97	403	777	35	338	704	58	2,412
Depreciation and Impairment								
Balance at 1 April 2011	-	63	288	39	173	229	85	877
Depreciation for Period	-	20	107	24	43	152	8	354
Disposals	-	-	(51)	(15)	(74)	(87)	(59)	(286)
Balance at 31 March 2012	-	83	344	48	142	294	34	945
Balance at 1 April 2012	-	83	344	48	142	294	34	945
Depreciation for Period	-	20	94	11	37	102	6	270
Disposals	-	-	(38)	(39)	(16)	(10)	(16)	(119)
Balance at 31 March 2013	-	103	400	20	163	386	24	1,096
Carrying Amount/Book Value								
Book Value at 31 March 2012	97	299	423	36	193	162	42	1,252
Book Value at 31 March 2013	97	300	377	15	175	318	34	1,316

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 2013

15. Intangible Assets

	Computer Software \$000
Cost	
Balance at 1 April 2011	2,251
Additions	90
Disposals	(1)
Balance at 31 March 2012	2,340
Balance at 1 April 2012	2,340
Additions	76
Disposals	-
Balance at 31 March 2013	2,416
Amortisation and Impairment	
Balance at 1 April 2011	1,236
Amortisation for Period	332
Disposals	(1)
Balance at 31 March 2012	1,567
Balance at 1 April 2012	1,567
Amortisation for Period	289
Disposals	-
Balance at 31 March 2013	1,856
<i>Carrying Amount/Book Value</i>	
<i>Book Value at 31 March 2012</i>	773
<i>Book Value at 31 March 2013</i>	560

Software assets have a finite useful life and are amortised over that useful life.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

16. Transactions with Related Parties

The parties to the PowerNet Limited Joint Venture consist of The Power Company Limited and Electricity Invercargill Limited through their respective subsidiaries Last Tango Limited and Pylon Limited. Electricity Southland Limited and Power Services Limited have the same ownership as the PowerNet Limited Joint Venture. Peak Power Services Limited is a 51% owned subsidiary of Power Services Limited. Pylon Limited and Last Tango Limited jointly hold a 49% interest in OtagoNet Joint Venture. All transactions between PowerNet Limited, its joint venture parties, Electricity Southland Limited, Power Services Limited and Peak Power Services Limited relate to the normal trading activities of PowerNet Limited.

No related party debts have been written off or forgiven during the year.

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

	2013 \$000	2012 \$000
Asset Construction, Management Fees and Directors Fees Supplied To:		
The Power Company Limited	22,006	17,062
Electricity Invercargill Limited	4,171	3,860
Electricity Southland Limited	120	120
OtagoNet Joint Venture	2,199	1,633
Otago Power Services Limited	9	9
Power Services Limited	145	168
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Limited	5,073	2,657
Electricity Invercargill Limited	1,529	553
Electricity Southland Limited	11	12
OtagoNet Joint Venture	211	162
Otago Power Services Limited	9	8
Power Services Limited	25	41
Use Charges and Miscellaneous Charges Supplied By:		
The Power Company Limited	23,509	23,370
Electricity Invercargill Limited	10,379	9,997
Electricity Southland Limited	-	589
OtagoNet Joint Venture	21	21
Otago Power Services Limited	4,230	4,000
Power Services Limited	9,199	9,283
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Limited	2,865	3,700
Electricity Invercargill Limited	509	965
OtagoNet Joint Venture	2	2
Otago Power Services Limited	405	524
Power Services Limited	1,196	1,272
Advances Supplied By/(Repaid To):		
The Power Company Limited	2,880	(480)
Electricity Invercargill Limited	720	(120)

Other Related Parties

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

- PowerNet Limited uses AWS Legal as its solicitors, of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the year amounted to \$152,000 (excl GST) (2012: \$228,000 excl GST) of which \$15,000 (incl GST) is owing at balance date.
- PowerNet Limited uses WHK as its tax advisors, of which Philip Mulvey is Chief Executive and Duncan Fea is a Principal. Fees for taxation advice paid to WHK during the year amounted to \$13,000 (excl GST) (2012: \$14,000 excl GST) of which \$1,000 is owing at balance date.

Key Management Personnel

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

Salaries and Short Term Employee Benefits	1,719	1,850
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Executive staff remuneration comprises salary and other short term benefits. PowerNet Limited 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 2013

17. Commitments

	2013	2012
	\$000	\$000
Capital Commitments		
Capital Commitments as at 31 March 2013 total \$103,000 (2012: Nil).		
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
- Not later than one year	967	1,057
- Later than one year and not later than two years	792	867
- Later than two years and not later than five years	1,446	1,591
- Later than five years	10,492	12,010
Total Operating Lease Commitments	13,697	15,525

Lease commitments are payable for Motor Vehicles, Property, Office Equipment and Transpower Investment Charges.

18. Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2013 (2012: Nil).

19. Net Cash Flow from Operating Activities

The following is a reconciliation between the Net Surplus After Taxation shown in the Income Statement and the net cash flow from operating activities.

Net Surplus After Taxation	(49)	28
Add/(Less) Non Cash Items:		
Amortisation of Intangibles	289	332
Depreciation	270	354
Deferred Taxation	(72)	(58)
Deficit/(Profit) on Sale of Property, Plant and Equipment	(7)	7
	480	635
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	(297)	3,808
Receivables and Prepayments	(4,256)	(472)
Inventories	37	34
Construction Work in Progress	1,056	(2,823)
Taxation Payable	-	(58)
	(3,460)	489
Net Cash Flow From/(Used In) Operating Activities	(3,029)	1,152

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

20. Financial Instruments

The Company 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 Company's risk management framework.

Credit Risk

Financial instruments that potentially subject the Company 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 Company 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 Company does not generally require or hold collateral against credit risk.

The Company 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.

	2013 \$000	2012 \$000
Maximum exposures to credit risk at balance date are:		
Current Account	103	62
Short Term Bank Deposits	350	800
Receivables	6,250	5,385
Receivables from Related Parties	6,858	3,433
	13,561	9,680

The Company is exposed to a concentration of credit risk with regard to the amounts owing by related parties at balance date as disclosed in Note 16 Transactions with Related Parties. However, these entities are considered to be high credit quality entities.

Liquidity Risk

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

The Company evaluates its liquidity requirements on an ongoing basis. In general the Company 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.

The following table details the exposure to liquidity risk as at 31 March 2013:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates >1 Year \$000	Total \$000
Financial Assets				
Cash and Cash Equivalents	453	-	-	453
Trade and Other Receivables	13,108	-	-	13,108
Construction Work In Progress	-	4,785	-	4,785
	13,561	4,785	-	18,346
Financial Liabilities				
Trade Payables	9,819	-	-	9,819
Accruals	-	1,095	-	1,095
Advances	-	-	10,250	10,250
	9,819	1,095	10,250	21,164

Advance repayment arrangements are discussed in Note 12. The above table indicates principal repayments only or interest payable if linked to a variable interest rate.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

20. Financial Instruments *continued*

The following table details the exposure to liquidity risk as at 31 March 2012:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates >1 Year \$000	Total \$000
Financial Assets				
Cash and Cash Equivalents	862	-	-	862
Trade and Other Receivables	8,817	-	-	8,817
Construction Work In Progress	-	5,841	-	5,841
	9,679	5,841	-	15,520
Financial Liabilities				
Trade Payables	10,444	-	-	10,444
Accruals	-	760	-	760
Advances	-	-	6,650	6,650
	10,444	760	6,650	17,854

Advance repayment arrangements are discussed in Note 12.

Market Risk

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

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

The following table details the exposure to interest risk as at 31 March 2013:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
Financial Assets				
Cash and Cash Equivalents	453	-	-	453
Trade and Other Receivables	-	-	13,108	13,108
	453	-	13,108	13,561
Financial Liabilities				
Trade and Other Payables	-	-	10,913	10,913
Advances	10,250	-	-	10,250
	10,250	-	10,913	21,163

Advance repayment arrangements are discussed in Note 12.

Notes to and Forming Part of the Financial Statements *continued*

for the year ended 31 March 2013

20. Financial Instruments *continued*

The following table details the exposure to interest risk as at 31 March 2012:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
Financial Assets				
Cash and Cash Equivalents	862	-	-	862
Trade and Other Receivables	-	-	8,817	8,817
	862	-	8,817	9,679
Financial Liabilities				
Trade and Other Payables	-	-	11,204	11,204
Advances	6,650	-	-	6,650
	6,650	-	11,204	17,854

Advance repayment arrangements are discussed in Note 12.

Foreign Exchange Risk

The Company is not subject to foreign exchange risk.

Sensitivity Analysis for Interest Rate Change

The Company is subject to exposure to interest rate variations through both its cash and short term investments and its advances.

An increase/ (decrease) in the interest rate of 1% is estimated to decrease/(increase) the operating profit before tax and equity by \$68,000 (2012: \$70,000).

Fair Value

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

Capital Management

The Company'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 Company is not subject to any externally imposed capital requirements.

21. Events Post Balance Date

PowerNet Limited is currently negotiating a lease agreement for the rental of a new office to be completed by The Power Company Limited. The intention is for the building to be in place by 1 April 2014.

Auditors' Report

for the year ended 31 March 2013



PricewaterhouseCoopers
119 Armagh Street
PO Box 13244
Christchurch 8011
New Zealand
Telephone +64 3 374 3000
Facsimile +64 3 374 3001
www.pwc.com/nz

Independent Auditors' Report

to the shareholders of PowerNet Limited

Report on the Financial Statements

We have audited the financial statements of PowerNet Limited on pages 44 to 63, which comprise the statement of financial position as at 31 March 2013, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, PowerNet Limited other than in our capacities as auditors and general advisory services provided. These services have not impaired our independence as auditors of the Company.

Auditors' Report *continued*

for the year ended 31 March 2013

Opinion

In our opinion, the financial statements on pages 44 to 63:

- i) comply with generally accepted accounting practice in New Zealand;
- ii) give a true and fair view of the financial position of the Company as at 31 March 2013, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

- i) we have obtained all the information and explanations that we have required; and
- ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.



Chartered Accountants
4 June 2013

Christchurch

Our Management Team



Chief Executive
Jason Franklin



General Manager Corporate Services
Tim Brown



Chief Financial Officer
Greg Buzzard



General Manager Network Operations
Gary Pritchard



Chief Engineer
Roger Paterson



Company Secretary
Jim Dawson



Network Manager (OtagoNet)
Terry Jones

Directory

Head Office

251 Racecourse Road
PO Box 1642
Invercargill 9840
New Zealand

Telephone: 03 211 1899
Facsimile: 03 211 1880
Website: www.powernet.co.nz
E-Mail: powernet@powernet.co.nz

Principal Bankers

ANZ Bank New Zealand Limited

Auditors

PricewaterhouseCoopers, Christchurch

Solicitors

AWS Legal

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