



ANNUAL
REPORT
2017



INDEX

AND DIRECTORY

Front cover photos

Top left: 2016 Annual Connection Line Mechanic Competition PowerNet team members, L/R: Sean Christensen, Matthew Brown, Shane Lawson and Taura Patterson.

Top right: Robert Ferris, general manager, Electrix presenting PowerNet's Phil Johnson with the 2016 Connexis Contribution to Industry Training Award.

Bottom: PowerNet staff receiving the Community Initiative of the Year award at the annual Deloitte Energy Awards. L/R: Cameron Madgwick, (PEPANZ chief executive officer), Tim Brown (chief information officer), Murray Popenhagen (Peak Power Services Ltd general manager), Jason Franklin (chief executive), Debbie Pison (St John fundraising and marketing manager), Alan Harper (director), Kathryn McCoy (communications coordinator), Hon Simon Bridges (Minister of Energy and Resources), Jo Babe (St John community educator), Kent France (St John commercial and partnerships manager), Neil Boniface (director), Aaron Sinclair (commercial manager).

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Directory

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Auditors

PricewaterhouseCoopers, Christchurch

Solicitors

AWS Legal

Materials Procurement and Management

Corys Ltd



Dyson Gentle, project manager.

OUR

HIGHLIGHTS

Our Vision

To provide safe, efficient, reliable power to communities.

1

Health and safety: Across our business, we've implemented key initiatives that support a strong health and safety culture and encourage safety in our communities.

2

Positioning for the future: We've strengthened our customer service, resources and business efficiencies with the full integration of Otago Power Services Ltd into PowerNet Ltd.

3

Helping overseas: Fifteen of our line mechanics responded to the call for help, lending their skills and expertise to the international recovery effort in Fiji following Cyclone Winston.

4

Empowering our people: Our ongoing leadership development programmes equip our people with the tools and behaviours to lead from the centre, cultivating a shared vision.

5

Success at every level: We're excelling at all levels—as a company, in our teams and as individuals.

6

Future-proofing security of supply: We commissioned the upgrade of the Waikiwi substation, strengthening electricity supply to Waikiwi, Lorneville and Otatara.

7

High performance: We're delivering returns to shareholders, above business plan projections.

8

Leveraging emerging technologies: We're leading from the front with our electric vehicle project and exploring opportunities to incorporate new technologies for better business efficiencies.



Left: PowerNet's office on Racecourse Road, Invercargill.
Above: Installing poles at PowerNet's Invercargill training facility.

ABOUT

POWERNET

In 2016-17

Net Profit after tax	Capital Expenditure	Maintenance Expenditure
\$2.41	\$44.4	\$21.7
Million	Million	Million

Who We Are

At PowerNet Limited (PowerNet) we're passionate about delivering a safe, efficient, reliable power service to our communities and about adding value for our stakeholders.

We're New Zealand's fifth largest electricity management company. We manage most of the electricity assets in southern New Zealand. It's a responsibility we're proud to have.

No. of Employees	Turnover
 272	\$188
	Million

On behalf of our stakeholders we manage

What We Do

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

 14,282 kms of lines and cables	15,886 transformers
73 zone substations	\$564 Million in assets (Regulatory Value)
	More than 69,200 customers get their electricity through the networks we manage

The Electricity Assets We Manage

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

The Power Company Ltd (TPCL)

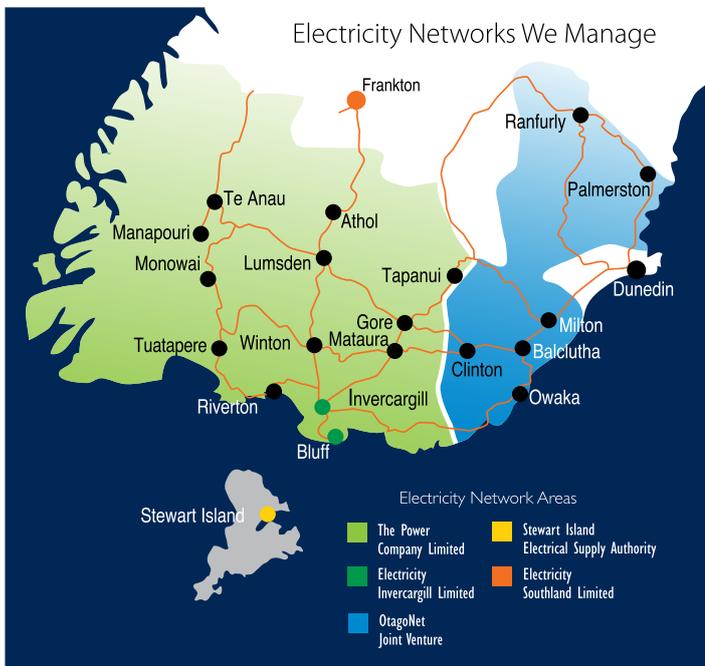
TPCL has a proud history of innovation in the south and owns electricity network assets across the Southland area (excluding Invercargill City and Bluff). TPCL is the largest electricity network PowerNet manages. Consumers connected to the TPCL network are its owners and the Southland Electric Power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

Electricity Invercargill Ltd (EIL)

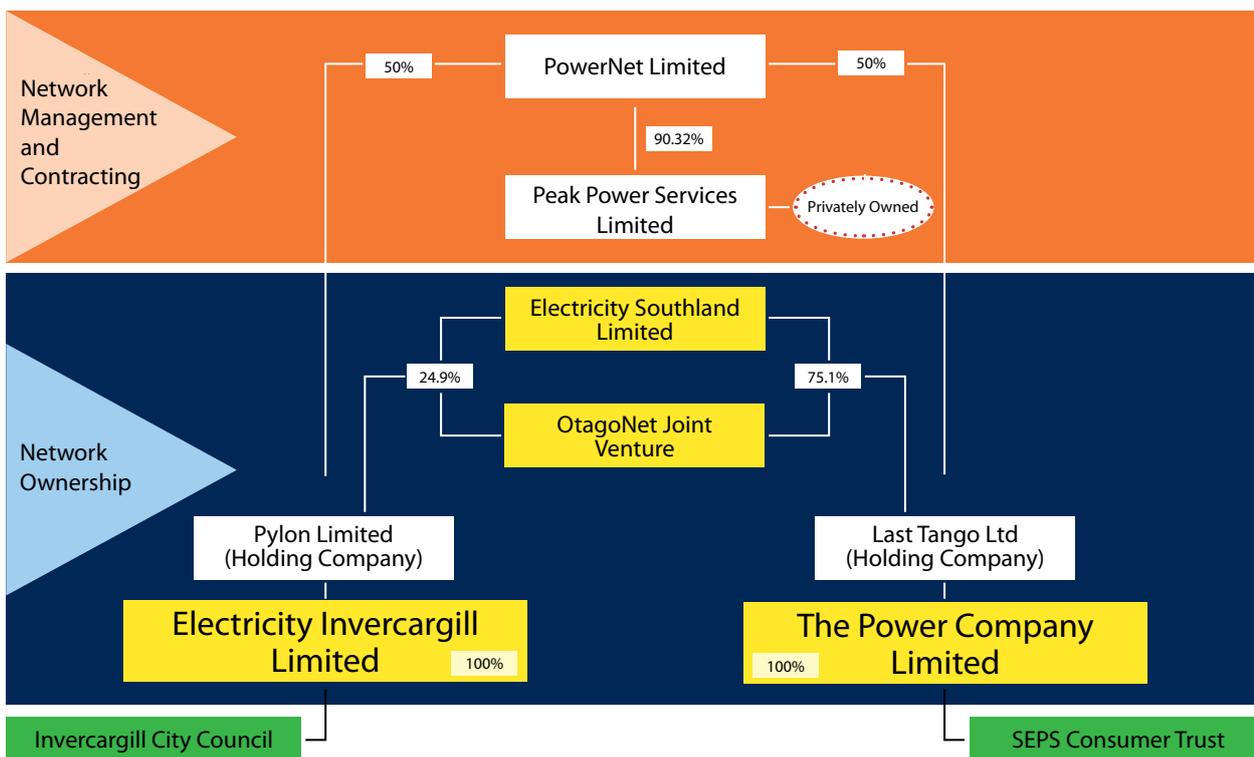
EIL owns electricity network assets in Invercargill City and in the Bluff area. It is wholly owned by the Invercargill City Council through its subsidiary, Invercargill City Holdings Ltd (ICHL). The EIL network is ranked by the Commerce Commission as one of the most reliable and efficiently operated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

OtagoNet Joint Venture (OJV)

OtagoNet Joint Venture is the major electricity network services provider for most of Otago. The company is wholly owned by TPCL and EIL.



Network Managers and Contracting Companies





CHIEF EXECUTIVE AND CHAIR'S REPORT

The 2016-17 year has been a time of consolidation as PowerNet positions itself for future growth and ultimately delivering to our stakeholders' needs.

Our themes for action centred on health and safety, empowering our people and harnessing emerging technologies. All contribute to a key objective—activating the power of one team working together towards a shared vision of delivering safe, more efficient and more reliable power to our communities.

Following the integration of Otago Power Services Ltd (OPSL) into PowerNet's business operations at the end of March 2016, significant benefits in service, resources and business efficiencies were delivered. In part, this year has been about cementing this change so that the full value is realised.

Having the right organisational structure is critical to achieving business success. This year we reshaped our structure to enhance the delivery of our shared vision. Primarily this meant unifying our field operations into one team and creating two new teams in Health and Safety, and Information Technology (IT) and Support. This meant we were more effective in our focus on operational leadership, in integrating and implementing our information systems, and in strengthening workplace safety culture and performance.

Health and Safety

Excellence in health and safety is fundamental to our business operations. It is the number one priority for our own people and in our engagement with our communities.

This year we established a separate Health, Safety, Environment and Quality (HSEQ) team to elevate the importance of this aspect of our business. The HSEQ team drives enhancements in this critical area, especially in the delivery of workplace safety. It works closely with our operational leadership team and in implementing business improvement initiatives.

"Our commitment to 'safety always'—one of our critical success factors—helps to ensure that we never compromise with the safety of ourselves, our workmates or our communities."

Best practice health and safety priorities are now woven throughout our workplace and public works activities. We are proud that this critical commitment to workplace safety has been acknowledged by ACC, who this year confirmed PowerNet with top-level, tertiary status in workplace safety management practice.

Empowering Our People

More than ever before, PowerNet's staff operate as one team with one vision. This is a key objective of our leadership initiatives—that every day our staff come to work with a belief in PowerNet's vision and values—delivering safe, efficient and reliable power to our communities with a positive, honest attitude.

Now in its second year, our Shared Vision Leadership programme is empowering and rejuvenating our people.

The Shared Vision Leadership programme is equipping our leaders with the tools, knowledge, skills and common focus to take us forward together to achieve our organisational goals. In the 2016-17 year, over 70 leaders and potential leaders experienced the programme. They are now activating their new skills and knowledge to lead, inspire and enable their own teams. Our critical success factors include 'courageous leadership'—this is a fundamental pillar for leaders at all levels.

"One vision, one purpose, one direction—leadership at every level."

This Shared Vision Leadership programme interconnects with our other human resources initiatives, including the People Capability Framework, which links achievement in skills and behaviours to a selection of key competencies for individual roles. At an organisational level, this translates to the right people, in the right place, doing the right job.

These complementary programmes strengthen the abilities, skills and knowledge of our staff, both personally and professionally. They are building a more robust, agile organisation driven by a strong commitment to vision and values.



Emerging Technologies

This year we've had a dedicated focus on exploring opportunities offered by new and emerging technologies both in our own business operations and as community leaders.

PowerNet is proud to be partnering with the Energy Efficiency and Conservation Authority (EECA) in a project that supports the increased use of electric or hybrid vehicles in Southland business fleets. This is a future-thinking project that contributes to national environmental targets and the transition away from fossil fuels. PowerNet's contribution includes installing fast-charging stations for participating businesses.

We have been increasing our knowledge in this area to better understand how emerging technologies may impact on our customers, communities and network assets. PowerNet now has dedicated resource planning for these technologies, with trials starting in 2017.

Staff and Community Achievements

We're extremely proud of our staff successes over the past year. In different ways and within different specialities, our people have made important contributions and we thank them for their commitment.

Some stand-out individual achievements gained external recognition. Field safety and training advisor, Phil Johnson, received major industry recognition when he won the Contribution to Industry Training Award at the 2016 Connexis Annual Connection Excellence Awards. Our line mechanic competition team matched it with the best in the industry, winning three awards at the annual Connection Line Mechanic Competition.

As a company, we were delighted to win the Community Initiative of the Year award at the annual national Deloitte Energy Excellence Awards for our sponsorship of St John's work in the South. This far-reaching sponsorship includes both support for first-aid training, collaborative safety promotion opportunities, as well as regular donations of automated external defibrillators (AEDs) to key locations within our Southern communities. We are now extending the programme further into Otago.

"Giving back to our communities is part of our shared vision. This is wide-ranging, and includes how we manage network assets, and how we engage with the community every day in our work and in our dedicated community programmes."

We were also pleased this year to support the international recovery effort that followed the devastating Cyclone Winston in Fiji. Fifteen of our line mechanics made a valuable contribution, assisting with the restoration of electricity supply in three separate deployments.

Our strategy and capability to continue delivering excellence in services to our communities and in shareholder returns is driven by our governing board. This year we said goodbye to longstanding directors and welcomed new team members to the fold.

We acknowledge the important work and commitment of Maryann Macpherson who served both as PowerNet chair (2012-2015) and as a director on PowerNet and TPCL boards. Long-serving PowerNet and EIL directors Neil Boniface and Darren Ludlow also retired and we thank them for their significant contributions. We welcome Karen Arnold, Locky McGregor and Joe O'Connell to the PowerNet board. All bring extremely valuable experience and skills to the table.

Into the future, management will continue to review and realign the business where necessary to ensure continuing improvements in safety, reliability and efficiency.

Jason Franklin
Chief Executive

Ross Smith
PowerNet Chair



OUR

STAKEHOLDERS

THE POWER COMPANY LTD

35,608 CONNECTED CONSUMERS

8,876km Network LENGTH

CONSUMER DENSITY
4.0 consumers/km

11,101 distribution transformers

PowerNet's core business is to provide a safe, efficient and reliable electricity supply to Southern communities.

This year PowerNet has again achieved this goal—maintaining and future-proofing the networks we manage, adhering to our critical success factors, and developing long-term value for our shareholders—TPCL and EIL.

Network Management

PowerNet manages the EIL, TPCL and OJV networks on behalf of their owners. PowerNet has long-term management contracts in place for these networks. It also has a service contract agreement with the Southland District Council-owned Stewart Island Electrical Supply Authority (SIESA). The three major networks—EIL, TPCL and OJV—have a combined Regulatory Value of \$564 million. Each month, PowerNet reports to the boards of these networks and completes all regulatory reporting to the Commerce Commission and Electricity Authority on their behalf.

The Power Company Ltd (TPCL)

In 2016-17, significant investment continued in new and existing assets on the TPCL network. Many projects were completed to maintain and improve service levels and created additional network capacity. Capital expenditure totalled \$24 million with a further \$10 million spent on maintenance.

Asset Replacements and Customer Connections

In total, \$6.9 million was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a reliable network. A further \$1.1 million was also spent upgrading distribution transformers due for replacement.

New customer connections on TPCL's network totalled \$2.4 million. This represented a decrease in investment compared with previous years, due to a lower level of economic activity.



Upgrades to Waikiwi and Centre Bush Substations

Projects to upgrade substations on the TPCL network increased capacity and improved the security and reliability of electricity supply. In September 2016, the newly-upgraded Waikiwi zone substation in Invercargill was commissioned. The 18-month, \$4.7 million project, involved installing two new 33/11kV, 11.5/23MVA transformers in a new fully-enclosed building that met the requirements of an urban environment.

“Due to the compact nature of the site, design and construction was a challenge. The upgrade was completed in stages to maintain electricity supply and to minimise disruption.”

Project manager, Roger Scott

Work began in January 2017 on the Centre Bush zone substation upgrade. The upgrade is an ongoing stage of the Oreti Valley Project, with five remaining stages to upgrade and extend the 66kV network from Winton to Centre Bush, Dipton, Lumsden and Mossburn zone substations by 2020. Design and equipment projects are also underway for the upgrades of Lumsden and Dipton substations.

Mobile Substation

TPCL's purchase of a mobile substation provides the capability to restore electricity supply in a major event and reduce outages when major equipment requires maintenance.

Neutral Earthing Resistor (NER) project

Improving public safety on the TPCL network is at the core of a \$1.4 million project to install neutral earthing resistors (NERs). NERs significantly reduce the risk of harm when an earth fault occurs. These are being installed at all zone substations.

Distribution Automation

Distribution automation enables faults to be identified, detected, isolated and restored, with the aim of minimising their impact on customers. Specifically, distribution automation involves automating and remotely controlling field devices and load break switches (and increasing how many there are on the network) and integrating these with our systems.

TPCL as a customer-owned business is exempt from complying with a supply quality limit; but to measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt. The normalised System Average Interruption Duration Index (SAIDI) for TPCL of 139.30 minutes was below the supply quality limit of 165.67; similarly, the normalised System Average Interruption Frequency Index (SAIFI) for TPCL at 2.16 was also comfortably below the supply quality limit of 3.16.

PowerNet Relationship

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 passing 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
Line and pole replacements	\$6,897,000
New customer connections	\$2,446,000
Mobile substation	\$2,330,000
Centre Bush zone substation upgrade - stage 2	\$1,949,000
Neutral Earth Resistor (NER) installations	\$1,455,000
Waikiwi zone substation upgrade - final stage	\$1,365,000
Distribution transformer replacements	\$1,092,000
Lumsden zone substation upgrade - stage 1	\$877,000
Dipton zone substation upgrade - stage 1	\$585,000
Distribution automation	\$559,000

17,377 CONNECTED
CONSUMERS

665km Network LENGTH

CONSUMER DENSITY
26.1 consumers/km

444 distribution
transformers



Andrew King, Jordan Coutts and Paul Barclay lifting new switchgear into place at ASB House, Invercargill.

Electricity Invercargill Ltd (EIL)

Activity on the EIL network continues to focus on projects that aim to ensure network reliability and safety. The total capital spend on the network in 2016-17 was \$3.8 million and a further \$1.6 million was spent on maintenance.

Underground Substations and Link Boxes

Due to safety concerns, Invercargill's 13 underground substations each housing 11kV switchgear, distribution transformers and low voltage distribution boards, are gradually being replaced in a three-year project which began in 2015. This year, two sites were moved above ground at Deveron and Herbert streets. A further four underground substations are due to be replaced in the coming financial year.

The project to relocate 400V underground link boxes above ground across Invercargill's central business district continues. Thirteen link boxes were replaced in 2016-17, with a further 40 scheduled to be replaced over the next two years. When the project is completed, 130 link boxes will be located above ground.

Asset Replacements and Customer Connections

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

In the Bluff area, 11kV lines and poles have been replaced to maintain reliable supply to the Bluff community and South Port.

New customer connections to the EIL network remained at a moderate level during 2016-17.

EIL's normalised SAIDI of 13.47 minutes was well under the supply quality limit of 31.13 minutes. Normalised SAIFI at 0.29 was also well under the supply quality limit of 0.77. This is because the majority of the network is located underground. It is also due to recent network automation initiatives.

PowerNet Relationship

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
Underground distribution substation replacements	\$1,262,000
400V link box replacements	\$623,000
Distribution transformer replacements	\$352,000
Ring main unit replacements	\$318,000
Bluff line replacements	\$298,000
New customer connections	\$162,000

OTAGONET JOINT VENTURE

14,912 CONNECTED CONSUMERS

4,654km Network LENGTH

CONSUMER DENSITY
3.2 consumers/km

4,248 distribution transformers

Maintenance work at Kaka Point, Catlins, Otago.



Introduction

Stakeholders

People

Customers and Communities

Environment

Profiles and Reports

Financials

OtagoNet Joint Venture (OJV)

Projects on the OJV network demonstrate a continued commitment to maintaining a safe, efficient and reliable electricity supply to Otago communities.

In 2016-17, \$11 million was spent on capital investment in the OJV network and another \$4.2 million on maintenance.

Asset Replacements

A total of \$5.7 million was invested in maintaining and upgrading line and pole replacements across the network and a further \$0.8 million in upgrading transformers due for replacement.

Customer Connections

New customer connections on the OJV network continue to increase. A total of \$1.6 million was invested across the OJV network.

Other significant developments on the OJV network in 2016-17 include the upgrade of the Clydevale zone substation which increases power capacity to the Clydevale area, meeting the demand generated by increased dairying.

Initial design and equipment planning has been completed for the upgrade of Patearoa zone substation—work that's needed to meet the demand created by accelerated load growth due to irrigation and dairy conversions.

The network had a normalised SAIDI of 227.70, which was comfortably under the supply quality limit of 254.91. OJV's normalised SAIFI of 2.42 was also under the supply quality limit of 2.93.

OtagoNet

Project	Approximate Expenditure
Line and pole replacements	\$5,741,000
New customer connections	\$1,564,000
Clydevale zone substation upgrade - final stage	\$963,000
Distribution transformer replacements	\$790,000
Patearoa zone substation upgrade - stage 1	\$744,000

Electricity Southland Ltd (ESL)

The ESL network in Central Otago was formed in 1995 and is owned by EIL and TPCL.

With the rapid population and commercial growth in the Queenstown Lakes region, the ESL network continues to expand rapidly. This is largely due to several new residential subdivisions and commercial developments in the area, with assets now approaching \$16 million.

Growth includes new customer connections at the subdivisions and developments of Shotover Country, Lakes Edge, Remarkables Park, Shotover Park, Bridesdale Farm, Hanley's Farm and Northlake in Wanaka.

ELECTRICITY SOUTHLAND LTD

CONSUMER DENSITY **14.2 consumers/km** Network LENGTH **62km**

877 CONNECTED CONSUMERS

50 distribution transformers



Steve Lawrence and Michelle Henderson inside the Stewart Island Power House.

STEWART ISLAND ELECTRICAL SUPPLY AUTHORITY

447 CONNECTED CONSUMERS

25km Network LENGTH

CONSUMER DENSITY
17.8 consumers/km

43 distribution transformers

Stewart Island Electrical Supply Authority (SIESA)

The SIESA network is managed by the Southland District Council (SDC) and it ensures 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. The work includes servicing generators, lines and cables as well as fault management.



The Power House on the SIESA network.

Electricity Sector and Government

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

The view from Remarkables Road, with Frankton and the eastern access road (Howthorne Road) visible at the far left. On the right is the Shotover Country Subdivision.



2017 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 Ltd	Electricity Invercargill Ltd/The Power Company Ltd	Electricity Invercargill Ltd/The Power Company Ltd	Southland District Council
Connected Consumers Total	35,608	17,377	14,912	877	447
- Residential	26,243	15,244	11,381	630	354
- Industrial	202	127	97	9	40
- Commercial	9,163	2,006	3,434	238	53
Network Length	8,876km	665km	4,654km	62km	25km
Consumer Density	4.0 consumers/km	26.1 consumers/km	3.2 consumers/km	14.2 consumers/km	17.8 consumers/km
Number of Distribution Transformers	11,101	444	4,248	50	43
Distribution Transformer Capacity	428.2MVA	149.0MVA	172.1MVA	19.1MVA	2.4MVA
Distribution Transformer Density	48.2kVA/km	224.2kVA/km	37.0kVA/km	308.8kVA/km	96kVA/km
Maximum Demand - System	135MW	63MW	61MW	4.4MW	0.44MW
Total Energy Conveyed - Transpower	751GWh	268GWh	422GWh	18.8GWh	1.51GWh
Regulatory Value	\$328 million	\$75 million	\$161 million	-	-



Left: Sam Gold and Samantha Maurangi signing the company's Vision and Values statement.

Above: Maurice Graham with his Leading with Courage presentation.

OUR

PEOPLE

People are our greatest asset. We're proud of the work our 272 staff do every day, delivering a safe, efficient and reliable electricity supply to our customers. They make a hugely important contribution to the smooth operation of the electricity networks we manage. Our main offices are in Invercargill, Balclutha, Frankton and Gore. We also have depots in Ranfurly, Palmerston, Balclutha, Gore, Frankton, Winton, Te Anau, Lumsden, Invercargill and Stewart Island.

Our company teams are structured to deliver excellent customer service and to support future growth.

Business Improvement Network Development	Grow
Finance and Commercial	Measure
IT and Support Human Resources Health, Safety, Environment and Quality	Support
Network Assets	Plan
Major Projects and Operations, (Distribution, Technical and System)	Build, Maintain and Operate

Achieving Our Shared Vision: One Team, One Way of Working

Aligning our people's behaviours with a shared vision and deepening their understanding of PowerNet's five critical success factors of safety always, customer focus, continuous improvement, passionate and empowered people and courageous leadership, has been a business priority in the 2016-17 year.

Our Shared Vision Orientation programme is a vital tool that supports us in achieving this goal. This programme has been delivered throughout the organisation, giving all staff the opportunity to understand how their roles and actions align with our company direction. Developing this shared approach is reaping benefits as we strengthen our collective focus working as one team towards a common outcome.

Our in-house Shared Vision and Leadership programmes also continue to generate positive change, equipping our leaders with the behavioural tools, techniques and understanding that fosters 'one team, one way of working'. Almost all our frontline leaders have now experienced the programme, with 24 attending in 2016-17.

Lumsden-based supervisor, Maurice Graham, has put the shared vision and leadership techniques approach to positive and practical use with his team.

It has reaped big benefits, Maurice says. Giving team members more responsibility to get involved means everybody learns from each other. From the more experienced linesmen to the trainees, everyone contributes ideas.

"The team is on board from the start and takes a real interest in the job. For me as a leader it has been about getting everyone involved in decision making. We're more focused on the positive."

"A key aspect of the programme that has worked for us is a shift in focus to coaching. Now as a team we step back to look at a job before we start—what we've got to do, why we're doing it, how we approach it, how we tackle issues. We get everyone's ideas and work out the best way to get the job done."



Above and right: Balclutha Depot shed, before and after implementation of the 5S programme.

People Capability Framework

We continue to embed the People Capability Framework, with its core focus of 'the right person with the right skills, in the right place, doing the right job'. The framework identifies organisational leadership and technical competencies for individual roles, linking and integrating these with career pathways, personal development plans, training frameworks, coaching and development, and workforce planning and profiling.

Over the last year, our operational staff have been brought into the framework—they account for 60% of our workforce. This has meant developing and implementing the framework for line mechanic teams, technical teams, system control staff, arborists, Stewart Island operators and distribution project managers.

The capability framework has enabled us to analyse skills data and use this to identify gaps and training opportunities. For example, if a staff member's competencies are not documented, a competency assessment refresher programme is developed and implemented by field training advisors. To maintain and enhance competency levels, training and skills development is prioritised, based on risk, task frequency and the needs of field teams. A good example is the new Network Access Certificate (NAC) which enhances our capability to manage team competencies and to more effectively match staff competencies to work tasks.

The NAC is a valuable tool that supports our commitment to workplace safety. Implemented in 2016-17, the NAC identifies individual staff members' key competencies and matches skills with competencies to identify areas for further training. It replaced the former Permit Holders Certificate system.

To determine competency levels against the new NAC criteria, the switching authorisations of all supervisors and team leaders were reviewed before being matched to skills and competencies. All switching competencies are now logged in the Human Resources (HR) database where they are easily accessed and managed. The next step is to identify the NAC requirements and training of contractors.

Integration

Aligning PowerNet and OPSL's policies and procedures to support 'one team, one way of working' is a significant, ongoing and complex workstream following the amalgamation of OPSL in early 2016. The alignment goal is to maximise the best opportunities in policies, procedures, benefits, and employment terms and conditions, so that teams and individual staff across both companies are not disadvantaged.

Lean Management Programme/Business Improvement

The elimination of non-value adding activities in our business processes continues through our Lean Management regime, particularly the 5S programme. The goal is to improve future productivity and efficiency, and to add value for customers.

The improvements in the organisation of depots and equipment-holding facilities through the 5S programme—to sort, set in order, shine, standardise and sustain—has been impressive.

"It has become really easy to find our gear and equipment as everything has its own location. As a result, we're working more efficiently."

Balclutha based 5S area leader, Lyndon Whale

5S encourages staff to take control of their workspace by eliminating clutter and keeping it orderly, safe and clean, based on the motto 'a place for everything and everything in its place.' Sixty staff have attended the programme with another 20 planned to complete it in 2017-18. Although 5S initially focussed on depots, it is intended to extend the programme to office spaces, vehicles and field-based workspaces.

Other process improvement work identified opportunities for improvements in the customer connection process and these are being addressed.



Left: Pause for Safety - Alan Kelbrick, Jonathan Willis and Jeff Berry.

Above: Line mechanics performing a pre-climbing pole assessment as part of new critical risk training.

Workplace Health and Safety Initiatives

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

Safety Representatives

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

In 2016-17, 13 PowerNet staff were trained as health and safety representatives in topics that included the Health and Safety at Work Act 2015 and risk management. As good safety leaders, these representatives are a critical lynchpin in the effective management of health and safety. Under health and safety legislation, their role is important in upholding high safety standards and in articulating their peers' safety concerns at committee level.

Pause for Safety

A new Pause for Safety initiative is raising staff safety awareness. First introduced to field and office teams in November 2016, the simple yet effective exercise involves a team leader asking their team to stop briefly to consider an aspect of workplace safety. A second successful Pause for Safety exercise was held in early January and more are planned to draw attention to heightened workplace risk factors or safety successes.

"The Pause for Safety events are a great way to support the safety of our staff."

Chief operating officer, Michelle Henderson

Safe Team Work

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

Safety team talks that foster a culture of 'safety always' are also held. These are collaborative discussions amongst staff and managers where collective solutions to health and safety concerns are developed.

Critical Risk Training

To ensure our field staff remain safe while working on our network assets, a more robust pre-climbing pole assessment process was developed and implemented. This resulted in interactive training courses for field staff, complete with onsite assessments of participants to gauge their level of understanding.

"The pre-climbing pole assessment training has been a great success with the field crews from all areas participating. The participants completed testing over a range of poles to verify the information they had learnt."

Field training officer, Joseph Reti

Communications

Clear communications with the right messages are vital. Over the 2016-17 year, PowerNet has created simple, effective communications tools to support the dissemination of safety messages internally. These include revamped incident investigation closeout fliers—safety learnings that are circulated to staff if an incident occurs, and safety messages to external audiences through mediums such as advertising and social media.



Above: PowerNet's rowing team competing in the Waihopai Stabicraft Corpor8 Rowing Challenge.

Right: The PowerNet team assisting with the restoration of electricity services following Cyclone Winston in Fiji.



Staff Involvement

Collective Networks Operations Group (CNOG)

PowerNet hosted a meeting of the Collective Network Operations Group (CNOG) in Invercargill in February 2017.

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

CNOG is currently working to establish a single point of contact for transport operators moving high loads through the South Island. The aim is to ensure that operators receive the information they need and to standardise the way individual networks manage high loads travelling through their area. Once established, this process may be used to manage applications to operate machinery near network lines and cables.

Other projects on the group's agenda include: clarifying industry terminology and processes relating to customer connections, establishing common processes to assess how safety rules are understood, and assessing competencies for network access authorisation.

In Our Industry

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

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

Chief financial officer, Greg Buzzard, is a member of the Electricity Networks Association (ENA) regulatory working group.

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

Customer and metering services manager, Alaister Marshall, is on the Electricity and Gas Complaints Commissioner (EGCC) Member Committee.

Commercial manager, Aaron Sinclair, is a member of the ENA Distribution Pricing working group.

Arborist manager, Mark Way, is a member of the ENA Vegetation Management working group.

In Our Community

In 2016 PowerNet board director, Tom Campbell, continued as chair of the Southland Regional Development Strategy (SoRDS) governance group. Chief executive Jason Franklin was a member of the SoRDS New Industries Group and chief information officer, Tim Brown, a member of the SoRDS Ease of Doing Business Group.

In Local Events

In November 2016, PowerNet again supported staff in the Waihopai Stabicraft Corpor8 Rowing Challenge. The team finished third in the D final.

In October 2016, 14 Balclutha PowerNet staff participated in Pedal for Hope, a 12-hour indoor spin bike marathon to raise awareness and funds for the NZ Breast Cancer Foundation and the NZ Prostate Cancer Foundation. As well as completing the marathon, the team ran a cake stand and a breakfast barbecue, raising over \$1000.

Assisting Others

In April and May 2016, 15 PowerNet line mechanics travelled to Fiji as part of the international recovery effort to repair damage caused by Cyclone Winston. Their work included disconnecting fallen lines, clearing debris to safely reconstruct powerlines, erecting fallen poles, re-stringing lines, and re-installing overhead distribution equipment including transformers. PowerNet was pleased to be able to offer the resources, skills and expertise of its staff to assist with the recovery effort.

Helping Out Network Waitaki

Over the past two winters, PowerNet staff lent their skills and expertise to assist Network Waitaki. Two line mechanic teams have worked with Network Waitaki staff on projects to build a 66kV line in Kurow and a 66kV line on the outskirts of Oamaru.

OUR EXECUTIVES



Left to right

Justin Peterson (GM health, safety, environment and quality), Roger Paterson (chief engineer), Trish Hazlett (GM human resources), Jason Franklin (chief executive).



Left to right

Michelle Henderson (chief operating officer), Greg Buzzard (chief financial officer), Tim Brown (chief information officer), Rachael Watt (business improvement manager).

Justin Peterson, with PowerNet's 'stay 4 metres away' safety message on display at Invercargill Airport's baggage claim area.



OUR CUSTOMERS AND COMMUNITIES

PowerNet Annual Customer Surveys

Every year PowerNet surveys 800 customers across the EIL, TPCL and OJV networks to assess areas of our business that include safety, efficiency and outage management.

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

In the 2016-17 year, knowledge of who PowerNet is increased by 10% amongst customers surveyed. There was a 6% increase in overall familiarity with PowerNet's faults response number when compared with 2015-16. Eighty-two percent of customers surveyed were satisfied with the information they received from PowerNet system control and thought they received enough information in the event of an outage. This represents a decrease of 10% when compared with 2015-16.

Twenty-two commercial customers (who had not been previously interviewed) were also surveyed to review their level of engagement with PowerNet. The results from these interviews continue to be favourable, with the overall performance rating improving (out of 10) from 7.9 in 2015-16 to 8.6 in 2016-17. Commercial customers were positive about the continuity and reliability of supply across the networks, with this being the highest-ranking expectation, and about our rapid response to unplanned outages.

Commercial customers also identified areas where PowerNet could assist them further. These included ongoing communication around the efficient use of electricity and keeping them up-to-date with our latest technology and supply upgrades.

Customer Function

Meeting with our customers is an excellent way to get feedback on network performance and customer expectations.

In November 2016, OJV directors and senior PowerNet staff held a customer function at The Hills Golf Club, Arrowtown.

Customers gained an insight into PowerNet's future planning for the local network and shared ideas on how PowerNet and OJV could improve the quality of electricity supply and services.

As part of an ongoing PowerNet initiative supporting safety in the community, OJV directors formally presented an AED to be installed at H&J Smith at Remarkables Park.

Asset Management Plan Update

The asset management plans have been updated for EIL, TPCL and OJV for 2017-2027.

The plans outline planned capital and maintenance expenditure on the networks for the 10-year period. They detail PowerNet's approach to managing network assets so that stakeholder requirements are met and a safe, efficient and reliable electricity supply is provided to communities. Considerations include drivers such as cost, equipment, life cycle, regulatory requirements, demographic changes, environmental impact and required service levels.

The plans can be viewed at PowerNet's website: www.powernet.co.nz.

Menacing trees cause power cuts in storms



PowerNet For advice visit www.powernet.co.nz or phone 0800 808 587

Above: PowerNet's 'Menacing trees' safety message.

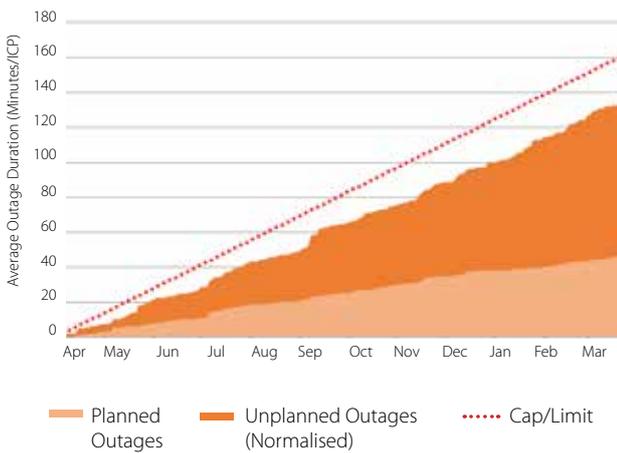
Right: Brad Templeton installing the new 750 kVA transformer at Rowena Jackson Retirement Village, Invercargill.



THE POWER COMPANY LTD

System Average Interruption Duration Index (SAIDI)

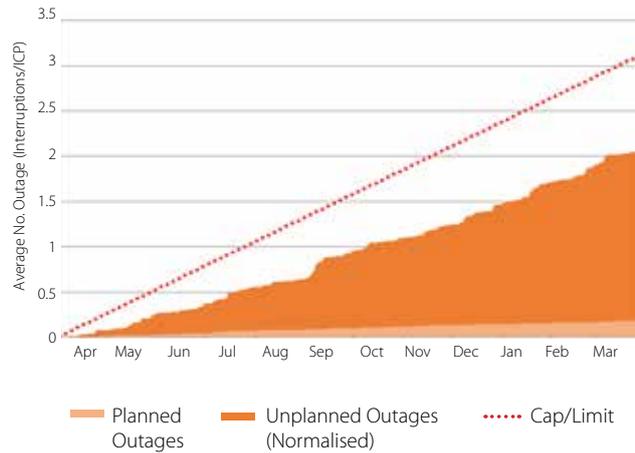
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
47.73	91.56	165.67	139.30

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
0.18	1.98	3.16	2.16



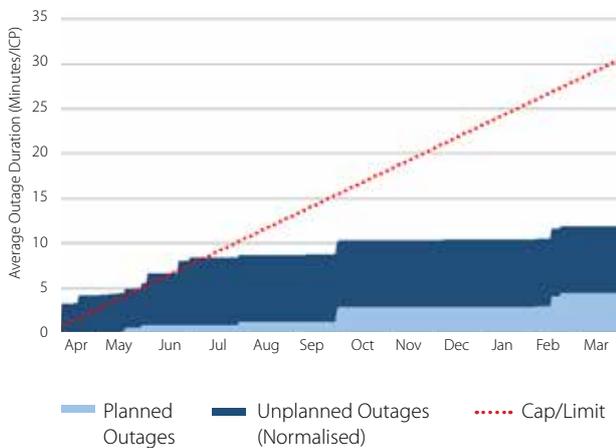
Left: Jason Nicolson working on an underground link box in Invercargill's CBD.

Above: Confined space exercise participants, rescuers from the Invercargill Fire Service: Paul Dawson, Adam Milne, Anthony Haines, Neil Ladbrook and Duanne Shannon. In the Stokes basket is Andre Grobler (PowerNet).



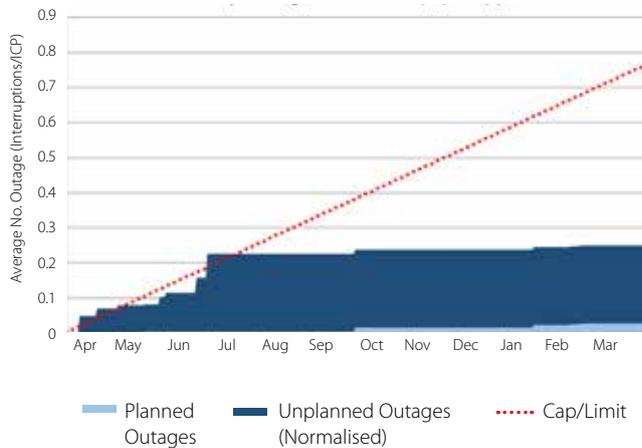
System Average Interruption Duration Index (SAIDI)

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



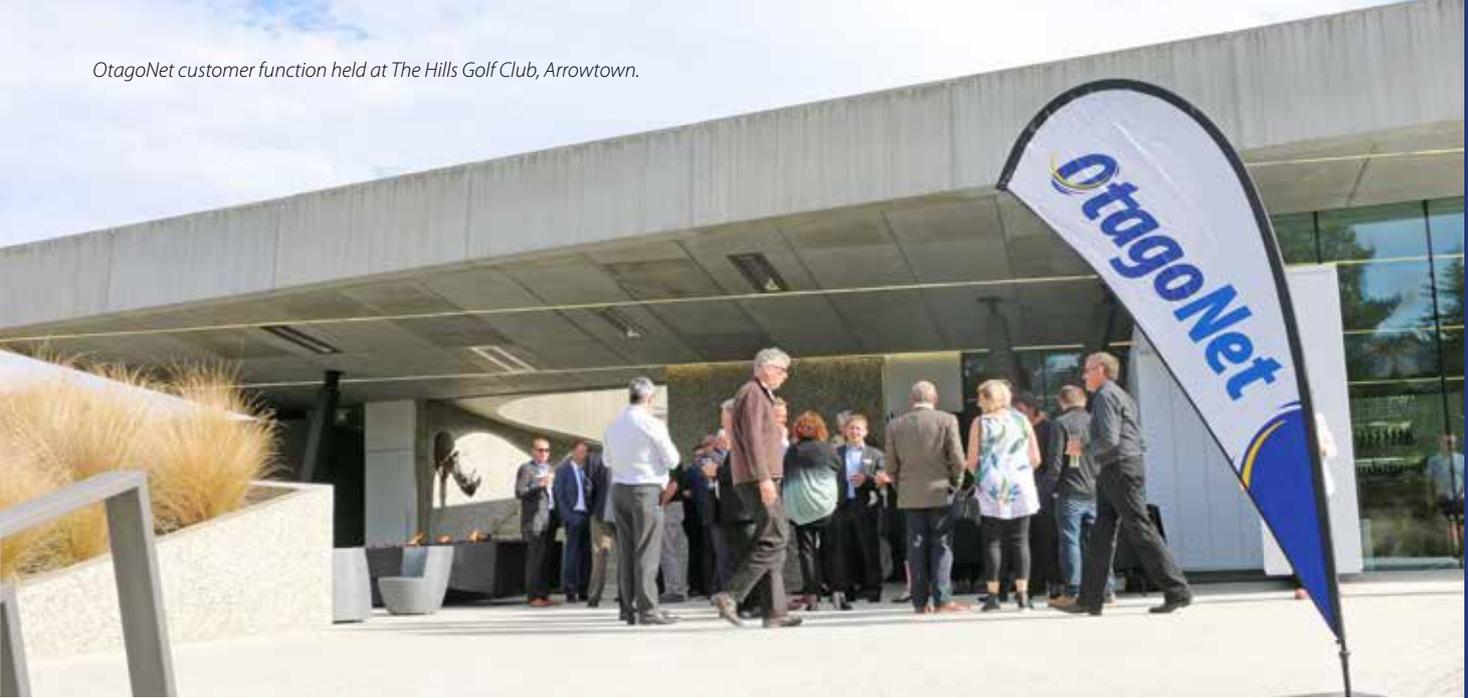
System Average Interruption Frequency Index (SAIFI)

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



SAIDI			
Planned	Unplanned	Quality Limit	Actual
4.42	9.05	31.13	13.47

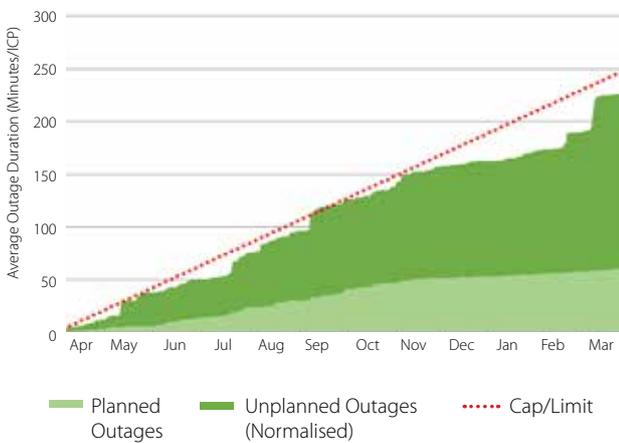
SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.03	0.26	0.77	0.29



OtagoNet

System Average Interruption Duration Index (SAIDI)

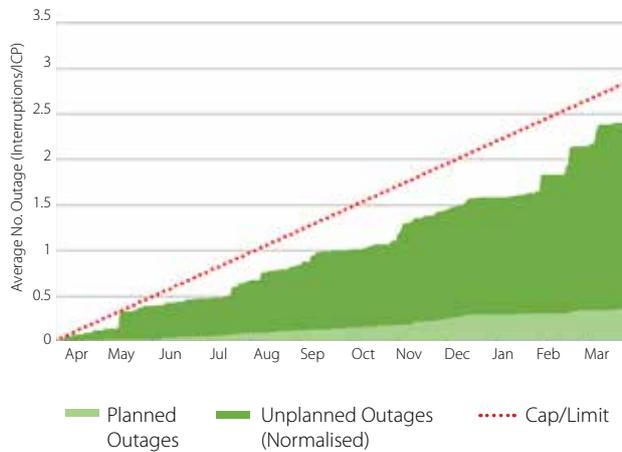
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
60.69	167.01	254.91	227.70

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
0.36	2.06	2.93	2.42



Top left: Bill Richardson Transport World AED donation – Sarah Brown (PowerNet director), Robin Eustace (St John), Joc O'Donnell (Bill Richardson Transport World) and Tim Brown (PowerNet).

Bottom left: Borland Lodge AED donation – Lynn and Pete Illingworth (Borland Lodge), Doug Fraser (PowerNet director) and Mike Johnston (PowerNet).

Top right: H&J Smith AED donation – Jason Franklin (PowerNet), Tanya Wallace (H&J Smith), Kent France and Keith Raymond (St John).

Bottom right: Ranfurly AED donation – Jim Matheson and Michelle Henderson (PowerNet), Glenis Crutchley (St John), David Steele (PowerNet) and Geoff Foster (Maniototo Health Services).

Sponsoring St John

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

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

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

Between November 2014 and February 2017, 561 people received first aid training as part of the programme. Thirty-two courses have been held in eight Southland locations: Invercargill, Maitara, Gore, Frankton, Bluff, Winton, Riverton and Fiordland.

Under a new agreement, PowerNet is extending the scope of its St John sponsorship into the OtagoNet-managed area covering Palmerston, Ranfurly, Middlemarch, Milton, Balclutha, Owaka and the Catlins.

PowerNet's sponsorship of St John also extends beyond first aid training opportunities. Six AEDs have been donated and installed in handy locations, such as petrol stations and shopping centres, throughout the South. Training in how to use an AED is also provided.

Sponsorship also supports St John's visits to Southern schools as part of the St John in Schools programme. A total of 10,944 students from 122 schools across PowerNet's catchment area have had an opportunity to learn more about first aid and emergency safety procedures through this programme.

PowerNet's emphasis on 'safety always' as a critical success factor means that partnering with St John provides a perfect fit. It includes the opportunity to take the company's own network safety messages to a wider audience through St John training courses and the St John in Schools programmes.

In 2016-17, PowerNet's sponsorship of St John won the Community Initiative of the Year award at the Deloitte Energy Excellence Awards in August. PowerNet is extremely proud that the programme received this national recognition.



St John in Schools programme branded plaster boxes.

James Ratema (Awarua Synergy)
installing insulation as part of the
Southland Warm Homes Trust.



“When PowerNet first looked to the community for a sponsorship partner our CE Jason Franklin and myself outlined criteria we felt we needed to tick the boxes.

This included things such as health and wellbeing, safety, sport, community support, education, regional involvement and teamwork, all with a trusted brand.

Once that criteria had been assessed it was a fairly easy decision and recommendation to our board on who that partner should be. For us St John ticked all those boxes.”

Chief information officer, Tim Brown

Supporting Our Community Environment

In a joint agreement with ChargeNet NZ and the Better NZ Trust, PowerNet supports the development of an electric vehicle (EV) infrastructure in Southern communities. The initiative is part of PowerNet’s wider push to encourage sustainable energy options and to support the transition from fossil fuels.

Southland’s first charging station opened in April 2016 in Esk Street, Invercargill. A shared project between PowerNet (who supplied the infrastructure) and ChargeNet NZ, the initiative is also supported by the Better NZ Trust, which has a vision to create sustainable environmental benefits for all New Zealanders through education.

Community and Environment

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) Healthy Homes Programme, has completed more than 6000 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under the Healthy Homes Programme is targeted at those who would benefit most from having their homes insulated—low income households with high health needs, including families with children and the elderly. Under the current EECA Rental Programme, landlords with eligible tenants can have the cost of insulating their rental properties subsidised by 50%.

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



Above: Phil Johnson, training PowerNet staff in pole top rescue techniques.

Right: Kana Shanmuganathan, Tony Snell and Michelle Henderson, at the Tradequal Awards.



Staff Successes

PowerNet staff continue to receive wide acknowledgement for their achievements and commitment to the industry.

PowerNet field safety and training advisor, Phil Johnson, won the Contribution to Industry Training award at the 2016 Connexis Annual Connection Excellence Awards. Phil has made a huge contribution to industry training for over 20 years, with many qualified line mechanics throughout New Zealand benefiting from his expertise.

“Phil is acknowledged nationally as a leader and as a source of wisdom; his depth of experience in the industry adds to his mana. His focus on training and safety reflects his awareness of the risks faced by our workers, particularly trainees. Phil is an excellent role model for trainees and line mechanics alike.”

Chief executive, Jason Franklin

PowerNet is a supporting sponsor of the Connexis Award, which recognises significant contributions to the electricity industry.

In other achievements, 19 PowerNet technical and field staff graduated this year in the annual TradeQual Awards. They were presented with their certificates at a special function held in November at the Ascot Park Hotel in Invercargill.

Supporting Skills Growth

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

PowerNet continued its support for the Southern Institute of Technology, offering two achievement prizes for electro-technology students. The PowerNet awards recognise the top student in the electrical pre-trade course for semester 2 and the most improved student in electrical semester 2.



Your neighbours aren't the only ones in for a shock.

For advice visit www.powernet.co.nz or phone 0800 808 587



Above: PowerNet's 'Service Mains' public safety message.

Right: The 2017 PowerNet Cycle team and supporters. Left to right, back row: Aaron Sinclair, Alex Heaney, Matt Zenovich, Roman van Uden, Ryan Wills, Sjoerd Kouwenhoven, Tony Corkill, Wendy Patterson, Tom Beadle. Front row: Jim Phair, Steve Labes.

Our Number One Priority: Public Safety

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

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

PowerNet has an ongoing investment in vegetation management across the networks. This aims to ensure trees and other vegetation are kept clear from power lines and equipment. Trees that come into contact with power lines can cause power outages and represent a significant public safety risk.

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

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

We continue to be proactive in promoting safety messages to the community. This year we ran key advertising campaigns to highlight issues that relate to staying safe around electricity. This included print, radio and static advertising highlighting the need to control vegetation around electrical infrastructure. This year we have also established a company Facebook page (www.facebook.com/PowerNetNZ) and this is a key tool in disseminating safety messages to our Southern communities.

Tour of Southland

In 2016, PowerNet once again sponsored a team in New Zealand's iconic cycle classic, the SBS Tour of Southland.

The PowerNet sponsored team did themselves and the company proud, achieving an impressive second place finish in the team classification. The team consisted of Ryan Wills, Alex Heaney, Matt Zenovich, Sjoerd Kouwenhoven (from the Netherlands) and Roman Van Uden as team leader. Team member Alexander Ray was unable to ride.

Local rider for the PowerNet team, Matt Zenovich, had a successful tour as the highest placed Southlander overall.

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



OUR

ENVIRONMENT

"I believe electric vehicles are hugely positive for New Zealand, given our largely renewable electricity generation mix. It's really satisfying to be able to support the transition away from fossil fuels and contribute to our national environmental targets. We expect that electric vehicles will improve electricity network utilisation, making the transport of electricity more cost-effective for our customers, which is great."

Project manager, Dyson Gentle

Emerging Technologies

Recognising the possibilities that emerging technologies have for environmental sustainability, PowerNet this year embarked on initiatives that encourage a transition away from fossil fuels and contribute to national environmental energy targets.

In a jointly-funded partnership with the national EECA, PowerNet is spearheading a local project to encourage Southland businesses to include an EV in their fleet. The aim is to have 10 EVs incorporated into Southland business fleets over 2017-18 and to positively influence wider public perceptions about the practicalities of EV use. As an incentive for participating businesses, PowerNet offers to install an onsite EV charging unit for free.

In another joint project, this time with Auckland-based company, ChargeNet NZ, PowerNet upgraded the network infrastructure to support Invercargill's first EV fast-charging station installed by ChargeNet NZ and opened by MP Sarah Dowie in April 2016. The fast-charging station represents a local contribution to the development of a reliable, public fast-charging infrastructure that is essential to expanding Southland's EV fleet.

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



Sarah Dowie, MP for Invercargill and Steve West, ChargeNet NZ.



EVs and a hybrid EV outside Bill Richardson Transport World.

Managing Waste

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

Waste oil is a by-product of the transformers and switchgear used in electricity distribution. Disposing of oil in an environmentally sensitive manner is important to PowerNet—all the oil we use is either sold or returned to the supplier for recycling. 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 2016-17 year.

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

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

Power poles are replaced as required because of public safety or network performance. This year, poles were also replaced to meet the legal requirements for electricity lines ground clearance. In total, 502 poles were replaced this year and where possible these were recycled.

Sulphur Hexafluoride (SF6) is a potent, colourless, odourless, greenhouse gas used as an insulating medium in high voltage circuit breakers. SF6 is only used in sealed, well-contained units. PowerNet has stringent procedures for monitoring gas-filled equipment and uses specialised equipment to regularly check for loss of pressure. Substitutes for SF6 gas have been trialled without success but we continue to search for alternatives. The estimated total SF6 gas on the PowerNet managed networks is 448 kilograms.



Phil Crannitch removing waste oil from a transformer.

DIRECTORS'

PROFILES

Duncan Fea BCom CA

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

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

Duncan is a chartered fellow of the Institute of Directors.

Donald Nicolson

Don joined the board of PowerNet in 2015 soon after he was appointed as a director of The Power Company Ltd.

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.



Alan (Joe) O'Connell BCom CA

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

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

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

Sarah Brown LLB BA

Sarah joined the board of PowerNet in April 2015.

She is a director of Electricity Invercargill Ltd, project manager for the Southland Regional Development Strategy and was council chair of the Southern Institute of Technology from 2011-May 2017.

Sarah is a member of the Institute of Directors.

Ross Smith BCom (Chair)

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

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

Ross is a member of the Institute of Directors.

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 Ltd, 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.

Thomas Campbell BSc (Metallurgy) ChFInst D

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

His directorships include Todd Corporation, as well as being the chair of both the Southland Regional Development Strategy and the EECA.

Tom is a chartered fellow of the Institute of Directors.

Lachlan McGregor

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

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

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

**Karen Arnold**

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

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

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

Karen completed the Institute of Directors' Certificate in Company Direction in May 2015.

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 Ltd and a member of the OtagoNet Joint Venture Governing Committee. He was also chair of Otago Power Services Ltd until its amalgamation with PowerNet on 31 March 2016. He has held previous governance roles at the NZ Wool Board, Wools of NZ, Woolpro and AgITO.

Doug 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 for the year ended 31 March 2017.

Principal Activities

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

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

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

Result and Distribution

The Directors report that the Group's after tax profit for the year under review was \$2,413,000.

A dividend of \$2,559,000 was declared and paid in March 2017. The dividend was imputed at 28%.

State of Company's Affairs

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

Directors

Each of the Shareholding Companies has appointed five Directors.

Appointed by Electricity Invercargill Ltd are:

Ross Smith (Chair)	Karen Arnold
Sarah Brown	Thomas Campbell
Alan (Joe) O'Connell	

Appointed by The Power Company Ltd are:

Douglas Fraser (Deputy Chair)	Duncan Fea
Alan Harper	Lachlan McGregor
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:

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

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

Ross Smith

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
Peak Power Services Ltd	Chair
Pylon Ltd	Director
Pylon 2 Ltd	Director

Douglas Fraser

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

Karen Arnold

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

Neil Boniface

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

Sarah Brown

Electricity Invercargill Ltd	Director
Pylon Ltd	Director
Pylon 2 Ltd	Director
Roaring Forties Energy GP Ltd	Director
Southern Institute of Technology	Chair
Southern Lakes Education College Ltd	Director
Southland Regional Development Strategy	Project Manager

Thomas Campbell

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

Duncan Fea

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

Alan Harper

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

Darren Ludlow

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

Maryann Macpherson

Last Tango Ltd	Director
The Power Company Ltd	Director

Lachlan McGregor

Last Tango Ltd	Director
McGregor Concrete Ltd	Manager
McGregor Group Ltd	Director
Mainland Shotcrete Ltd	Director
The Power Company Ltd	Director

Donald Nicolson

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

Alan (Joe) O'Connell

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

Remuneration of Directors

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

Ross Smith	-	Chair, Member Audit and Risk Committee, Chair Remuneration Committee
Douglas Fraser	-	Deputy Chair, Member Health, Safety and Environment Committee, Member Remuneration Committee
Karen Arnold	-	Director (from 8 November 2016), Member Audit and Risk Committee
Neil Boniface	-	Director (until 30 November 2016)
Sarah Brown	-	Director, Member Health, Safety and Environment Committee, Member Audit and Risk Committee
Thomas Campbell	-	Director, Chair Health, Safety and Environment Committee
Duncan Fea	-	Director, Member Audit and Risk Committee
Alan Harper	-	Director
Darren Ludlow	-	Director (until 7 November 2016), Member Audit and Risk Committee, Member Health, Safety and Environment Committee
Maryann Macpherson	-	Director (until 7 September 2016), Chair Audit and Risk Committee, Member Health, Safety and Environment Committee
Lachlan McGregor	-	Director (from 8 September 2016), Member Health, Safety and Environment Committee
Donald Nicolson	-	Director, Chair and Member Audit and Risk Committee
Alan (Joe) O'Connell	-	Director (from 1 December 2016)

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

Ross Smith	\$56,700	Alan Harper	\$24,700
Douglas Fraser	\$36,050	Darren Ludlow	\$16,851
Karen Arnold	\$10,115	Maryann Macpherson	\$14,697
Neil Boniface	\$16,467	Lachlan McGregor	\$15,218
Sarah Brown	\$27,700	Donald Nicolson	\$28,990
Thomas Campbell	\$30,700	Alan (Joe) O'Connell	\$ 8,233
Duncan Fea	\$25,990		

Employee Remuneration

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

\$100,000 - \$110,000	11	\$180,000 - \$190,000	1
\$110,000 - \$120,000	14	\$190,000 - \$200,000	1
\$120,000 - \$130,000	6	\$210,000 - \$220,000	1
\$130,000 - \$140,000	2	\$260,000 - \$270,000	1
\$150,000 - \$160,000	1	\$290,000 - \$300,000	1
\$160,000 - \$170,000	1	\$460,000 - \$470,000	1
\$170,000 - \$180,000	1		

Scholarships, Awards and Donations

During the year the Company promoted learning through various scholarships and awards which totalled \$6,400. In addition, donations made by the Company totalled \$5,100.

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

Craig McBurney, Liam Mahon, Duncan Fea (PowerNet director) and Tristan Swain.

The Directors have approved the Financial Statements of PowerNet for the year ended 31 March 2017 pages 35 to 59.

Ross Smith
Chair

Don Nicolson
Director

For and on behalf of the Board of Directors

1 June 2017



Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2017

	Note	GROUP	
		2017 \$000	2016 \$000
Operating Revenue	(2)	75,795	78,754
Other Income	(2)	162	194
Operating Expenses	(3)	(71,544)	(75,915)
Financial Expenses	(3)	(1,030)	(1,318)
Operating Surplus/(Deficit) Before Taxation		3,383	1,715
Taxation (Expense)/Benefit			
- Current	(4)	(1,021)	(430)
- Deferred	(4/14)	51	(66)
Net Surplus/(Deficit) after Taxation		2,413	1,219
Comprehensive Income			
Total Comprehensive Income		2,413	1,219
Net Surplus/(Deficit) Attributable to Minority Interests	(9)	246	224
Net Surplus/(Deficit) Attributable to Parent		2,167	995

The accompanying notes on pages 39-59 form part of and should be read in conjunction with these Financial Statements.



Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2017

	Note	GROUP	
		2017 \$000	2016 \$000
Total Comprehensive Income			
Net Surplus/(Deficit) for the Year comprising:			
Parent Interest		2,167	995
Minority Interest		246	224
		2,413	1,219
Contributions from Shareholders			
Change of Ownership in Minority Interest		-	(5)
		-	(5)
Distributions to Shareholders			
Parent Interest		-	-
Minority Interest		(465)	-
Dividend Paid		(2,559)	-
		(3,024)	-
Changes in Equity for the Year		(611)	1,214
Equity at Beginning of year comprising:			
Parent Interest		5,122	4,127
Minority Interest		540	321
		5,662	4,448
Equity at End of Year comprising:			
Parent Interest		4,730	5,122
Minority Interest	(9)	321	540
	(5)	5,051	5,662

The accompanying notes on pages 39-59 form part of and should be read in conjunction with these Financial Statements.



Consolidated Statement of Financial Position

As at 31 March 2017

	Note	GROUP	
		2017 \$000	2016 \$000
Equity			
Share Capital	(5)	4,000	4,000
Gain on Amalgamation	(5)	461	461
Retained Earnings	(5)	269	661
Parent Equity		4,730	5,122
Minority Interest Equity	(9)	321	540
Total Equity	(5)	5,051	5,662
Represented By:			
Current Assets			
Cash and Cash Equivalents	(6)	2,217	4,456
Receivables and Prepayments	(7)	19,898	20,265
Construction Work in Progress	(8)	6,251	6,001
Inventories	(10)	4,006	6,361
Taxation Receivable		75	252
Total Current Assets		32,447	37,335
Non Current Assets			
Property, Plant and Equipment	(15)	15,509	16,398
Capital Work in Progress		1,219	164
Intangibles	(16/22)	8,954	8,918
Deferred Taxation Asset	(14)	913	761
Total Non Current Assets		26,595	26,241
Total Assets		59,042	63,576
Current Liabilities			
Creditors and Accruals	(11)	10,690	9,939
Employee Entitlements	(12)	3,261	2,506
Dividend Payable		156	-
Finance lease	(19)	18	18
Taxation Payable		-	-
Total Current Liabilities		14,125	12,463
Non Current Liabilities			
Advances	(13)	39,328	44,997
Deferred Taxation Liability	(14)	524	422
Finance Lease	(19)	14	32
Total Non Current Liabilities		39,866	45,451
Total Liabilities		53,991	57,914
Net Assets		5,051	5,662

The accompanying notes on pages 39-59 form part of and should be read in conjunction with these Financial Statements.



Consolidated Statement of Cash Flows

For the Year Ended 31 March 2017

	Note	GROUP	
		2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		76,356	75,178
Income Tax Received		-	-
Interest Received		20	72
		76,376	75,250
Cash Was Applied To:			
Payments to Suppliers and Employees		65,017	75,418
Income Tax Paid		843	373
Interest Paid		1,030	1,318
GST Paid/(Received)		(226)	64
		66,664	77,173
Net Cash Flows From/(Used In) Operating Activities	(21)	9,712	(1,923)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Property, Plant and Equipment Sales		210	26
		210	26
Cash Was Applied To:			
Property, Plant and Equipment Investments		3,450	2,709
		-	8,402
		3,450	11,111
Net Cash Flows From/(Used In) Investing Activities		(3,240)	(11,085)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Issue of Shares		-	-
Advances and Finance Leases		-	16,389
		-	16,389
Cash Was Applied To:			
Advances		5,687	-
Dividends paid by PowerNet		2,559	-
Dividends paid by Subsidiary to Minority Interest		465	-
Net Cash Flows From/(Used In) Financing Activities		(8,711)	16,389
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(2,239)	3,381
Add Opening Cash and Cash Equivalents Brought Forward		4,456	1,075
Closing Cash and Cash Equivalents To Be Carried Forward	(6)	2,217	4,456

The accompanying notes on pages 39-59 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 2017

1. Statement of Accounting Policies

Reporting Entity

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

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

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

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

The financial statements were approved by the Board of Directors on 1 June 2017.

Basis of Preparation

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

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

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

Use of Estimates and Judgements

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

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

- Property, Plant and Equipment
- Intangibles
- Employee Benefits



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

For The Year Ended 31 March 2017

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 who is acting in the capacity of Agent for Electricity Invercargill Ltd, The Power Company Ltd and Otago Net Joint Venture.

(ii) Network Revenue

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

(iii) Financial Income

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

(iv) Other Revenue Management Services

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

(v) Construction Contracts

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

(b) Financial Expenses

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



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

For The Year Ended 31 March 2017

(c) **Construction Work in Progress**

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

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

(d) **Inventories**

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

(e) **Property, Plant and Equipment**

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

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

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

(f) **Depreciation**

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

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



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

For The Year Ended 31 March 2017

(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
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(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 2017

(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 2017

(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.



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

For The Year Ended 31 March 2017

2. Income

	GROUP	
	2017 \$000	2016 \$000
Turnover		
Line Charges	107,564	107,054
Metering	4,543	4,534
	112,107	111,588
Less		
Transmission	30,574	29,378
Net Turnover	81,533	82,210
Operating Revenue		
Contracting Revenue	5,542	9,535
Equipment Sales	223	143
Capital Works Programme	46,694	45,714
Maintenance Fees	16,834	16,806
Agency Fees	6,502	6,556
Other Income		
Interest Revenue	20	72
Other Revenue	142	122
Total Income	75,957	78,948



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

For The Year Ended 31 March 2017

3. Expenses

	GROUP	
	2017 \$000	2016 \$000
Expenses Include:		
Network Costs	52,544	56,701
Interest Expense	1,030	1,318
Deficit/(Profit) on Disposal of Property, Plant and Equipment	(34)	29
Operating Lease Expenses		
Tenancy and Repeater Site Leases	603	523
Motor Vehicle Leases	336	340
Office Equipment Leases	36	33
Total Operating Leases	975	896
Amortisation of Intangibles	350	342
Auditors' Fees		
Audit of Financial Statements - PwC	81	85
Internal Audit Fees - Deloitte	16	61
Bad Debts Written Off	-	-
Depreciation		
Buildings	200	163
Plant and Equipment	1,016	578
Motor Vehicles	1,187	841
Office Equipment	103	97
Computer Hardware	217	163
System Control Assets	-	9
Total Depreciation	2,723	1,851
Directors' Fees	340	349
Donations	5	6
Employee Benefit Expenses	11,468	13,623
Scholarships and Awards	6	6



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

For The Year Ended 31 March 2017

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	
	2017 \$000	2016 \$000
Operating Surplus/(Deficit) Before Income Tax	3,383	1,715
Prima Facie Taxation at 28% made up of:	947	480
Permanent Differences	62	17
Prior Period Adjustments	(39)	(1)
Taxable Income	970	496
Current Tax	1,075	430
Prior Period Adjustments in respect of Current Tax	(54)	-
Deferred Tax	(65)	67
Prior Period Adjustments in respect of Deferred tax	14	(1)
Taxation Expense/(Benefit) for year	970	496
Effective Tax Rate	29%	32%



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

For The Year Ended 31 March 2017

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	
	2017 \$000	2016 \$000
Share Capital		
Gain on Amalgamation	461	461
Closing Balance	4,461	4,461
Minority Interest	321	540
Retained Earnings		
Opening Balance	661	(334)
Net Surplus/(Deficit) for the Year	2,167	995
Dividend Declared/Paid	(2,559)	-
Closing Balance	269	661
Total Equity	5,051	5,662

6. Cash and Short Term Bank Deposits

Current Account	421	1,764
Short Term Bank Deposits	1,796	2,692
Total Cash and Short Term Bank Deposits	2,217	4,456



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

For The Year Ended 31 March 2017

7. Receivables and Prepayments

	GROUP	
	2017 \$000	2016 \$000
Trade Debtors	2,830	3,973
The Power Company Ltd	10,395	8,232
Electricity Invercargill Ltd	1,029	3,564
Electricity Southland Ltd	604	300
OtagoNet Joint Venture	4,406	3,618
Peak Power Services Ltd	-	-
M Popenhagen	3	4
I Boud	2	1
Other Staff	3	2
Prepayments and Other Receivables	19,272	19,694
626	626	571
Total Receivables and Prepayments	19,898	20,265

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 2% of the Group's trade receivables were 30-90 days past due and 2% of the Group's trade receivables were >90 days past due.



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

For The Year Ended 31 March 2017

8. Construction Work in Progress

	GROUP	
	2017 \$000	2016 \$000
<i>On behalf of:</i>		
The Power Company Ltd	4,030	4,719
Electricity Invercargill Ltd	416	585
OtagoNet Joint Venture	1,320	499
External Customers	485	198
Total Construction Work in Progress	6,251	6,001

9. Minority Interest

Opening Balance	540	321
Minority Interest in Dividend	(465)	-
Minority Interest Shares Sold	-	(5)
Minority Interest Share on Net Surplus/(Deficit)	246	224
Closing Balance	321	540

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

10. Inventories

Network Spares and Sundry Network Consumables	4,006	6,361
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Network Spares includes Smart Meters totalling \$3,345,000



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

For The Year Ended 31 March 2017

11. Creditors and Accruals

	GROUP	
	2017 \$000	2016 \$000
<i>Owing to:</i>		
Trade Payables	7,560	7,087
Accruals	1,719	1,306
Inland Revenue – GST Payable	1,063	1,102
Inland Revenue – RWT Payable	32	-
The Power Company Ltd	271	335
Electricity Invercargill Ltd	34	68
OtagoNet Joint Venture	10	41
Electricity Southland Ltd	-	-
M Popenhagen	1	-
Total Creditors and Accruals	10,690	9,939

12. Employee Entitlements

Opening Balance	2,506	1,745
Additional Accrued	3,229	1,839
Amount Utilised	(2,474)	(1,078)
Total Employee Entitlements	3,261	2,506

Employee entitlements include accrued wages, bonuses, accrued holiday pay, and long service and gratuity leave where settlement is expected to be less than one year with the exception of the long service and gratuity 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 2017

13. Advances

	GROUP	
	2017 \$000	2016 \$000
<i>Advances from:</i>		
The Power Company Ltd – Non Interest Bearing	-	1,140
The Power Company Ltd	31,038	25,113
Electricity Invercargill Ltd – Non Interest Bearing	-	1,636
Electricity Invercargill Ltd	7,760	6,480
Last Tango Ltd – Non Interest Bearing	-	5,314
Pylon Ltd – Non Interest Bearing	-	5,314
M Popenhagen	424	-
I Boud	106	-
Total Advances	39,328	44,997

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	339	219
Charged to Income Statement		
- Depreciation (non current liability)	(88)	(60)
- Tax Losses (current assets)	-	-
- Employee Entitlements (current assets)	157	277
- Other (current assets)	-	-
- Other (current liabilities)	(6)	-
- Losses Utilised	(13)	(97)
Timing differences now treated as permanent adjustments		-
Total Deferred Taxation Asset/(Liability)	389	339

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



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

For The Year Ended 31 March 2017

15. Property, Plant and Equipment

	GROUP							Total \$000
	Land \$000	Buildings \$000	Plant & Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Computer Hardware \$000	System Control Assets \$000	
Cost								
Balance at 1 April 2015	387	4,264	7,063	3,515	822	2,121	-	18,172
Amalgamation OPSL	122	1,371	3,616	8,023	634	2	-	13,768
Additions	-	44	867	845	84	161	-	2,001
Disposals	-	(7)	(213)	(543)	(10)	(467)	-	(1,240)
Balance at 31 March 2016	509	5,672	11,333	11,840	1,530	1,817	-	32,701
Balance at 1 April 2016	509	5,672	11,333	11,840	1,530	1,817	-	32,701
Additions	-	10	765	1,085	38	110	-	2,008
Disposals	-	-	(65)	(474)	-	(13)	-	(552)
Balance at 31 March 2017	509	5,682	12,033	12,451	1,568	1,914	-	34,157
Depreciation and Impairment								
Balance at 1 April 2015	-	660	4,078	1,358	346	1,706	-	8,148
Amalgamation OPSL	-	389	1,972	4,857	453	-	-	7,671
Depreciation for Period	-	154	561	694	101	163	-	1,673
Disposals	-	(7)	(210)	(501)	(7)	(464)	-	(1,189)
Balance at 31 March 2016	-	1,196	6,401	6,408	893	1,405	-	16,303
Balance at 1 April 2016	-	1,196	6,401	6,408	893	1,405	-	16,303
Depreciation for Period	-	200	1,016	1,187	103	217	-	2,723
Disposals	-	-	(40)	(326)	-	(12)	-	(378)
Balance at 31 March 2017	-	1,396	7,377	7,269	996	1,610	-	18,648
Carrying Amount/Book Value								
Book Value at 31 March 2016	509	4,476	4,932	5,432	637	412	-	16,398
Book Value at 31 March 2017	509	4,286	4,656	5,182	572	304	-	15,509

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.

During the year ending 31 March 2017, several Property, Plant and Equipment (PP&E) assets relating to Otago Power Services Ltd were reclassified within the different PP&E categories during the fixed asset system consolidation process, to align with the PowerNet PP&E category classifications. For the purpose of consistency the opening balances at 31 March 2016 have been updated to reflect the current PP&E category classifications. The reclassifications included \$26,000 of computer software previously reported under Note 15 Property, Plant & Equipment, is now reported under Note 16 Intangible Assets. Otherwise the Net Book Value at 31 March 2016 is unchanged.



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

For The Year Ended 31 March 2017

16. Intangible Assets

	GROUP	
	2017	2016
	\$000	\$000
Computer Software		
Cost		
Balance at 1 April 2016	6,310	5,853
Additions	388	561
Disposals	(1)	(104)
Balance at 31 March 2017	6,697	6,310
Amortisation and Impairment		
Balance at 1 April 2016	4,627	4,382
Amortisation for Period	350	342
Disposals	-	(98)
Balance at 31 March 2017	4,977	4,626
Carrying Amount/Book Value		
Book Value at 31 March 2017	1,720	1,684
Goodwill		
Goodwill on Acquisition	7,234	7,234
Total	8,954	8,918

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 Ltd and Otago Power Services Ltd. Goodwill of \$100,000 is related to the acquisition of 51% interest in Peak Power Services Ltd and \$7,134,000 for the acquisition of Otago Power Services Ltd.

During the year ending 31 March 2017, several Property, Plant and Equipment (PP&E) assets relating to Otago Power Services Ltd were reclassified within the different PP&E categories during the fixed asset system consolidation process, to align with the PowerNet PP&E category classifications. For the purpose of consistency the opening balances at 31 March 2016 have been updated to reflect the current PP&E category classifications. The reclassifications included \$26,000 of computer software previously reported under Note 15 Property, Plant & Equipment, is now reported under Note 16 Intangible Assets. Otherwise the comparative balances at 31 March 2016 are unchanged.



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

For The Year Ended 31 March 2017

17. Commitments

Capital Commitments

Capital Commitments as at 31 March 2017 total nil (2016: \$30,000).

	GROUP	
	2017 \$000	2016 \$000
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
- Not later than one year	1,324	1,245
- Later than one year and not later than two years	1,147	1,056
- Later than two years and not later than five years	2,031	1,993
- Later than five years	10,612	12,145
Total Operating Lease Commitments	15,114	16,439

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

18. Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2017 (2016: Nil).

19. Finance Lease

Finance Lease Payable

Not later than one year

Later than one year, not later than five years

Comprising:

Current

Non Current

Not later than one year	18	18
Later than one year, not later than five years	14	32
	32	50
Current	18	18
Non Current	14	32

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



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

For The Year Ended 31 March 2017

20. Transactions with Related Parties

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

On 16 February 2016 PowerNet acquired 100% of the share capital of Otago Power Services Ltd. The shares were acquired from Pylon Ltd and Last Tango Ltd which are ultimately owned by Electricity Invercargill Ltd and The Power Company Ltd who are also the shareholders of PowerNet.

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

	GROUP	
	2017	2016
	\$000	\$000
Asset Construction, Management Fees, Agency Fees and Directors Fees Supplied To:		
The Power Company Ltd	42,001	41,060
Electricity Invercargill Ltd	8,931	11,042
Electricity Southland Ltd	3,826	2,828
OtagoNet Joint Venture	16,766	15,869
Otago Power Services Ltd	-	381
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Ltd	10,395	6,628
Electricity Invercargill Ltd	1,029	3,215
Electricity Southland Ltd	604	300
OtagoNet Joint Venture	4,406	2,806
M Popenhagen	3	4
I Boud	2	1
Other Staff	3	2
Miscellaneous Charges Supplied By:		
The Power Company Ltd	1,174	1,354
Electricity Invercargill Ltd	160	245
Electricity Southland Ltd	192	-
OtagoNet Joint Venture	109	53
Otago Power Services Ltd	-	15,975
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Ltd	271	335
Electricity Invercargill Ltd	34	68
OtagoNet Joint Venture	10	41
M Popenhagen	1	-
Advances Supplied By/(Repaid To):		
The Power Company Ltd	5,538	7,102
Electricity Invercargill Ltd	(356)	3,667
Last Tango Ltd	(5,314)	5,314
Pylon Ltd	(5,314)	5,314
M Popenhagen	424	-
I Boud	106	-



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

For The Year Ended 31 March 2017

20. Transactions with Related Parties *continued*

Other Related Parties

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

PowerNet uses AWS Legal as solicitors, of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the year amounted to \$200,770 (excl GST) (2016: \$149,113 excl GST) of which \$65,424 (incl GST) (2016: \$50,066 incl GST) is owing at balance date.

PowerNet uses Crowe Horwath Ltd as its tax advisors, of which Duncan Fea is a principal. Fees for taxation advice paid to Crowe Horwath Ltd during the year amounted to \$45,950 (excl GST) (2016: \$21,783 excl GST) of which nil (incl GST) (2016: \$nil incl GST) is owing at balance date.

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

Key Management Personnel

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

	GROUP	
	2017	2016
	\$000	\$000
Salaries and Short Term Employee Benefits	2,357	2,531

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



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

For The Year Ended 31 March 2017

21. Net Cash Flow from Operating Activities

	GROUP	
	2017	2016
	\$000	\$000
Net Surplus After Taxation	2,413	1,219
Add/(Less) Non Cash Items:		
Amortisation	350	342
Depreciation	2,723	1,851
Deferred Tax	(51)	66
Dividend Proposed	156	-
Deficit/(Profit) on Sale of Plant Property and Equipment	(34)	29
	3,144	2,288
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	1,543	2,505
Receivables and Prepayments	367	(4,506)
Inventories	2,355	(5,681)
Construction Work in Progress	(250)	2,005
GST Payable/ (Receivable)	(38)	189
Taxation Payable	177	58
	4,154	(5,430)
Net Cash Flow From/(Used In) Operating Activities	9,712	(1,923)



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

For The Year Ended 31 March 2017

22. Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit Risk

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

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

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

Liquidity Risk

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

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

Market Risk

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

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

Fair Value

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

Capital Management

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

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

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

23. Subsequent Events

On 4th April 2017, PowerNet acquired an additional 328,282 shares in Peak Power Services Ltd, increasing its shareholding from 51.7% to 90.3%. The change in ownership does not impact the operations or going concern of Peak Power Services Ltd.

There have been no other significant events noted after Balance Sheet date.



Auditors' Report

For The Year Ended 31 March 2017



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Independent Auditors' Report

to the shareholders of PowerNet Limited

PowerNet Limited's consolidated financial statements comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the consolidated financial statements of PowerNet Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

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

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

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

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

Information other than the financial statements and auditor's report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.



Auditors' Report *continued*

For The Year Ended 31 March 2017

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

Who we report to

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

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

For and on behalf of:

Chartered Accountants
1 June 2017

Christchurch

