



2016

Annual
Report



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DIRECTORY

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ANZ Bank New Zealand Limited

Auditors
PricewaterhouseCoopers, Christchurch

Solicitors
AWS Legal

Materials Procurement and Management
Corys Ltd

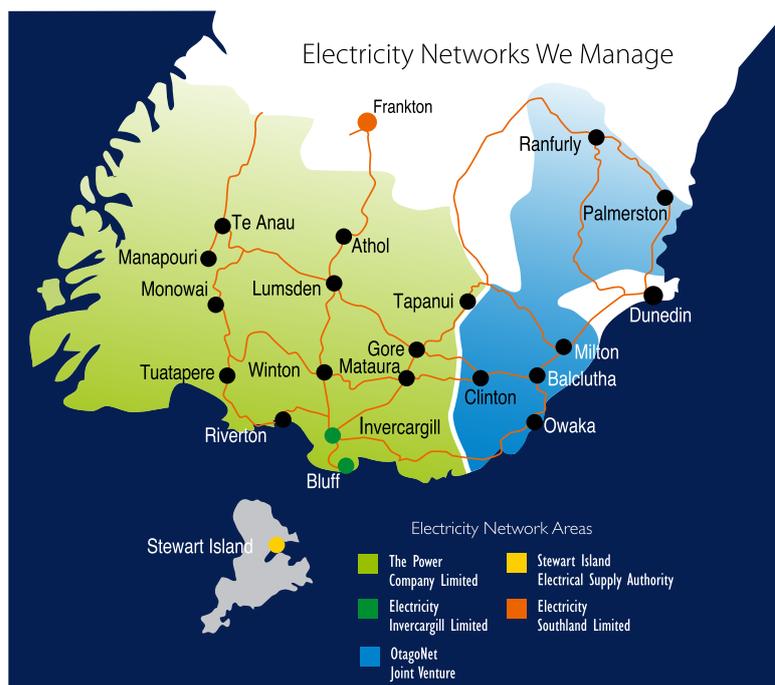
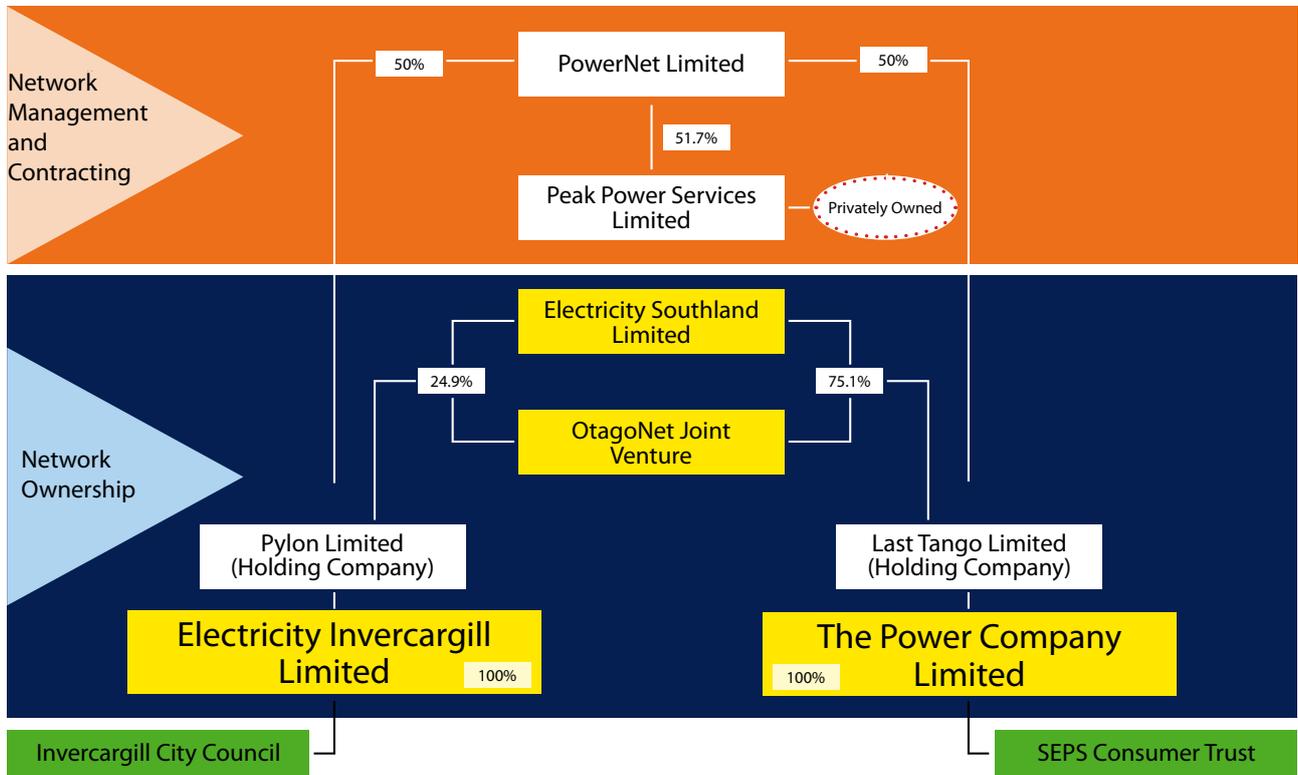
Our HIGHLIGHTS

- Integration of Otago Power Services Limited into PowerNet
- St John Sponsorship
- PowerNet Leadership programme
- Vision and Values
- Introduction of 5S Lean Management
- Ongoing workplace safety Improvements
- Significant network assets commissioned
- Facilitated shareholders' renewable generation investments in Southland, Otago and the Bay of Plenty

Mark Isaacs, PowerNet

Company STRUCTURE

Network Managers and Contracting Companies



Company PROFILE

For over two decades, PowerNet has been the pre-eminent electricity network manager in the lower South Island. The company builds, maintains and manages networks on behalf of network owners in Southland, West Otago, the Frankton region and Stewart Island. PowerNet also identifies and develops opportunities for their shareholders, and manages and monitors the resulting investments.

In the 2015/16 financial year, PowerNet carried out \$41.4 million of capital expenditure and \$21.7 million of maintenance expenditure on the networks we manage.

We have 270 staff and a turnover of \$191 million per annum, comprised of line charge revenue of \$112 million and a works programme and other income of \$79 million. The Company manages assets with a Regulatory Value of \$546 million.

Formed in 1994, PowerNet is jointly owned by Electricity Invercargill Limited and The Power Company Limited, each with a 50% shareholding.



The Power Company Limited (TPCL) was formed in 1990 and owns the network assets in the rural Southland/West Otago area.

TPCL has 35,454 customers.

TPCL has a long, proud history of being innovative and proactive in providing electricity to the people of the south.

In the past the Company has operated under the names of the Southland Electric Power Board and the Southland Electric Power Supply. In 2015, TPCL joined Electricity Invercargill Limited (EIL) in taking a 50 percent share in the Southern Generation Limited Partnership (SGLP), a partnership which owns Mt Stuart Wind Farm near Lawrence and Flat Hill Wind Farm in Bluff. In November 2015 SGLP committed to the purchase of the Aniwhenua hydro-electric power station in the North Island.

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.



OtagoNet Joint Venture (OJV) is owned wholly by EIL and TPCL. 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.

OJV has 14,866 customers 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.



Electricity Invercargill Limited (EIL) was formed in 1991 and owns electricity network assets in Invercargill City and the Bluff area, with over 17,350 customers.

EIL has powered Invercargill for 111 years, previously operating as the Invercargill Municipal Electricity Department.

EIL is owned by the Invercargill City Council through its subsidiary, Invercargill City Holdings Limited.

In 2015, EIL along with sister company The Power Company Limited purchased a 50 percent share in the SGLP, a partnership which owns Mt Stuart Wind Farm near Lawrence and Flat Hill Wind Farm in Bluff. In November 2015 SGLP committed to the purchase of the Aniwhenua hydro-electric power station in the North Island.

Invercargill City Holdings retains 100% ownership and receives an annual dividend from EIL.



PowerNet manages the fast-growing Lakeland network in Frankton that is owned by Electricity Southland Limited (ESL), the shareholders of which are EIL and TPCL. ESL has 574 customers.



PowerNet's 270 staff work from offices and depots in Invercargill, Balclutha, Gore, Winton, Lumsden, Te Anau, Palmerston, Ranfurly and Stewart Island. The company also operates a 24/7 faults call centre and system control room which is located at PowerNet's Invercargill office and is the only one of its kind in the South Island.

PowerNet staff carry out analysis, design, construction and maintenance of electricity network assets along with managing regulatory and financial reporting.

Field services are carried out by PowerNet's distribution and technical services crews and our contracted service providers.

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

PowerNet is the fifth largest network management company in New Zealand. The total Regulatory Value of the networks managed is \$546 million with 14,204 kms of lines and cables, 73 Zone Substations and 15,848 transformers. The combined networks deliver electricity to over 68,700 customers.

The managed networks represent diverse topography, climate zones, customer density, technical design and equipment.

PowerNet is the majority shareholder of Peak Power Services Limited which is the main technical service provider for the Lakeland network.

Chair's and Chief Executive's REPORT



Our last two Annual Reports have been based on the themes of growth and new beginnings.

This year-in-review is about the successes and leadership that have come out of a planned, well-executed and wide-ranging concentration on the future of PowerNet. Our growth and new beginnings focuses have fed into what we see as the electricity management company for the future.

We have amalgamated and integrated our businesses to ensure we are best placed to deliver safe, efficient and reliable services to the network owners and customers.

We continue to invest in our people, specifically in leadership and business process improvement to make them even more valuable to our customers and stakeholders.

We have expanded our strategy to include new partnerships in renewable electricity generation, unlocking opportunities for our shareholders which are forecast to provide strong investment returns and provide further asset investment diversification for the shareholder balance sheets.

At the same time we have consolidated our position as a leading network management company for the electricity distribution sector.

From north of Ranfurly down to Stewart Island, PowerNet is leading the way in ensuring business, residential and rural consumers get electricity when they need it in a way that meets their ever changing requirements.

Leading The Way With Safety

We continue to unremittingly focus on workplace and public safety. Our programmes in this area encompass more than just our field staff; they cover every aspect of our operations. Our farm safety messages have been particularly effective.

Making sure that what we do keeps our staff, contractors and communities safe from harm is paramount. The new systems that have been introduced, or are planned for introduction, will continue to assist in this very important area. Changes in our assets, introduction of new systems, tools, equipment, personal protective equipment and our leadership and cultural change programmes are just some of the many initiatives that will help us deliver improved safety performance.

Leading The Way With Our People

PowerNet has continued to work on developing our people – during the 2015/16 year.

Our Leadership programme, which involves leaders across the entire organisation, continues the professional and personal development of our staff and compliments our other training programmes.

The Shared Vision programme and Team Culture development are both aligned with the Leadership programme.

We have completed the significant integration of the Otago Power Services Limited (OPSL) business, and amalgamated the staff into the PowerNet team, giving us much improved capacity across the networks we manage.

Twenty four staff graduated from our Leadership programme during the year. This ongoing development sets a standard for our continued emphasis on building a wider leadership team that will benefit our team members and wider stakeholders.

Leading the Way On Our Networks

PowerNet continued to lead the way in electricity network management. Our asset renewal and development programmes saw a range of projects completed and new assets commissioned this year which are detailed further in this Annual Report.

With the full integration of the OtagoNet Joint Venture network completed in the 2014/15 year, along with the significant assets added over the past year, now brings PowerNet's total assets and investments under management to \$735 million.

New substations at Colyer Road, Hedgehope, Isla Bank and Spey Street in Invercargill have allowed for future growth and capacity over the southern region. Asset renewals at the Waikiwi Substation and the start of the Puketoi upgrade are projects which make the networks we manage more resilient and safer for the customers and communities we serve.

PowerNet also completes Asset Management Plans for the networks we manage and these have been submitted for the 2016-2026 period. The Asset Management Plans set out the planned capital and maintenance activity and expenditure subject to a number of variables such as age of assets and demand growth. These plans detail PowerNet's approach to management of the networks to ensure stakeholder requirements are met.

Leading The Way In Delivering Value

During the year, PowerNet, on behalf of its shareholders, saw the opportunity to strengthen energy asset investments by entering into a renewable electricity generation joint venture. Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL) partnered with Pioneer Energy to form the Southern Generation Limited Partnership (SGLP).

PowerNet, as a network manager, has worked with Pioneer Energy to grow the SGLP business. During the year, the Flat Hill Wind Farm near Bluff and the Mt Stuart Wind Farm near Lawrence become part of the business. These two electricity generation assets will on average supply the equivalent of 5,000 to 6,000 residential homes. While initially small in scale, it is an important start for the investments in renewable generation.

In late 2015, PowerNet worked with Pioneer Energy on behalf of the SGLP partners, and successfully acquired the Aniwhenua hydro-electric power station on the Rangitaiki River in the eastern Bay of Plenty.

The SGLP business was established in May 2015 and has existing and newly acquired assets to the value of almost \$150 million.

This investment and diversification has been a significant strategic development for PowerNet and its shareholders.

Leading The Way In The Community

The St Johns relationship with PowerNet continued for a second year. Our goal of having a first aid trained responder to an emergency in every Southland and West Otago household is being realised slowly but surely through the PowerNet funded 'St Johns In Schools Programme'.

We also continue to offer administration support to the Southland Warm Homes Trust and advocate on their behalf with Government agencies. The work the Trust has done is valuable both in terms of keeping Southerners healthy but also making homes more energy efficient.

Leading The Way With Governance

Our Board has led the way this year and shown great vision with the growth and consolidation of the business and the challenges and opportunities on the networks we manage. In addition they have been prepared to look beyond the traditional boundaries of electricity lines businesses and invest in other opportunities within the industry.

The generation acquisitions mentioned above will strengthen PowerNet's leadership role in the South and allow us to continue delivering excellent services and returns to our shareholders, customers and staff for years to come.

PowerNet's directors, staff and contractors continue to make significant contributions to the success of the business, so a big thank you to everyone involved.

The business will continue to evolve and change and it is important we are also prepared to change to ensure we continue to deliver to the needs of our stakeholders and remain an efficient and effective network manager.



Jason Franklin
Chief Executive



Ross Smith
PowerNet Chair

A woman in a warehouse setting is using a handheld device to scan a cardboard box. She is wearing a blue long-sleeved shirt and an orange high-visibility vest. The box has a label with the text "SO3683_180 #07" and "215153855-215153855". The background shows stacks of cardboard boxes on a pallet rack.

Connecting with **OUR** **STAKEHOLDERS**



Connecting with **OUR STAKEHOLDERS**

For 22 years, PowerNet has put safety, security and reliability at the forefront of our core business of electricity supply.

As the fifth largest network manager in New Zealand by Regulatory Value, we have a substantial obligation to ensure a safe, secure and reliable electricity supply on behalf of the shareholders whose networks we manage.

Our shareholders, TPCL and EIL, rely on us to manage the networks they individually and collectively own in keeping with our Critical Success Factors - Safety Always, Customer Focus, Continuous Improvement, Passionate and Empowered People, and Courageous Leadership.

In the 2015-16 year, our substantial capital replacement programme continued on all the networks, with five Zone Substations being commissioned or upgraded during the year.

Our work on reducing the overall age of network assets also continues at pace to ensure the growing needs of our residential, commercial and rural customers can be met.

Network Management

PowerNet manages the EIL, TPCL, OJV and ESL networks on behalf of the network owners. PowerNet has long term management contracts in place for all these networks. It also has a service contract agreement with the Southland District Council owned Stewart Island Electrical Supply Authority (SIESA). The four major networks – EIL, TPCL, OJV and ESL – have a combined Regulatory Value of \$546 million. PowerNet reports to the boards of the networks on a monthly basis and carries out all regulatory reporting to the Commerce Commission and Electricity Authority on behalf of the networks.

THE POWER COMPANY LIMITED

35,454 CONNECTED CONSUMERS

8,845km Network LENGTH

CONSUMER DENSITY
4.0 consumers/km

11,051 distribution transformers



Connecting with OUR STAKEHOLDERS

The Power Company Limited

The Power Company Limited (TPCL) remains the largest network under PowerNet management with a Regulatory Value of \$315 million.

The network owners have continued the growth of previous years, with significant investment in new and existing assets, as well as the joint venture into wind farm power generation and the Aniwhenua hydro scheme in the North Island. This diversification adds strength and expansion to the TPCL balance sheet.

The network owners committed \$24.1 million in capital investment during the year, including the Colyer Road Zone Substation completion at Awarua and the Edendale Zone Substation upgrade for the third Fonterra power transformer. Advanced meter installation capital expenditure on the TPCL network was \$3.1 million during the year.

The Isla Bank Zone Substation and 66kV line projects were also completed and lived in at the end of March.

Stage two of the Riversdale to Lumsden 33kV line was completed, and we continued our 11kV line replacements across the TPCL network.

Safety, reliability and security projects dominated our maintenance programme for the year, with TPCL spending \$10.8 million on maintenance across the network during 2015-16. System automation on the network will make it easier to restore supply in the case of outages and will give the network more reliability.

TPCL as a customer-owned business is exempt from having to comply with a supply quality limit; but to measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt. The normalised System Average Interruption Duration Index (SAIDI) for TPCL of 225.92 minutes exceeded the supply quality limit of 165.67; similarly the normalised System Average Interruption Frequency Index (SAIFI) for TPCL at 3.39 exceeded the supply quality limit of 3.16. These exceedances were largely due to overhead network damage from storm events experienced in 2015/16. One wind storm in October 2015 was the most severe in the region in the last 20 years.

It should be noted the Commerce Commission has imposed a new SAIDI and SAIFI calculation methodology for 2015/16 and future financial years; therefore these SAIDI and SAIFI values cannot be directly compared with figures from 2014/15 and prior.

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

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



Project	Approximate Expenditure
11kV Lines Replacements	\$2,880,000
New Customer Connections	\$2,380,000
New Colyer Road Zone Substation Completion	\$2,360,000
Riversdale to Lumsden 33kV Line Replacement - Stage 2	\$1,900,000
Waikiwi Zone Substation Upgrade - Stage 1	\$1,800,000
Edendale Zone Substation Upgrade - Third Fonterra Power Transformer	\$1,620,000
New Isla Bank Zone Substation and 66kV Line Completion	\$1,140,000

ELECTRICITY INVERCARGILL LIMITED

17,362 CONNECTED
CONSUMERS

CONSUMER DENSITY
25.9 consumers/km

449 | **670km**
distribution | Network
transformers | LENGTH



Connecting with **OUR STAKEHOLDERS**

Electricity Invercargill Limited

Electricity Invercargill Limited (EIL) had a busy year in 2015-16, with substantial works relating to the new Spey Street Zone Substation and underground substation replacements leading the way. The second transformer at Spey Street was livened during the year and now all the 11kV loads from the old Doon Street Zone Substation have been transferred to the new facility.

The work on bringing underground substations above ground in Invercargill continues, with the 50-year-old substation next to the Kelvin Hotel replaced in March. Design work was completed on the Southern Zone Substation and work on this project continues.

These major projects and other works saw EIL's capital investment reach \$5.55 million and deliver the ability to manage reliability and further growth on the EIL network. Advanced meter installation capital expenditure on the EIL network was \$2.36 million during the year.

EIL continued its maintenance works, with over \$1.35 million being spent on improving and replacing network assets in 2015/16. These works have contributed to the continuing high reliability of EIL's network.

EIL's normalised SAIDI of 25.75 was under the supply quality limit of 31.13 minutes while normalised SAIFI at 0.61 was also comfortably under the supply quality limit of 0.77. This is again courtesy of the majority of the network being undergrounded and also to our proactive maintenance and upgrading of assets.

It should be noted the Commerce Commission has imposed a new SAIDI and SAIFI calculation methodology for 2015/16 and future financial years; therefore these SAIDI and SAIFI values cannot be directly compared with figures from 2014/15 and prior.

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

PowerNet acts as agent for EIL and charges line and metering charges to electricity retailers, pays transmission costs and passes the gross revenue and expenses through to EIL.

The revenue provides a return on investment to EIL and recovers EIL's overheads, depreciation and operating costs.



Project	Approximate Expenditure
Spey Street Zone Substation - Second Power Transformer and Cables	\$2,590,000
Underground 11kV Substation Replacements	\$680,000
New Customer Connections	\$550,000
400V Link Box Replacements	\$430,000
11kV Transformer Replacements	\$410,000
Southern Zone Substation Upgrade Design	\$290,000
11kV Lines Replacements - Bluff	\$270,000

OTAGONET JOINT VENTURE

14,866

CONNECTED CONSUMERS

CONSUMER DENSITY
3.2 consumers/km

4,614km Network LENGTH	4,271 distribution transformers
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Connecting with **OUR STAKEHOLDERS**

OtagoNet Joint Venture

The projects on the OtagoNet Joint Venture (OJV) network are all part of the network owners' (EIL and TPCL) commitment to improving safety, security and reliability for the network's customers.

The major expenditure was on 11kV and 33kV line replacements to improve supply and allow for future growth in the farming regions we service. In all, more than \$9.89 million was spent on capital investment in the 2015-16 year, with another \$4.36 million on maintenance. The network owners' goal of reducing the overall age of the network assets continues.

The network had a normalised SAIDI of 223.14 which was comfortably under the supply quality limit of 254.92. OJV's normalised SAIFI of 2.82 was also under the supply quality limit of 2.93. This result is particularly pleasing given overhead network damage from the storm events experienced during 2015/16. One wind storm in October 2015 was the most severe in the region in the last 20 years.

It should be noted the Commerce Commission has imposed a new SAIDI and SAIFI calculation methodology for 2015/16 and future financial years; therefore these SAIDI and SAIFI values cannot be directly compared with figures from 2014/15 and prior.



Project	Approximate Expenditure
11kV Lines Replacements	\$2,450,000
New Customer Connections	\$1,570,000
33kV Lines Replacements	\$1,365,000
Township 400V Undergrounding	\$800,000
Clydevale Zone Substation Upgrade - Stage 2	\$690,000
Waitati Area Reliability Works - Stage 1	\$600,000

ELECTRICITY SOUTHLAND LIMITED

574 CONNECTED
CONSUMERS

34 distribution
transformers

50km
NETWORK LENGTH

CONSUMER DENSITY
11.5 consumers/km

*Aerial photo of Shotover Country Subdivision,
photo provided by Ballooning NZ*

Connecting with **OUR STAKEHOLDERS**

Electricity Southland Limited

The Electricity Southland Limited (ESL) network at Frankton in Queenstown is owned by EIL and TPCL and contracts PowerNet to manage the assets.

The ESL network continues to grow rapidly, mainly due to new customer connections at the Shotover Country Subdivision, Lakes Edge, Remarkables Park and Shotover Park developments.

Stewart Island Electricity Supply Authority

The Stewart Island Electrical Supply Authority (SIESA) was formed in 1987 by the Southland District Council (SDC) to ensure businesses and homes on the island have a reliable power supply.

PowerNet has a service contract agreement with SDC, providing general maintenance services and engineering support across the SIESA network through our field services teams.

In 2015-16 PowerNet began laying a new cable from the Power House at Stewart Island to Oban township. The new cable will maintain an efficient and reliable supply to the SIESA customers.

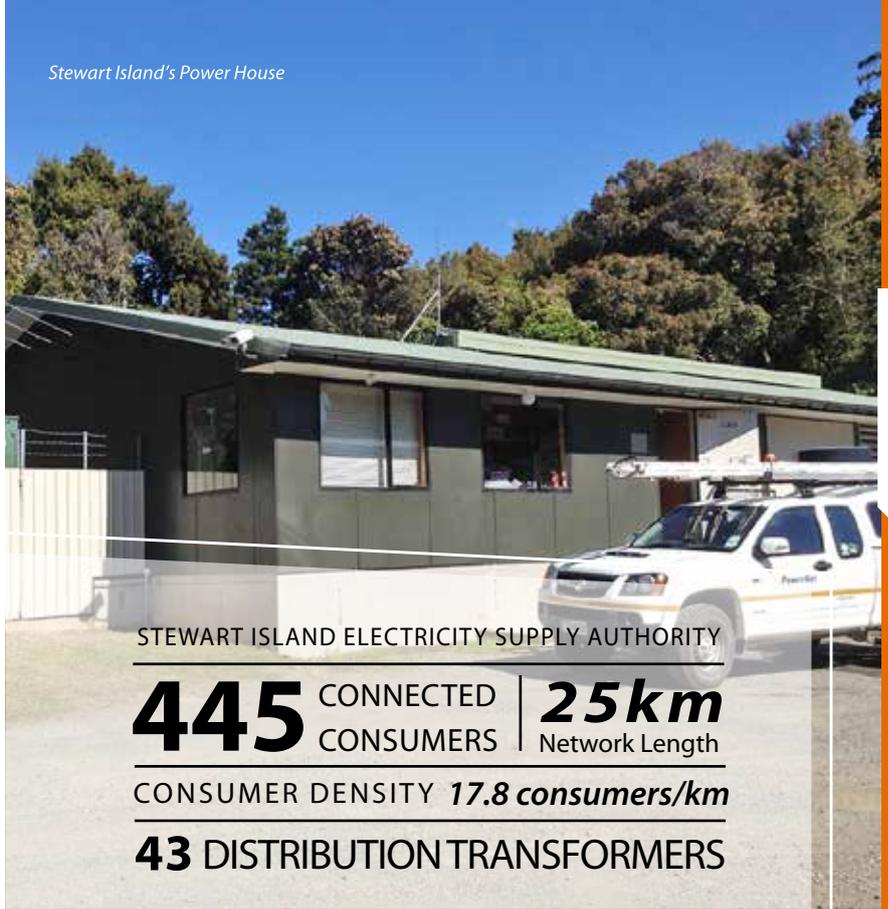
During the year PowerNet's staff mapped all the network assets on the island onto PowerNet's Geographic Information System to allow for proactive and prudent future asset management.

Electricity Sector And Government

This year has seen the continuation of the work carried out by the Electricity Networks Association through a variety of working groups. These groups included the Vegetation Management Working Group attended by PowerNet's Arborist Manager, the Distribution Pricing Working Group attended by our Commercial Manager and the Regulatory Working Group attended by our Chief Financial Officer. The Groups actively take roles in providing industry direction in areas including two regulators, the Commerce Commission and Electricity Authority. Issues include tree regulations, tariff consolidation, input methodologies, transmission pricing issues and low fixed charge regulations. It is with the low fixed charge regulations that PowerNet and the energy sector have serious concerns. The politically driven legislated tariff option is providing significant cross subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower cost generation options. The regulated tariff is subsidising inefficient investment which will not be in the long term interest of consumers or New Zealand.



Stewart Island's Power House



STEWART ISLAND ELECTRICITY SUPPLY AUTHORITY

445 CONNECTED CONSUMERS | **25km** Network Length

CONSUMER DENSITY **17.8 consumers/km**

43 DISTRIBUTION TRANSFORMERS

Connecting with OUR STAKEHOLDERS

2016 PowerNet Network Comparisons

	 THE POWER COMPANY LTD	 EiL Electricity Invercargill Ltd	 OtagoNet	 ESL	 STEWART ISLAND electrical supply authority
Network Ownership	Southland Electric Power Supply Consumer Trust	Invercargill City Holdings Limited	Electricity Invercargill Limited/The Power Company Limited	Electricity Invercargill Limited/The Power Company Limited	Southland District Council
Connected Consumers					
Total	35,454	17,362	14,866	574	445
- Residential	26,110	15,268	11,323	363	352
- Industrial	190	130	54	7	40
- Commercial	9,154	1,964	3,489	204	53
Network Length	8,845km	670km	4,614km	50km	25km
Consumer Density	4.0 consumers/km	25.9 consumers/km	3.2 consumers/km	11.5 consumers/km	17.8 consumers/km
Number of Distribution Transformers	11,051	449	4,271	34	43
Distribution Transformer Capacity	422.1MVA	151.5MVA	175.2MVA	13.0MVA	2.4MVA
Distribution Transformer Density	47.7kVA/km	226.2kVA/km	38.0kVA/km	259.6kVA/km	96kVA/km
Maximum Demand - System	135MW	66MW	66MW	3.2MW	0.48 MW
Total Energy Conveyed - Transpower	761GWh	280GWh	438GWh	14.2GWh	1.45GWh
Regulatory Value	\$315 million	\$72 million	\$159 million	-	-



Connecting with **OUR PEOPLE**

PowerNet may manage hundreds of millions of dollars worth of network assets, but our greatest asset is our people.

Without highly-skilled, closely-knit teams working together, our networks would not deliver the safe, efficient and reliable supply our customers depend on.

Who We Are

PowerNet employs 270 staff across the lower South Island who maintain and manage the OJV, TPCL, EIL, ESL and SIESA networks.

During the 2015-16 year an amalgamation with Otago Power Services Limited (OPSL) was undertaken which has added to our already strong staff structure. A key part of completing the amalgamation was the alignment of our people with our shared vision and Critical Success Factors of Safety, Customer Focus, Continuous Improvement, Empowered People and Courageous Leadership.

The critical success factor of Customer Focus enables PowerNet to now offer customers a complete end-to-end project management service from our offices in Invercargill, Balclutha, Frankton and Gore.

Our staff participate in our in-house Leadership programme with four levels of leadership from self-leadership through to leading the organisation. In line with this, 24 leaders graduated from our staff leadership programme during the year.

We are building a strong professional development emphasis through our People Capability Framework with the focus on leadership and coaching at all levels.

As part of our Continuous Improvement critical success factor, we have begun a Lean Management programme to eliminate the non-value adding activities throughout our business processes. This will improve our future productivity and efficiency and add value for our customers.



Daniel Blair, Corys and Amanda Milne, PowerNet

People Capability Framework

The framework consists of organisational leadership and technical competencies for each role. A significant amount of work over the last year has focused on technical competencies for the operation areas of the business. Technical competencies have been established for each operational role and assessment methods are currently being completed, with most based on New Zealand Qualifications Authority unit standards. Other assessment criteria will be established where these unit standards do not exist in conjunction with Connexis (the Electrical Training Organisation). Competency information for each employee was gathered and validated and a risk assessment undertaken on all competencies using a four level risk matrix.

Two Field Training Officers were appointed to assist with known training needs and those identified through the gap analysis. Eight other employees have undertaken training as Workplace Assessors to carry out competency assessments of our field team members whilst the teams carry out their work. The initial focus for the assessors will be the high risk competencies. Each competency will be re-assessed periodically depending on the risk level and the frequency of the task.

Health and Safety Is Paramount

Health and safety is at the forefront of everything we do and the 2015-16 year saw an even bigger commitment to this key critical success factor for our business.

During the year PowerNet developed the Safety Commitment guideline outlining the 12 key areas which, if undertaken correctly every time, will eliminate the vast majority of unsafe acts which could lead to harm.

Confined Space Management

Procedures for access to underground substations in the Invercargill Central Business District were revised and training on this completed. Similar access procedures are being put in place for the basements at some rural Zone Substation sites, which are confined spaces.

Safety Systems Audits

The Electricity (Safety) Regulations 2010 require PowerNet to have a Safety Management System for Public Safety which must be audited annually against NZS7901:2008 – Safety Management Systems for Public Safety. PowerNet's audit certificate was re-issued by Telarc following an audit in April 2016.

PowerNet's workplace safety systems are at Tertiary level for the Accident Compensation Corporation Workplace Safety Management Practises system and accredited for the requirements of ASNZS 4801:2001 Occupational Health and Safety Management Systems.

Safety And Risk Management Software

The need for a software system to manage the various aspects of Health, Safety and Environment (HSE) reporting and recording of information was identified in the 2015 Safety Improvement Plan. The Impac Risk Manager system was selected. It will be used more widely than just for health and safety management.

Nic Boyle and Carl Rathbone, PowerNet



Zariaha Carman, PowerNet



Fijian children delivering lunch to our staff



Connecting with **OUR PEOPLE**

Risk Management Procedures

A revised site hazard identification process, which includes a risk assessment element, was established following a consultative process with field teams. The introduction of the new procedure and associated forms to staff began in March 2016.

Contractor Competency And Management

A programme outlining new compliance requirements to PowerNet's contractors commenced in December 2015. This programme introduced contractors involved in high risk activities to the HSE Passport system and the need to pre-qualify their company and workers to gain authorisation to work at a PowerNet worksite. Only contractors with appropriate authorisation will be able to access our worksites.

New Health And Safety Committees

With the integration of Otago Power Services Limited and PowerNet we reviewed the existing Health and Safety Committee.

As a result the committee has now been split into three groups, with staff representing their areas on the Western and Eastern committees, and then a combined group which includes two representatives from each committee plus representatives from engineering, system control, a member of the Senior Leadership Team, a representative from Peak Power Services Limited and representatives from major contractors.

Staff Involvement In The Electricity Industry

During the year, PowerNet Chief Executive Jason Franklin was appointed to the board of the Electricity Engineers' Association.

Greg Buzzard, Chief Financial Officer, is a member of the Electricity Networks Association (ENA) Regulatory Working Group.

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

Alaister Marshall, Customer and Metering Services Manager, is on the Electricity and Gas Complaints Commissioner (EGCC) Member Committee.

Aaron Sinclair, Commercial Manager, is a member of the ENA Distribution Pricing Working Group.

Mark Way, Arborist Manager, is a member of the ENA Vegetation Management Working Group.

PowerNet also supports the industry training initiative Girls in High Vis; a programme by Connexis which aims to increase female participation in trade roles. With one participant joining us as an apprentice line mechanic during the year, we now have a total of five women in the operations team at PowerNet.

PowerNet Expertise In The Local Community

During the year, the Southland Regional Development Strategy (SoRDS) was launched. PowerNet Board Director Tom Campbell chairs the overall SoRDS Governance Group. PowerNet Chief Executive Jason Franklin is on the New Industries Group within SoRDS and PowerNet General Manager Business Support Tim Brown is on the SoRDS Ease of Doing Business Group.

PowerNet Assists In Fiji's Recovery After Tropical Cyclone Winston

The Ministry of Foreign Affairs and Trade requested assistance from PowerNet to help repair the damaged Fijian electricity network caused by Tropical Cyclone Winston which occurred in February 2016. Based in Lautoka, three teams of five staff each joined other New Zealand lines companies working on a three week rotation in an environment that was both different and challenging.

Staff Events

PowerNet again supported staff in the Waihopai Corpor8 Rowing Challenge in November 2015 (the team finished third in the C final).

PowerNet staff also managed and supported a PowerNet team in the SBS Bank Tour of Southland. The PowerNet sponsored team led team rider Brad Evans home in first place to win the 2015 SBS Bank Tour of Southland.

PowerNet staff braved the elements to march for 22 hours and raise funds in the Cancer Society's Relay for Life to support the work the Society does in Southland.

Connecting with OUR CUSTOMERS





Connecting with **OUR CUSTOMERS**

PowerNet Annual Customer Surveys

Every year PowerNet carries out surveys with our customers across the networks we manage. These surveys assess a range of areas, including safety, efficiency and outage management, amongst other topics.

PowerNet engages an external consultant to conduct this confidential survey.

The consultant conducted a telephone survey of 800 customers from across the 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.

There was a decrease in knowledge of PowerNet amongst EIL, TPCL and OJV customers surveyed with a 5 percent decline overall but a 2 percent improvement in familiarity with our faults response number from the previous year. Ninety two percent of customers surveyed were satisfied with the information they received from System Control and felt we provided enough information to them in the event of an outage.

The customer survey engaged with commercial customers to review their level of engagement with the Company. The results from these interviews continue to be favourable, with the overall performance rating close to previous years. Commercial customers had positive commendations for the continuity and reliability of supply across the networks, as well as our rapid response to unplanned outages.

Commercial customers also identified areas where we can assist them, such as ongoing communication around the efficient use of electricity and keeping them up to date with our latest technology and supply upgrades.



Waikiwi resident Penny Faulkner discussing the Waikiwi Substation upgrade with Roger Scott, PowerNet

Connecting with **OUR CUSTOMERS**

Asset Management Plans

Asset Management Plans for the 2016-2026 period have been completed by PowerNet.

The Asset Management Plans are for the EIL, OJV and TPCL networks and outline the planned capital and maintenance expenditure. The Asset Management Plan considerations include various drivers such as cost, equipment lifecycle, regulatory requirements, demographic changes, environmental impact and required service levels.

These plans detail PowerNet's approach to management of the network assets for the three networks to meet stakeholder requirements along with a direction to provide safe, efficient, and reliable power to communities.

The Asset Management Plans are available on the PowerNet website www.powernet.co.nz

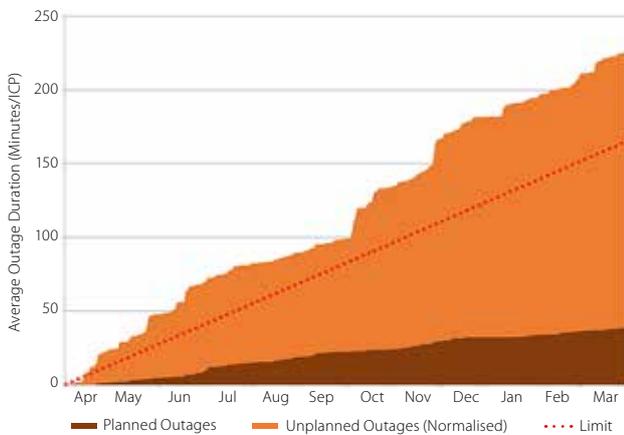


Connecting with OUR CUSTOMERS



System Average Interruption Duration Index (SAIDI)

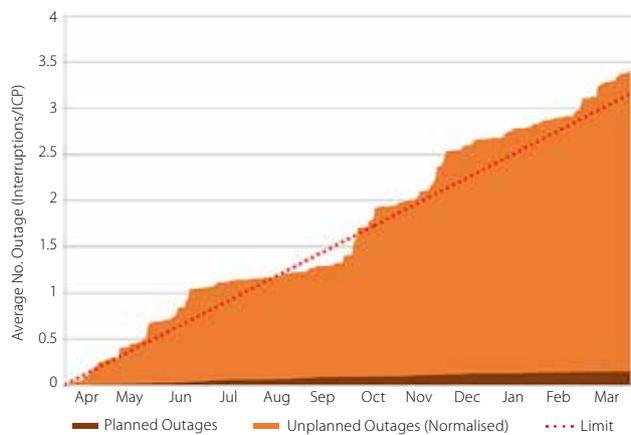
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
38.73	187.18	165.67	225.92

System Average Interruption Frequency Index (SAIFI)

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



SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.15	3.24	3.16	3.39

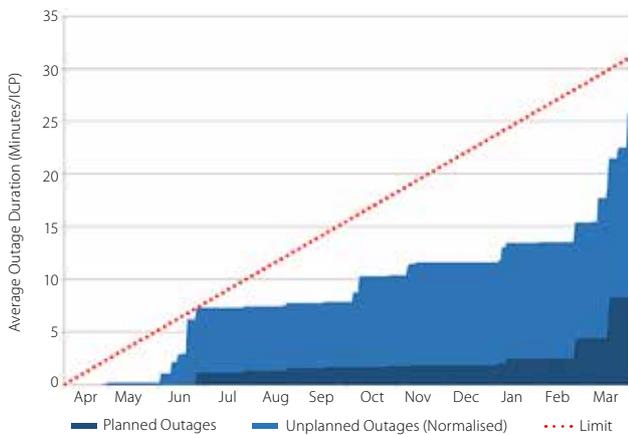


Connecting with **OUR CUSTOMERS**



System Average Interruption Duration Index (SAIDI)

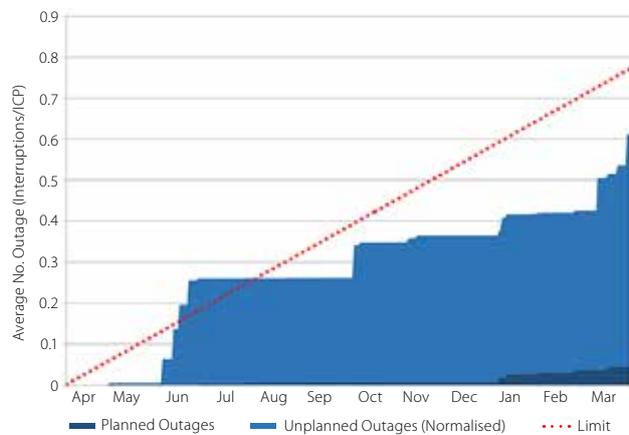
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
8.27	17.48	31.13	25.75

System Average Interruption Frequency Index (SAIFI)

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



SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.05	0.56	0.77	0.61



Connecting with **OUR CUSTOMERS**



System Average Interruption Duration Index (SAIDI)

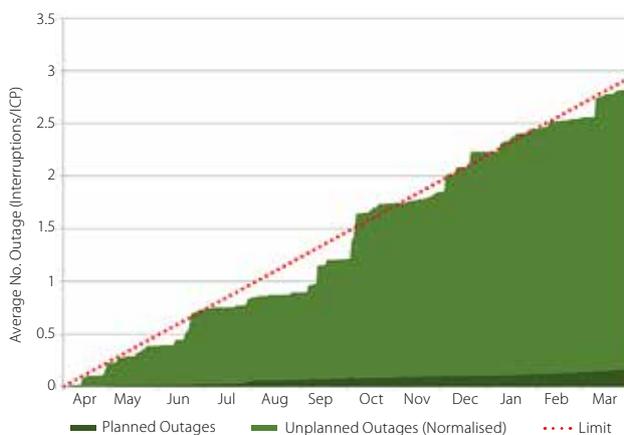
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
40.43	182.71	254.92	223.14

System Average Interruption Frequency Index (SAIFI)

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



SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.17	2.65	2.93	2.82

Connecting with **OUR** **ENVIRONMENT**



Office Waste

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

Network Waste

We continue to monitor best practice in terms of dealing with network waste and adopt a reduce, reuse or recycle approach.

Our advanced (smart) meters project works with Southland DisAbility Enterprises to recycle 99% of the replaced meters.

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 100% of oil used is either sold or returned to the supplier for recycling.

Waste oil on Stewart Island is used to heat the Stewart Island Community Centre.

PowerNet aims to have zero uncontrolled leakages or spillages. There were no waste oil spills during the 2015-16 year.



Alana McLeod-Young, PowerNet

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 SF6 gas on the PowerNet managed networks was 440 kilograms.

Redundant Equipment

Power poles are 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.

Some of the replaced poles were replaced to ensure the ground clearance of the electricity lines met the legal requirement. There were 434 redundant poles this year. Where possible the redundant poles were recycled.

PowerNet And Climate Change

PowerNet continues to look at ways to reduce our impact on the environment across all our operations including reducing carbon emissions in everyday operations. We have purchased a Nissan Leaf electric car for use around Invercargill and are currently looking at ways to make our vehicle fleet more energy efficient.



Connecting with **OUR COMMUNITIES**

PowerNet And St John

The community partnership between PowerNet and St John has achieved an extraordinary reach into heartland Southland and West Otago in its second year.

In any medical emergency, a quick first aid response may mean the difference between life and death for a family member, friend, workmate or neighbour. However, for people living in predominantly rural localities in Southland and West Otago, an on-the-spot knowledge of first aid practice is even more vital—as the challenge to provide a timely life-saving response is impacted by geographical distance and often centralised resources.

In a grassroots programme that is building resilience across Southern communities, PowerNet and St John aim to raise safety awareness and sponsor first aid programmes that strengthen the community's capability to provide an effective and immediate first-response in a medical emergency.

With the ultimate goal of a first aid trained responder in every Southland and West Otago home, the multi-layered community partnership includes sponsorship of community and St John in Schools first aid programmes; targeted promotion of safety messages to the rural sector - including publicity campaigns - advertising and events, direct donations of automated external defibrillators (AEDs) to communities, and funding that supports St John's regional training centre in Invercargill.

Over the year to March 2016, 78 high-quality First Aid Level 1 courses were delivered to 5,234 school students in 31 locations across the region through the PowerNet sponsored St John in Schools programme. The courses teach children the first important actions to take when faced with a medical emergency.



First Aid Level 1 courses have also been delivered to 284 people across a broad cross section of community groups in six Southern locations in 2015-16, with a particular emphasis on targeting groups that may be more vulnerable. PowerNet's sponsorship of these courses means St John has been able to significantly increase the number of first aid training opportunities it provides. Historically, this has been limited by funding. In addition, an innovative voucher system means people who may not have been readily able to access the training in the past are now offered the opportunity to participate.

To involve the rural sector, a six-month radio advertising campaign promoted farm safety messages and St John community first aid courses – including 20 free give-away places for rural community groups and clientele - in the lead-up to the Southern Field Days in February 2016. PowerNet and St John shared a site at the Southern Field Days promoting first aid and farm safety, which attracted 42,000 visitors.

Without a good regional headquarters, it is not possible to successfully deliver quality first aid training to the wider southern community. As well as sponsorship of first aid training courses and safety promotion to the rural sector, PowerNet supports St John's regional training base in Invercargill.

All PowerNet staff have completed the St John First Aid Level 1 course, including senior managers. As well as being an opportunity to raise the profile of the work of St John amongst PowerNet staff, the commitment to first aid train all staff clearly demonstrates the high priority PowerNet places on staff health and safety.

This is also highlighted in other ways. In April and May 2015, six AEDs were installed in PowerNet buildings and staff received training in their use.

PowerNet is extremely proud of the community partnership's remarkable contribution to strengthen the safety of our communities and their people – saving lives together. The partnership has a lasting and valuable impact that is saving lives today and into the future.



Ben Williams, PowerNet scholarship recipient and Roger Paterson, PowerNet

Southland Warm Homes Trust

PowerNet continues to provide administration services to the Southland Warm Homes Trust (SWHT). The SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), has carried out more than 6,000 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under EECA's Healthy Homes Programme is targeted at those who stand to benefit most from having their homes insulated; those being low income households with high health needs, including families with children and the elderly. Landlords with eligible tenants are also included but will be required to make a contribution.

To be eligible, homes must have been built prior to 1 January 2000. Occupants require a Community Services Card (CSC) and those with high health needs to be referred through an approved referral service.

From 1 July 2016 Central Government has announced changes to EECA's funding and narrowed the eligibility criteria for the Healthy Homes Programme to apply to landlords with eligible tenants only. The criteria is expected to tie in with the requirements of landlords under the proposed Residential Tenancies Act minimum insulation requirements for rental properties.

In addition to the continued EECA/SWHT programme, SWHT and service provider Awarua Synergy have offered a subsidy of up to \$2,000 for middle income families to undertake insulation.

Tour of Southland

PowerNet once again sponsored a team in New Zealand's iconic cycle classic, the SBS Bank Tour of Southland.

PowerNet Team rider Brad Evans got the blue PowerNet jersey home in first place to win the individual section of the 59th annual Tour.

The PowerNet 2015 team of Evans (Dunedin), Adrian Hegyvary (USA), Robert Huisman (Invercargill), Tim Rush (Oamaru), Edgar Nohales (Spain) and Roman Van Uden (Auckland) rode like champions once Evans won the leader's yellow jersey on stage two. Brad with the help of his team retained his yellow jersey for the remainder of the cycle tour.

Once again, PowerNet staff managed and supported the team throughout the Tour.

TradeQual Awards

The 10th annual TradeQual Awards function was held in November 2015 in Invercargill.

Fourteen technical and field staff from PowerNet graduated this year, each gaining their electrical trade qualifications.

The presentation evening rewards the efforts of Southland trade graduates and gives trade industries, businesses, employers, family and friends the opportunity to congratulate the graduates who have gained their trade qualifications during the year.

Connexis Awards And Competition

PowerNet staff again attended the Connexis Line Mechanic and Cable Jointers competitions held in Christchurch in 2015.

PowerNet also remains a supporting sponsor of the Connexis Awards for trainees who have reached the highest achievement in the electricity industry in either generation, transmission, distribution or telecommunications.



PowerNet's Tour of Southland cycle team with PowerNet staff supporters

Southland Business Excellence Awards

PowerNet supported the 2015 Southland Business Excellence Awards with a category sponsorship of the New and Emerging Business section. The title was won by ComplEat Wellness.

Education Awards And Scholarships

PowerNet has continued its association with the University of Canterbury engineering faculty. The Company supports the PowerNet electrical engineering scholarships for students studying towards a Bachelor of Engineering degree who are in their first professional year.

The three year scholarship covers course fees and provides vacation employment that satisfies the practical aspects of the degree requirements.

PowerNet also continues to support the Southern Institute of Technology Student Awards by providing two achievement prizes for electro technology students. The PowerNet awards recognise the Top Student – Electrical Pre-trade Semester 2 and Most Improved Student – Electrical Semester 2.

Public Safety

PowerNet's highest priority continues to be the safety of the public, staff and contractors working on the networks.

The Company manages assets and develops procedures to protect the public and anyone working on the network from any potential risks or property damage arising from network equipment and operations. We have a programme of regular inspections of assets to ensure compliance with safety and regulatory requirements and to establish condition data for forward work planning.

PowerNet has an ongoing investment 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 through the online service beforeUdig and has specialist staff who can locate cables 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 specialised equipment to locate buried cables and the cable routes are marked to ensure all parties are aware of the danger areas.

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

Directors' **PROFILES**

Duncan Fea *BCom CA*

Duncan is a Regional Managing Principal in Crowe Horwath, Chartered Accountants and Business Advisors.

He has a number of directorships which include The Power Company Limited, Peak Power Services Limited and Southern Generation GP Limited. He is a Member of the OtagoNet Joint Venture Governing Committee and is a past Director of Pioneer Generation Limited and Queenstown Airport Corporation Limited.

Duncan is a Chartered Fellow of the Institute of Directors.

Sarah Brown *LLB BA*

Sarah joined the Board of PowerNet Limited in April 2015.

She is the Project Manager for the Southland Regional Development Strategy, has been Council Chair of the Southern Institute of Technology since 2011 and is a Director of Electricity Invercargill Limited.

Sarah is a Member of the Institute of Directors.

Ross Smith *BCom (Chair)*

Ross joined the Board of PowerNet Limited in November 2003 and is currently Chair. He was Group Managing Director/CEO of SBS Bank from 1992-2014 and served as a Director on three SBS Group subsidiary companies from 2001-2014.

Ross is also a Director of Electricity Invercargill Limited and Peak Power Services Limited.

Ross is a Member of the Institute of Directors.



Darren Ludlow

Darren has been a Director of PowerNet Limited since November 2013.

He is a fifth-term Invercargill City Councillor and the City's Deputy Mayor. Darren is a Director of Electricity Invercargill Limited and a Trustee for several community groups.

He has worked in the media and communications industries for 25 years and currently manages Radio Southland.

Donald Nicolson

Don joined the Board of PowerNet Limited in 2015 soon after he was appointed as a Director of The Power Company Limited.

He farms near Invercargill, is a former Trustee of the Southland Electric Power Supply Consumer Trust and a former local and national President of Federated Farmers of New Zealand.

Don is a Member of the Institute of Directors.

Directors' PROFILES

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, Chair of the OtagoNet Joint Venture Governing Committee and a Member of the Institute of Directors Otago/Southland Branch Committee.

Alan is also a Chartered Fellow of the Institute of Directors.

Maryann Macpherson

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.

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

Maryann is a Chartered Fellow of the Institute of Directors.

Neil Boniface *JP*

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

He was awarded a QSO in 2016 for services to local government and the community and also serves on several charitable trusts.

Neil is a Chartered Fellow of the Institute of Directors.



Douglas Fraser *BSc (Chemistry) (Deputy Chair)*

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

He is a Director of The Power Company Limited, Chair of Otago Power Services Limited until its amalgamation with PowerNet Limited on 31 March 2016 and a Member of the OtagoNet Governing Committee. Previous governance roles include NZ Wool Board, Wools of NZ, Woolpro and AgITO.

Doug is a Chartered Fellow 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 Electricity Invercargill Limited, as well as being the Chair of both the Southland Regional Development Strategy and the Energy Efficiency and Conservation Authority (EECA).

Tom is a Chartered Fellow of the Institute of Directors.



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 2016.

Principal Activities

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

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

Result and Distribution

The Directors report that the Group's after tax profit for the year under review was \$1,219,000. The Directors have not declared a dividend for the year ended 31 March 2016.

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' REPORT

Directors

Each of the Shareholding Companies has appointed five Directors.

Appointed by Electricity Invercargill Limited are:

Ross Smith (Chair)	Neil Boniface
Sarah Brown	Thomas Campbell
Darren Ludlow	

Appointed by The Power Company Limited are:

Douglas Fraser (Deputy Chair)	Duncan Fea
Alan Harper	Maryann Macpherson
Donald Nicolson	

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:

- Owner, either alone or jointly with others.
- Parent, child or spouse of another person who may have a material interest in a property.
- Director, officer or shareholder of a body corporate which may have a material interest in a property.
- Trustee or beneficiary of a trust which may have a material interest in a property.

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

Ross Smith

Electricity Invercargill Limited	Director
Peak Power Services Limited	Chair
Pylon Limited	Director
Pylon 2 Limited	Director

Douglas Fraser

Electricity Southland Limited	Director
Last Tango Limited	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Limited	Director
OtagoNet Properties Limited	Director
Otago Power Services Limited	Chair
Roaring Forties Energy GP Limited	Director
The Power Company Limited	Director

Directors' REPORT

Neil Boniface

Cancer Society of New Zealand	Director
Electricity Invercargill Limited	Chair
Electricity Southland Limited	Director
Invercargill City Council	Councillor
Invercargill Venue and Events Management Limited	Chair
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Limited	Director
OtagoNet Properties Limited	Director
Otago Southland Division of the Cancer Society	Chair
Pylon Limited	Director
Pylon 2 Limited	Director
Southland Driving School	Director
Southland Warm Homes Trust	Trustee

Sarah Brown

Electricity Invercargill Limited	Director
Pylon Limited	Director
Pylon 2 Limited	Director
Roaring Forties Energy GP Limited	Director
Southern Institute of Technology	Chair
Southern Lakes Education College Limited	Director
Southland Regional Development Strategy	Project Manager
Tavendale and Partners	Associate

Thomas Campbell

Electricity Invercargill Limited	Director
Energy Efficiency and Conservation Authority	Chair
GNS Science Limited	Chair
Pylon Limited	Director
Pylon 2 Limited	Director
Roaring Forties Energy GP Limited	Director
Southern Generation GP Limited	Director
Southland Regional Development Strategy Governance Group	Chair
Todd Corporation Limited	Director
Todd Offshore Limited	Director
Venture Southland	Director

Duncan Fea

Crowe Horwath	Principal
E Type Engineering Limited	Director
Electricity Southland Limited	Director
JK's & WBE Limited	Director
Last Tango Limited	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Limited	Director
OtagoNet Properties Limited	Director
Peak Power Services Limited	Director
Roaring Forties Energy GP Limited	Director
Southern Generation GP Limited	Director
The Power Company Limited	Director
WHK	Principal
WHK Cook Adam Limited	Director

Alan Harper

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

Darren Ludlow

Electricity Invercargill Limited	Director
Invercargill City Council	Deputy Mayor
Invercargill Community Recreation & Sports Trust	Trustee
Pylon Limited	Director
Pylon 2 Limited	Director
Radio Southland	Manager
Southland Art Foundation	Trustee
Southland Museum & Art Gallery	Trustee

Maryann Macpherson

Last Tango Limited	Director
The Power Company Limited	Director
Venture Southland	Director

Donald Nicolson

Gallop South Incorporated	Chair
Last Tango Limited	Director
The Power Company Limited	Director

Directors' REPORT

Remuneration of Directors

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

Ross Smith	-	Chair, Member Audit and Risk Committee, Chair Remuneration Committee
Douglas Fraser	-	Deputy Chair, Member Health, Safety and Environment Committee, Member Remuneration Committee
Neil Boniface	-	Director
Sarah Brown	-	Director, Member Health, Safety and Environment Committee
Thomas Campbell	-	Director, Chair Health, Safety and Environment Committee
Duncan Fea	-	Director
Alan Harper	-	Director
Darren Ludlow	-	Director, Member Audit and Risk Committee
Maryann Macpherson	-	Director, Chair Audit and Risk Committee, Member Health, Safety and Environment Committee
Donald Nicolson	-	Director, Member Audit and Risk Committee

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

Ross Smith	\$55,625	Duncan Fea	\$24,700
Douglas Fraser	\$34,975	Alan Harper	\$27,700
Neil Boniface	\$26,200	Darren Ludlow	\$26,200
Sarah Brown	\$26,200	Maryann Macpherson	\$34,350
Thomas Campbell	\$30,700	Donald Nicolson	\$16,440

Employee Remuneration

Forty three continuing or former employees received remuneration in the following bands:

\$100,000 - \$110,000	13	\$190,000 - \$200,000	1
\$110,000 - \$120,000	11	\$200,000 - \$210,000	1
\$120,000 - \$130,000	10	\$250,000 - \$260,000	1
\$130,000 - \$140,000	1	\$260,000 - \$270,000	1
\$160,000 - \$170,000	1	\$280,000 - \$290,000	1
\$180,000 - \$190,000	1	\$450,000 - \$460,000	1

Scholarships, Awards and Donations

During the year the Company promoted learning through various scholarships and awards which totalled \$6,000. In addition, donations made by the Company totalled \$6,000.

Use of Company Information

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

Directors' and Employees' Indemnity and Insurance

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

Accounting Policies

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

Auditor

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

For and on behalf of the Directors.



Ross Smith
Chair



Douglas Fraser
Director



Approval by **DIRECTORS**

Lisa Terepai, PowerNet and Alan Harper Director

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2016 pages 39 to 61.

Ross Smith
Chair

Maryann Macpherson
Director

For and on behalf of the Board of Directors

26 May 2016

Statement of Comprehensive Income

For the Year Ended 31 March 2016

	Note	GROUP	
		2016 \$000	2015 \$000
Operating Revenue	(2)	78,754	57,679
Other Income	(2)	194	3,041
Operating Expenses	(3)	(75,915)	(59,438)
Financial Expenses	(3)	(1,318)	(1,187)
Operating Surplus/(Deficit) Before Taxation		1,715	95
Taxation (Expense)/Benefit			
- Current	(4)	(430)	35
- Deferred	(4/14)	(66)	(35)
Net Surplus/(Deficit) after Taxation		1,219	95
Comprehensive Income		-	-
Total Comprehensive Income		1,219	95
Net Surplus/(Deficit) Attributable to Minority Interests	(9)	224	130
Net Surplus/(Deficit) Attributable to Parent		995	(35)

The accompanying notes on pages 43-61 form part of and should be read in conjunction with these Financial Statements.

Statement of Changes in Equity

For the Year Ended 31 March 2016

	Note	GROUP	
		2016 \$000	2015 \$000
Total Comprehensive Income			
Net Surplus/(Deficit) for the Year comprising:			
Parent Interest		995	(35)
Minority Interest		224	130
		1,219	95
Contributions from Shareholders			
Change of Ownership in Minority Interest		(5)	-
		(5)	-
Distributions to Shareholders			
Parent Interest		-	-
Minority Interest		-	-
Dividend Paid/Declared		-	-
		1,214	95
Equity at Beginning of year comprising:			
Parent Interest		4,127	4,162
Minority Interest		321	191
		4,448	4,353
Equity at End of Year comprising:			
Parent Interest		5,122	4,127
Minority Interest	(9)	540	321
	(5)	5,662	4,448

The accompanying notes on pages 43-61 form part of and should be read in conjunction with these Financial Statements.

Statement of Financial Position

As at 31 March 2016

	Note	GROUP	
		2016 \$000	2015 \$000
Equity			
Share Capital	(5)	4,000	4,000
Gain on Amalgamation	(5)	461	461
Retained Earnings	(5)	661	(334)
Parent Equity		5,122	4,127
Minority Interest Equity	(9)	540	321
Total Equity	(5)	5,662	4,448
Represented By:			
Current Assets			
Cash and Cash Equivalents	(6)	4,456	1,075
Receivables and Prepayments	(7)	20,265	15,759
Construction Work in Progress	(8)	6,001	8,007
Inventories	(10)	6,361	680
Taxation Receivable		252	310
Total Current Assets		37,335	25,831
Non Current Assets			
Property, Plant and Equipment	(15)	16,424	10,108
Capital Work in Progress		164	152
Intangibles	(16/22)	8,892	1,545
Deferred Taxation Asset	(14)	761	588
Total Non Current Assets		26,241	12,393
Total Assets		63,576	38,224
Current Liabilities			
Creditors and Accruals	(11)	9,939	7,991
Employee Entitlements	(12)	2,506	1,745
Finance Lease	(19)	18	32
Taxation Payable		-	-
Total Current Liabilities		12,463	9,768
Non Current Liabilities			
Advances	(13)	44,997	23,600
Deferred Taxation Liability	(14)	422	369
Finance Lease	(19)	32	39
Total Non Current Liabilities		45,451	24,008
Total Liabilities		57,914	33,776
Net Assets		5,662	4,448

The accompanying notes on pages 43-61 form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows

For the Year Ended 31 March 2016

	Note	GROUP	
		2016 \$000	2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		75,178	61,859
Income Tax Received		-	-
Interest Received		72	72
		75,250	61,931
Cash Was Applied To:			
Payments to Suppliers and Employees		75,418	58,679
Income Tax Paid		373	55
Interest Paid		1,318	1,179
GST Paid/(Received)		64	62
		77,173	59,975
Net Cash Flows From/(Used In) Operating Activities	(21)	(1,923)	1,956
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Property, Plant and Equipment Sales		26	57
		26	57
Cash Was Applied To:			
Property, Plant and Equipment		2,709	3,528
Investments		8,402	-
		11,111	3,528
Net Cash Flows From/(Used In) Investing Activities		(11,085)	(3,471)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Issue of Shares		-	-
Advances and Finance Leases		16,389	1,056
		16,389	1,056
Cash Was Applied To:			
Advances		-	-
Net Cash Flows From/(Used In) Financing Activities		16,389	1,056
Net Increase/(Decrease) in Cash and Cash Equivalents Held		3,381	(459)
Add Opening Cash and Cash Equivalents Brought Forward		1,075	1,534
Closing Cash and Cash Equivalents To Be Carried Forward	(6)	4,456	1,075

The accompanying notes on pages 43-61 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 2016

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 also provides contracting services to the electricity distribution sector.

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

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.

The financial statements were approved by the Board of Directors on 26 May 2016.

Basis of Preparation

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

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

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

The transition date was 1 June 2014, therefore the financial statements for the year ended 31 March 2016 are the first prepared under NZ IFRS RDR. In transitioning from NZ IFRS Differential Reporting to NZ IFRS RDR, the Group has complied with NZ IFRS 1 where applicable, and there have been no changes to equity reported under Tier 2 RDR.

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 2016

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 is now recorded as turnover for PowerNet Limited who is acting in the capacity of Agent for Electricity Invercargill Limited, The Power Company Limited and Otago Net Joint Venture.

(ii) Network Revenue

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

(iii) Financial Income

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

(iv) Other Revenue Management Services

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

(v) Construction Contracts

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

(b) Financial Expenses

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

(c) Construction Work in Progress

Construction Work in Progress relates to The Power Company Limited's, Electricity Invercargill Limited's and OtagoNet Joint Venture's Capital Work and includes direct material and labour costs plus an accrual for the proportion of work completed at the end of the period, plus a mark up designed to cover PowerNet 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. Cost in the case of constructed goods includes: direct materials, labour and production overheads. Obsolete items of inventory (if any) have been written off.

(e) Property, Plant and Equipment

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

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

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

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

For The Year Ended 31 March 2016

(f) Depreciation

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

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

(g) Capital Work in Progress

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

(h) Impairment

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

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

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

Software	12.5 - 48.0%	Straight line/Diminishing value
----------	--------------	---------------------------------

(j) Goodwill

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

(k) 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 2016

(l) **Taxation**

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

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

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

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

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

(m) **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.

(n) **Employee Benefits**

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

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

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

(o) **Seasonality**

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

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

For The Year Ended 31 March 2016

(p) Financial Instruments

(i) Cash and Cash Equivalents

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

(ii) Receivables

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

(iii) Trade and Other Payables

Trade and Other Payables are stated at cost.

(iv) Borrowings

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

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

(q) Principles of Consolidation

(i) Subsidiaries

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

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

(ii) Transactions Eliminated on Consolidation

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

New standards applied in the period

PowerNet Limited has reviewed all Standards and Interpretations in issue not yet adopted and does not expect these standards to have any material impact on the financial statements of the Group.

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

For The Year Ended 31 March 2016

2. Income

	GROUP	
	2016 \$000	2015 \$000
<i>Turnover</i>		
Line Charges	107,054	71,056
Metering	4,534	4,559
	111,588	75,615
<i>Less</i>		
Transmission	29,378	22,792
Net Turnover	82,210	52,823
<i>Operating Revenue</i>		
Contracting Revenue	9,535	5,152
Equipment Sales	143	215
Capital Works Programme	45,714	35,875
Maintenance Fees	16,806	11,668
Agency Fees	6,556	4,769
<i>Other Income</i>		
Interest Revenue	72	72
Other Revenue	122	2,969
Total Income	78,948	60,720

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

For The Year Ended 31 March 2016

3. Expenses

	GROUP	
	2016 \$000	2015 \$000
Expenses Include:		
Network Costs	56,701	39,697
Interest Expense	1,318	1,186
Deficit/(Profit) on Disposal of Property, Plant and Equipment	29	50
Operating Lease Expenses		
Tenancy and Repeater Site Leases	523	413
Motor Vehicle Leases	340	237
Office Equipment Leases	33	30
Total Operating Leases	896	680
Amortisation of Intangibles	342	340
Auditors' Fees		
Audit of Financial Statements - PwC	85	59
Internal Audit Fees - Deloitte	61	2
Bad Debts Written Off	-	18
Depreciation		
Buildings	163	101
Plant and Equipment	578	467
Motor Vehicles	841	610
Office Equipment	97	54
Computer Hardware	163	154
System Control Assets	9	4
Total Depreciation	1,851	1,390
Directors' Fees	349	252
Donations	6	6
Employee Benefit Expenses	13,623	9,935
Scholarships and Awards	6	6

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

For The Year Ended 31 March 2016

4. Taxation

Current Tax

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

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

Deferred Tax

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

	GROUP	
	2016 \$000	2015 \$000
Operating Surplus/(Deficit) Before Income Tax	1,715	95
Permanent Differences	185	42
Utilised Tax Loss Offset	-	-
Taxable Income	1,530	137
Prima Facie Taxation at 28% made up of:	497	38
Prior Period Adjustments	(1)	(38)
	496	-
Current Tax	(430)	(35)
Deferred Tax	(66)	35
Taxation Expense/(Benefit) for year	496	-
Effective Tax Rate	32%	0%

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

For The Year Ended 31 March 2016

5. Equity

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

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

	GROUP	
	2016 \$000	2015 \$000
Share Capital		
Gain on Amalgamation	4,000	4,000
Closing Balance	4,461	4,461
Minority Interest	540	321
Retained Earnings		
Opening Balance	(334)	(299)
Net Surplus/(Deficit) for the Year	995	(35)
Dividend Declared/Paid	-	-
Closing Balance	661	(334)
Total Equity	5,662	4,448

6. Cash and Short Term Bank Deposits

Current Account	1,764	234
Short Term Bank Deposits	2,692	841
Total Cash and Short Term Bank Deposits	4,456	1,075

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

For The Year Ended 31 March 2016

7. Receivables and Prepayments

	GROUP	
	2016 \$000	2015 \$000
Trade Debtors	3,973	1,516
The Power Company Limited	8,232	7,812
Electricity Invercargill Limited	3,564	5,100
Electricity Southland Limited	300	181
OtagoNet Joint Venture	3,618	539
Otago Power Services Limited	-	99
Peak Power Services Limited	-	-
M Popenhagen	4	1
I Boud	1	-
Other Staff	2	-
	19,694	15,248
Prepayments and Other Receivables	571	511
Total Receivables and Prepayments	20,265	15,759

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

At balance date 1% of the Group's trade receivables were 30-90 days past due and 0% of the Group's trade receivables were >90 days past due.

8. Construction Work in Progress

On behalf of:

The Power Company Limited	4,719	6,918
Electricity Invercargill Limited	585	851
OtagoNet Joint Venture	499	-
External Customers	198	238
Total Construction Work in Progress	6,001	8,007

9. Minority Interest

Opening Balance	321	191
Minority Interest Investment in Shares Acquired	-	-
Minority Interest Shares Sold	(5)	-
Minority Interest Share on Net Surplus/(Deficit)	224	130
Closing Balance	540	321

The Minority Interest relates to Peak Power Services Limited where the Minority holds a 48.3% interest.

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

For The Year Ended 31 March 2016

10. Inventories

	GROUP	
	2016 \$000	2015 \$000
Network Spares and Sundry Network Consumables	6,361	680

Network Spares includes Smart Meters totalling \$5,774,000

11. Creditors and Accruals

Owing to:

Trade Payables	7,087	5,307
Accruals	1,306	714
Inland Revenue – GST Payable	1,102	913
The Power Company Limited	335	298
Electricity Invercargill Limited	68	106
OtagoNet Joint Venture	41	4
Otago Power Services Limited	-	622
Peak Power Services Limited	-	-
Electricity Southland Limited	-	27
Total Creditors and Accruals	9,939	7,991

12. Employee Entitlements

Opening Balance	1,745	1,490
Additional Accrued	1,839	1,725
Amount Utilised	(1,078)	(1,470)
Total Employee Entitlements	2,506	1,745

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

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

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

For The Year Ended 31 March 2016

13. Advances

	GROUP	
	2016 \$000	2015 \$000
<i>Advances from:</i>		
The Power Company Limited – Non Interest Bearing	1,140	-
The Power Company Limited	25,113	19,150
Electricity Invercargill Limited – Non Interest Bearing	1,636	-
Electricity Invercargill Limited	6,480	4,450
Last Tango Limited – Non Interest Bearing	5,314	-
Pylon Limited – Non Interest Bearing	5,314	-
Total Advances	44,997	23,600

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

14. Deferred Taxation

Opening Balance	219	256
Charged to Income Statement		
- Depreciation (non current liability)	(60)	(8)
- Tax Losses (current assets)	-	(5)
- Employee Entitlements (current assets)	277	70
- Other (current assets)	-	-
- Losses Utilised	(97)	-
Timing differences now treated as permanent adjustments	-	(94)
Total Deferred Taxation Asset/(Liability)	339	219

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.

The company has tax losses of Nil (2015: \$476,214) with a tax effect of Nil (2015: \$133,340) at the current statutory tax rate of 28%. Management have determined it is probable that there will be sufficient taxable profits available in the foreseeable future against which the tax losses can be utilised. The tax losses have been recognised as a deferred tax asset.

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

For The Year Ended 31 March 2016

15. Property, Plant and Equipment

	GROUP							
	Land	Buildings	Plant & Equipment	Motor Vehicles	Office Equipment	Computer Hardware	System Control Assets	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost								
Balance at 1 April 2014	387	2,874	3,872	4,705	488	925	58	13,309
Additions	-	1,105	892	879	440	170	-	3,486
Disposals	-	(75)	(18)	(112)	(277)	(114)	-	(596)
Balance at 31 March 2015	387	3,904	4,746	5,472	651	981	58	16,199
Balance at 1 April 2015	387	3,904	4,746	5,472	651	981	58	16,199
Amalgamation OPSL	122	1,371	1,165	10,035	632	-	-	13,325
Additions	-	44	822	846	88	158	215	2,173
Disposals	-	(7)	(213)	(543)	(10)	(467)	-	(1,240)
Balance at 31 March 2016	509	5,312	6,520	15,810	1,361	672	273	30,457
Depreciation and Impairment								
Balance at 1 April 2014	-	221	2,087	1,963	252	633	29	5,185
Depreciation for Period	-	101	467	610	54	154	4	1,390
Disposals	-	(23)	(17)	(90)	(241)	(113)	-	(484)
Balance at 31 March 2015	-	299	2,537	2,483	65	674	33	6,091
Balance at 1 April 2015	-	299	2,537	2,483	65	674	33	6,091
Amalgamation OPSL	-	378	647	5,805	450	-	-	7,280
Depreciation for Period	-	163	578	841	97	163	9	1,851
Disposals	-	(6)	(210)	(502)	(7)	(464)	-	(1,189)
Balance at 31 March 2016	-	834	3,552	8,627	605	373	42	14,033
Carrying Amount/Book Value								
Book Value at 31 March 2015	387	3,605	2,209	2,989	586	307	25	10,108
Book Value at 31 March 2016	509	4,478	2,968	7,183	756	299	231	16,424

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 2016

16. Intangible Assets

	GROUP	
	2016 \$000	2015 \$000
Computer Software		
Cost		
Balance at 1 April 2015	3,976	3,686
Additions	561	290
Disposals	(104)	-
Balance at 31 March 2016	4,433	3,976
Amortisation and Impairment		
Balance at 1 April 2015	2,531	2,191
Amortisation for Period	342	340
Disposals	(98)	-
Balance at 31 March 2016	2,775	2,531
Carrying Amount/Book Value		
Book Value at 31 March 2016	1,658	1,445
Goodwill		
Goodwill on Acquisition	7,234	100
Total	8,892	1,545

Goodwill in respect of acquisition is stated at cost. Goodwill is not amortised but tested for impairment annually.

The Goodwill above is in respect of the acquisition and subsequent amalgamations of Power Services Limited and Otago Power Services Limited. Goodwill of \$100,000 is related to the acquisition of 51% interest in Peak Power Services Limited. Further details of the Otago Power Services Limited Amalgamation can be found in Note 22.

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

For The Year Ended 31 March 2016

17. Commitments

Capital Commitments

Capital Commitments as at 31 March 2016 total \$30,000 (2015: \$276,855).

	GROUP	
	2016 \$000	2015 \$000
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
- Not later than one year	1,245	1,391
- Later than one year and not later than two years	1,056	1,221
- Later than two years and not later than five years	1,993	1,986
- Later than five years	12,145	12,584
Total Operating Lease Commitments	16,439	17,182

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

18. Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2016 (2015: Nil).

19. Finance Lease

Finance Lease Payable

Not later than one year	18	32
Later than one year, not later than five years	32	39
	50	71
Comprising:		
Current	18	32
Non Current	32	39

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

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

For The Year Ended 31 March 2016

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

On 16 February 2016 PowerNet Limited acquired 100% of the share capital of Otago Power Services Limited. The shares were acquired from Pylon Limited and Last Tango Limited which are ultimately owned by Electricity Invercargill Limited and The Power Company Limited who are also the shareholders of PowerNet Limited. Further details of the transaction are referred to in Note 22.

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:

	GROUP	
	2016 \$000	2015 \$000
Asset Construction, Management Fees, Agency Fees and Directors Fees Supplied To:		
The Power Company Limited	41,060	39,514
Electricity Invercargill Limited	11,042	11,967
Electricity Southland Limited	2,828	2,709
OtagoNet Joint Venture	15,869	2,505
Otago Power Services Limited	381	168
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Limited	6,628	7,812
Electricity Invercargill Limited	3,215	5,100
Electricity Southland Limited	300	181
OtagoNet Joint Venture	2,806	539
Otago Power Services Limited	-	99
M Popenhagen	4	1
I Boud	1	-
Other Staff	2	-
Miscellaneous Charges Supplied By:		
The Power Company Limited	1,354	1,123
Electricity Invercargill Limited	245	217
OtagoNet Joint Venture	53	165
Otago Power Services Limited	15,975	3,934
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Limited	335	298
Electricity Invercargill Limited	68	106
OtagoNet Joint Venture	41	4
Otago Power Services Limited	-	622
Electricity Southland Limited	-	27
Advances Supplied By/(Repaid To):		
The Power Company Limited	7,102	970
Electricity Invercargill Limited	3,667	130
Last Tango Limited	5,314	-
Pylon Limited	5,314	-

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

For The Year Ended 31 March 2016

20. Transactions with Related Parties *continued*

Other Related Parties

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

PowerNet Limited uses AWS Legal as solicitors, of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the year amounted to \$149,113 (excl GST) (2015: \$181,009 excl GST) of which \$50,066 (incl GST) (2015: \$115,061 incl GST) is owing at balance date.

PowerNet Limited uses Crowe Horwath Limited as its tax advisors, of which Duncan Fea is a Principal. Fees for taxation advice paid to Crowe Horwath Limited during the year amounted to \$21,783 (excl GST) (2015: \$42,302 excl GST) of which Nil (incl GST) (2015: \$11,962 incl GST) is owing at balance date.

Key Management Personnel

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

	GROUP	
	2016 \$000	2015 \$000
Salaries and Short Term Employee Benefits	2,531	2,231

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.

21. Net Cash Flow from Operating Activities

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

Net Surplus After Taxation	1,219	95
Add/(Less) Non Cash Items:		
Amortisation	342	340
Depreciation	1,851	1,391
Deferred Tax	66	37
Deficit/(Profit) on Sale of Plant Property and Equipment	29	50
	2,288	1,818
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	2,505	(1,700)
Receivables and Prepayments	(4,506)	1,349
Inventories	(5,681)	52
Construction Work in Progress	2,005	456
GST Payable/ (Receivable)	189	(21)
Taxation Payable	58	(93)
	(5,430)	43
Net Cash Flow From/(Used In) Operating Activities	(1,923)	1,956

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

For The Year Ended 31 March 2016

22. Business Combination

On 16 February 2016 PowerNet Limited acquired 100% of the share capital of Otago Power Services Limited and immediately entered into a Short Form Vertical Amalgamation with Otago Power Services Limited.

The consideration paid for the shares of Otago Power Services Limited was \$8,400,000.

	GROUP	
	2016 \$000	2015 \$000
Assets Acquired		
Assets		
Cheque, Call and Short Term Deposits	1,610	-
Accounts Receivable and Prepayments	1,899	-
Fixed Assets	5,880	-
Total Assets	9,389	-
Liabilities		
Current Liabilities	1,376	-
Advances	6,747	-
Total Liabilities	8,123	-
Net Assets Acquired	1,266	-
Consideration paid for Shares in Otago Power Services Limited	8,400	-
Goodwill on Amalgamation	7,134	-

23. Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit Risk

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

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

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

Liquidity Risk

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

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

Market Risk

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

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

Fair Value

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

Capital Management

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

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

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

24. Subsequent Events

There were no events subsequent to balance date.

Auditors' Report

For The Year Ended 31 March 2016



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Facsimile +64 3 374 3001
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Independent Auditors' Report

to the shareholders of PowerNet Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of PowerNet Limited ("the Company") on pages 39 to 61, which comprise the consolidated statement of financial position as at 31 March 2016, the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 and fair presentation of the consolidated financial statements 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 consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors we have no relationship with, or interests in, the Group.

Auditors' Report *continued*

For The Year Ended 31 March 2016

Opinion

In our opinion, the consolidated financial statements on pages 39 to 61 present fairly, in all material respects, the financial position of the Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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 Christchurch
26 May 2016

Our EXECUTIVES



Left to Right

Justin Peterson - Service & Delivery Integration Manager OPSL, Roger Paterson - Chief Engineer, Trish Hazlett - GM Human Resources, Jason Franklin - Chief Executive

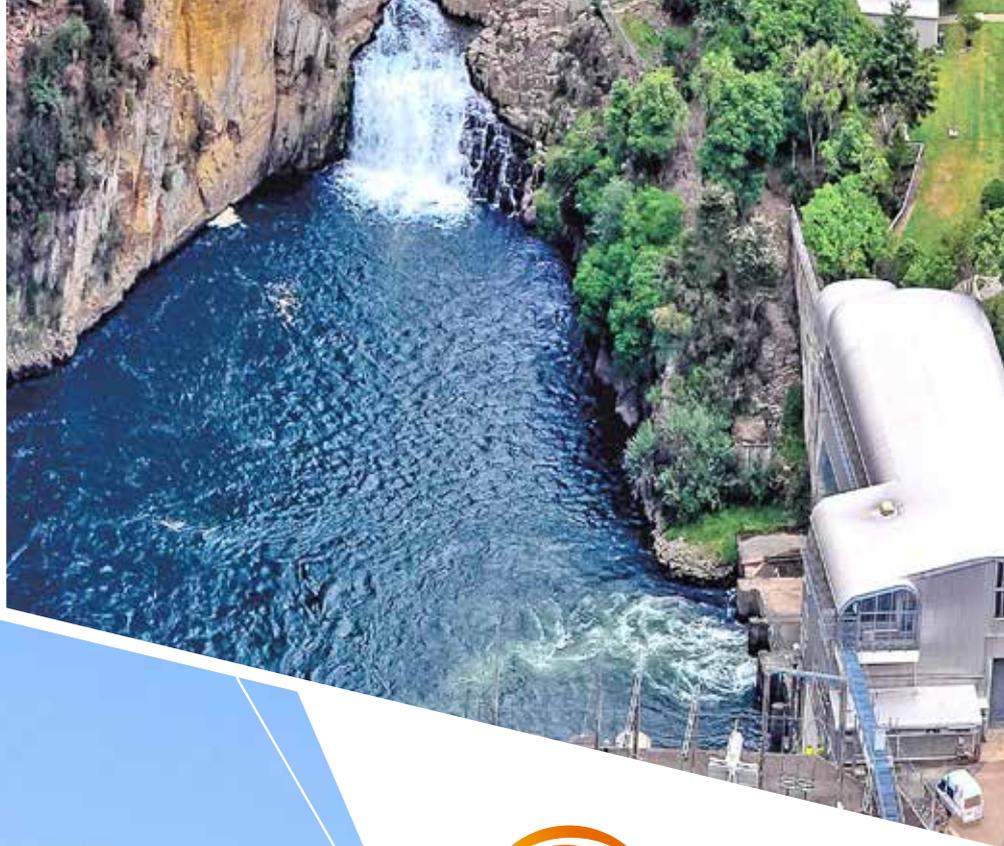


Left to Right

Greg Buzzard - Chief Financial Officer, Tim Brown - GM Business Support, Rachael Watt - Business Improvement Manager

Back Cover photos:

Top left: Flat Hill Wind Farm (Bluff) Top right: Aniwhenua Hydro-electric Station (Bay of Plenty) Bottom: Mt Stuart Wind Farm (near Milton)



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Supporting Southern Communities