

ANNUAL REPORT

2019



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In 2018-19

Net Profit after tax
\$2.5 million

Capital Expenditure

\$47.2 million

\$25.3 million

Maintenance Expenditure

268

No. of Employees

Turnover

\$200.3 million

On behalf of our stakeholders **We Manage**

\$609 million

in Electricity Distribution Assets (Regulatory Value)

Transformers

15,978

Zone substations

73

Lines and cables
14,142 kms

Customers

70,839

Investments in wind and hydro-electricity

\$61 million

Renewable Generation Assets

38MW

Total Generation Capacity

Our Highlights...

1

Emerging Technologies

We continue our focus on emerging technologies and what they mean for a better future. Through this first year of our Smart Energy Home project, we've gathered valuable insights into potential smart energy use in the lower South Island. This new knowledge will benefit our customers and our business.

2

Realising Growth Opportunities

In May 2019 we began providing system control services to Network Waitaki, alongside the existing system control services we already provide to four other southern electricity networks. Delivering these services to Network Waitaki represents a significant step forward in expanding the network management services we offer.

3

Strengthening Leadership

We've reshaped the structure of our senior leadership team to strengthen our focus on both emerging technologies and business growth. This will position our capabilities so that we're ready and able to maximise new business opportunities.

4

Enhancing Network Reliability

Through greater investment we're improving network reliability, with a particular focus on the OtagoNet network. This includes increased distribution automation as well as a significant undergrounding campaign that supports the delivery of an even safer and more reliable power supply in the Clydevale area, and building a new, purpose-built PowerNet depot in Balclutha.

5

Frontline Success

Our two line mechanic teams exemplified teamwork to bring home five first placings from the national Connexis Annual Line Mechanic Competition in September 2018. We're proud of their skills and achievements that demonstrate PowerNet is operating at industry best practice.

6

Strengthening Safety in the Workplace and Community

Our workplaces and communities are safer places because our leaders and teams are dedicated to encouraging best practice thinking and actions in health and safety. This is happening at all levels in our company and we're reaping the benefits in significantly reducing workplace harm.

7

Supporting Southland and Otago's Business Growth

In a \$6.5 million project, we've extended The Power Company's network in Eastern Southland to secure and future-proof electricity supply for the new Mataura Valley Milk dairy nutrition plant at McNab near Gore.

8

Improving Workplace and Public Safety in Invercargill

A three-year, \$9.2 million project to significantly improve workplace and public safety in Invercargill is close to completion. Thirteen underground substations and 130 link boxes have been moved aboveground across the central business district, creating a much safer environment for both the public and our team members.

9

Growth in the Queenstown and Central Otago Region

We continue to invest in the high-growth Queenstown and Central Otago region, both through the installation of a safe, reliable and efficient electricity supply to new residential and commercial developments, and through the establishment of PowerNet Central in Queenstown.

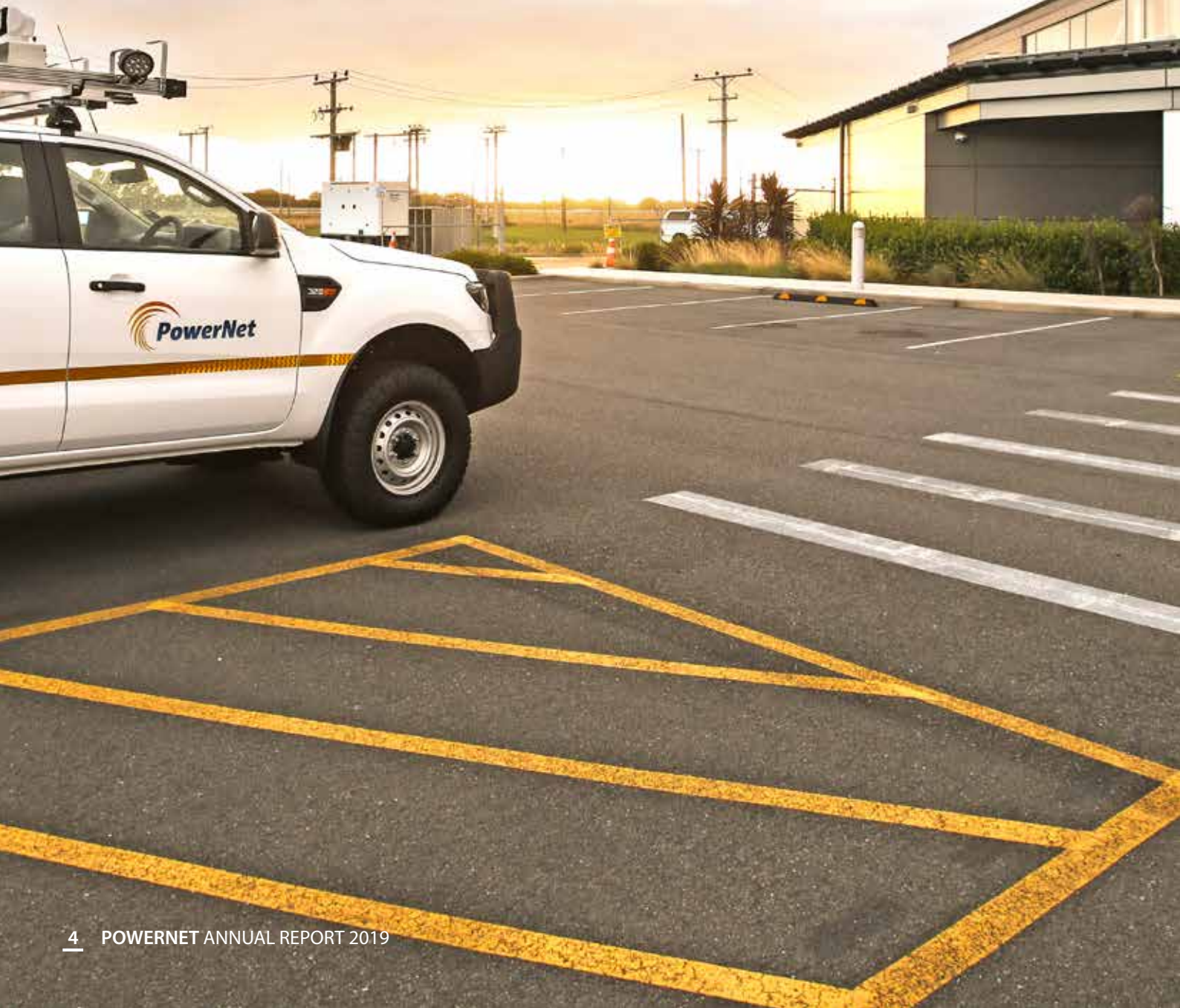
About PowerNet

Who We Are

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

What We Do

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



Our Vision

Safe | Efficient | Reliable
Power to Communities

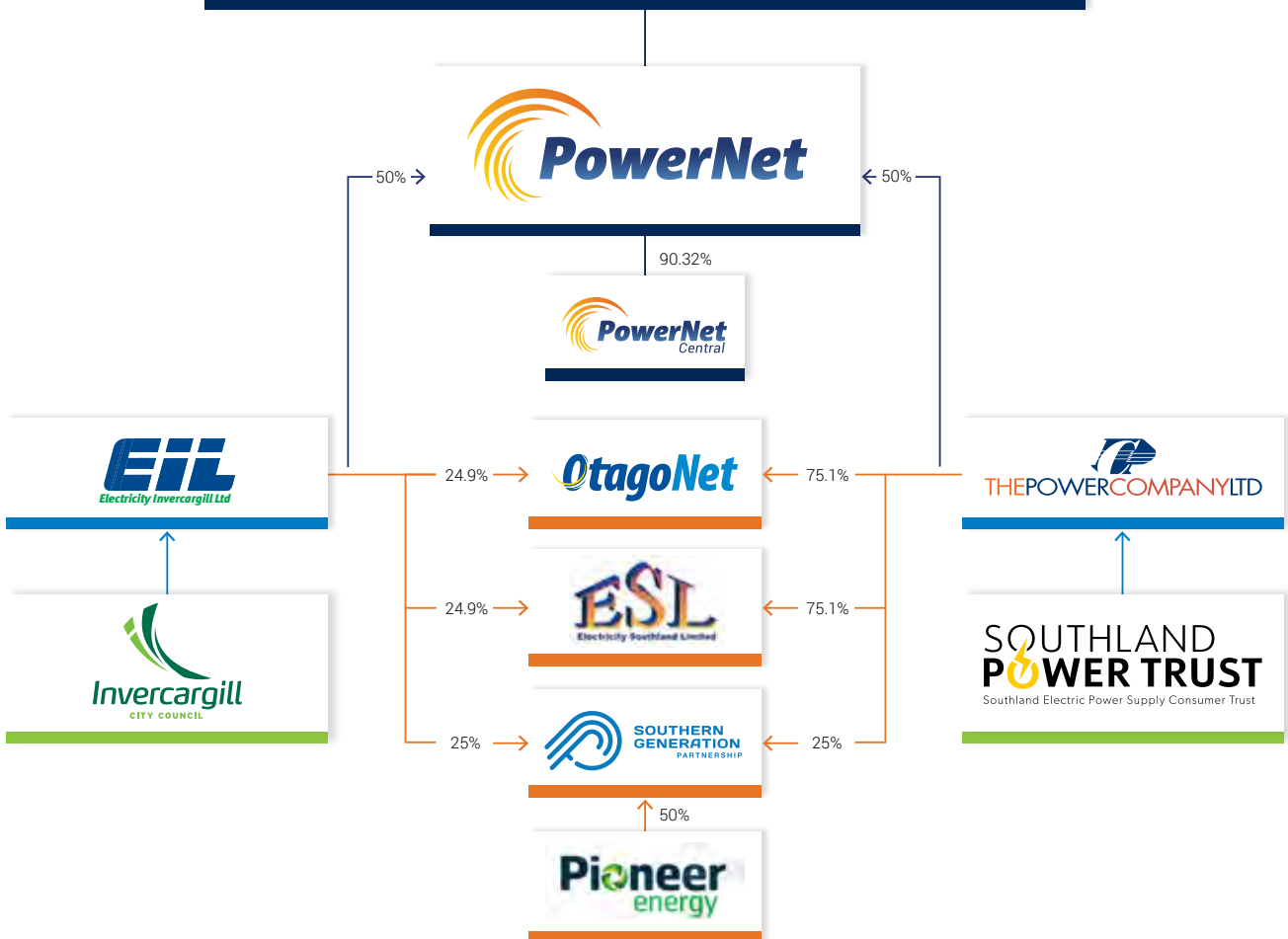
Critical Success Factors

- Safety Always
- Customer Focus
- Continuous Improvement
- Passionate and Empowered People
- Courageous Leadership

Values

- Up front and honest
- Make a difference
- Do it once, do it right
- Back each other
- Take positive action

Company Structure



Electricity Assets we manage



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

The Power Company Ltd (TPCL)

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

Electricity Invercargill Ltd (EIL)

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

OtagoNet Joint Venture (OJV)

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

Electricity Network Areas

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

Chief Executive and Chair's Report



Jason Franklin
Chief Executive



Don Nicolson
PowerNet Chair

A focus on continuous improvement while delivering PowerNet's key ambition to provide safe, efficient and reliable power to communities has been the central theme of our 2018-19 year.

Shaping and positioning PowerNet so that we are in good stead to meet future industry demands and the communities we serve is an important goal.

This year we've placed a strong emphasis on six main pillars: workplace and public safety, revenue certainty, emerging technology, efficient foundations, business growth and people and leadership.

Cognisant of a changing energy landscape, PowerNet, on behalf of its network owners looks for potential growth opportunities within the sector. Strengthening or adding new capability within our teams means we are well placed to take advantage of new growth opportunities.

New growth opportunities have emerged in 2018-19. In May 2019, after significant planning, we began providing system control services for Network Waitaki from our Invercargill headquarters. This represents a big step forward in the expansion of our network management services.

We already provide system control services for many southern electricity distribution businesses: The Power Company Ltd (TPCL), Electricity Invercargill Ltd (EIL), OtagoNet (OJV), Electricity Southland Ltd (ESL) and Stewart Island Electrical Supply Authority (SIESA). The addition of system control services for Network Waitaki validates the kind of opportunities that PowerNet actively seeks.

Investing for the Future

PowerNet continues to support and enable the economic growth of our southern communities.

In a significant investment on the TPCL network, PowerNet installed new electrical infrastructure and connectivity for Matura Valley Milk's new nutrition plant near Gore, including extending the network through a 33kV cable to service the plant and link it through to the South Gore substation.



PowerNet Central team.

In the Queenstown Lakes and Central Otago region, ESL network investment growth continues apace, with PowerNet Central (formerly Peak Power Services Ltd) installing electrical infrastructure for new residential subdivisions and commercial developments in and near Frankton, and in the Northlake subdivision at Wanaka.

PowerNet Central now represents PowerNet's presence in this region. PowerNet Central's Frankton team works alongside our Southland and Otago teams to provide network design services, capital construction works, and a maintenance and faults service for the ESL network and to other customers across the region.

There's plenty of other investment happening elsewhere across the south. Planning is underway to build new PowerNet depots in Balclutha and Lumsden. These purpose-built, modern facilities will be excellent service delivery bases, providing the infrastructure PowerNet needs for its people and clients for at least the next 50 years.

On the EIL network, a three-year project to relocate 13 underground substations and 130 link boxes aboveground across Invercargill's central business district is close to completion. Moving these structures aboveground brings significant improvements in workplace and public safety.

Network reliability improvement projects have been approved across the OJV network. One major investment, the installation of a 7.5km underground electricity cable from Clifton to Clydevale will significantly improve network reliability for the Clydevale area. A mole plough was used to install the cable in January 2019.



The mole plough used to install a cable at Clydevale.



Emerging Technologies

We continue to research emerging technologies in the electricity sector to assess any potential application that may work locally.

2018-19 was the first year our Smart Energy Home was in operation. Through its tenancy and our data gathering, we've gained beneficial insights into potential smart energy use in the lower South Island environment.

We've also been investigating remote area power supply options.

To drive these and other concepts, this year we created a new senior position: GM new energy and strategy, recognising the strategic importance that new ideas and technologies will have in the electricity sector in the years ahead.

Building Leadership Capability

People are always our greatest asset. Our Shared Vision orientation programme and Leading with Courage programme help us to build a strong culture that supports our teams and leaders, enabling us to achieve our goals.

We have made some changes to our senior leadership structure as part of our positioning for future growth. Kavi Singh is our new GM new energy and strategy, Anton Booyzen has been appointed to the role of GM asset management and Rangi Solomon has replaced Justin Peterson as our GM health, safety and environment. Justin has moved to the new role of GM business growth, to focus our business on external business growth. Rachael Watt's role has expanded to include business support and improvement. We've farewelled chief information officer Tim Brown and chief engineer Roger Paterson.



Smart Energy Home, Invercargill.

Strengthening Health and Safety

Concerted efforts in health and safety have reaped results this year, as we have realised many improvements in this critical aspect of our business. Only one lost time injury was recorded in the last six months of 2018-19, a reflection of the great work across PowerNet to achieve the objective that 'every team member goes home unharmed every day.' This is now a real and valued goal amongst our PowerNet teams and leaders who understand and believe in the importance of best practice health and safety.

Health and safety practice and thinking is embedded in our work, attitudes and behaviours. On many health and safety fronts in our business—encouraged by strong leadership in this area—we are making great progress. The implementation of a critical risk framework and many excellent risk assessments from leaders and team members, are important factors in achieving positive outcomes. External health and safety verification audits are also returning positive feedback.

Acknowledgements

We acknowledge the important work and commitment of Ross Smith who served both as PowerNet chair (2016-2018) and as a director on PowerNet and EIL boards between 2003-2018. Don Nicolson succeeded Ross as chair and Joe O'Connell became deputy chair. PowerNet and EIL director Karen Arnold also retired and we thank her for her significant contribution. We welcome Paul Kiesanowski to the PowerNet and EIL boards. Paul brings both experience and skills to the table.

To conclude, over the past year we've made big strides as we continue working hard to build a solid foundation for the future. We're strengthening the capability of our people through our leadership programmes. We're putting strong safety systems in place that keep our people and the public safe. We're investing even more in southern New Zealand to deliver an electricity supply that is safe, efficient and reliable. Every day we're committed to further developing our expertise, skills and knowledge, so that our company and the communities we operate in are well-placed to grow and prosper in the future.

Jason Franklin
Chief Executive

Don Nicolson
PowerNet Chair

Networks we manage

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

Network Management

PowerNet manages the EIL, TPCL, OJV and ESL networks on behalf of their owners and has long-term management contracts in place for these networks. It also has a service contract agreement with the Southland District Council-owned Stewart Island Electrical Supply Authority (SIESA). The four major networks—EIL, TPCL, OJV and ESL—have a combined Regulatory Value in electricity distribution assets of \$609 million. Each month, PowerNet reports to the boards of these networks and undertakes all regulatory management, including reporting to the Commerce Commission and Electricity Authority on their behalf.

PowerNet Relationship

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

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







Oreti Valley Project, Lumsden.

36,091
CONNECTED CONSUMERS

8,853 km
Network LENGTH

CONSUMER DENSITY **4.1**
consumers/km

11,164
distribution transformers



In 2018-19, significant investment continued in new and existing assets on the TPCL network. Many projects were to maintain and improve service levels and create additional network capacity. Capital expenditure totalled \$23.4 million with a further \$11 million spent on maintenance. The most significant projects on the TPCL network this year have been continuing work on the Oreti Valley Project and completing the extension of the TPCL network to supply the new Matura Valley Milk (MVM) dairy nutrition plant at McNab near Gore.

The Oreti Valley Project

The Oreti Valley Project is a major five-year project to upgrade and extend the 66kV network to include Centre Bush, Dipton, Lumsden and Mossburn substations by 2020. This will increase network capability, reliability and supply, and future proof the area for potential growth.

Significant progress continued in 2018-19. The new upgraded Lumsden substation was commissioned in December 2018. The transformer to provide an alternative feed to Riversdale will be commissioned in mid-2019.

Work continues on the 66kV line upgrade from Centre Bush to Mossburn, with only one further 24km section to finish. Part of the upgrade included installing two 38m steel poles either side of the flood prone Oreti River to allow the conductors to span the 543m width of the river.

Throughout the project, astute planning has avoided multiple outages impacting on customers. Using back feeds and the mobile substation has significantly reduced the number of outages.



Lumsden substation.

Mataura Valley Milk

The \$6.5 million project to supply electricity to the Mataura Valley Milk dairy nutrition plant at McNab is largely completed. Power has been supplied to the site since August 2018.

As part of the project, two new 33kV cables were installed underground from South Gore zone substation to the site, allowing for the potential to accommodate future growth requirements. The plant has an initial electrical capacity of 4MVA supplied from the South Gore Zone substation. A new substation at McNab to cater for increased supply requirements is scheduled for commissioning in August 2019.

Neutral Earthing Resistor Installations

This year seven Neutral Earthing Resistor (NER) installations have been installed at substations on the TPCL network. These limit earth fault currents on the 11kV network, improving network safety for the public by reducing the earth potential rise in earth fault conditions.

Customer Connections and Asset Replacements

TPCL invested \$2.1 million in new customer connections in 2018-19, a decrease from the 2017-18 year.

In total, \$600,000 was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a reliable and safe network.

The Power Company Ltd Projects

Project	Approximate Expenditure
Centre Bush to Mossburn line	\$3,593,000
New customer connections	\$2,110,000
Mataura Valley Milk	\$1,843,000
Lumsden substation upgrade	\$1,693,000
NER installations	\$1,180,000
Line and pole replacements	\$604,000

17,417
CONNECTED CONSUMERS

658 km
Network LENGTH

CONSUMER DENSITY **26.5**
consumers/km

439
distribution transformers



Projects that enhance network reliability and safety are at the heart of work on the EIL network. The total capital investment in 2018-19 was \$4.8 million and a further \$1.7 million was spent on maintenance.

Southern Substation Upgrade

Ensuring EIL customers' electricity supply is as safe and reliable as possible if an earthquake occurs is a key reason behind a significant upgrade of Invercargill's southern substation. Located near Elizabeth Park, the 23MVA single transformer substation is being seismically strengthened and upgraded to a dual transformer substation to cater for forecasted electricity load increases.

The upgrade includes work to the switch room building including installing additional steel supports. Construction of electrical and civil work is due to begin mid-2019 and will include replacing the existing outdoor 33kV bus work and structures with indoor 33kV switchgear. 11kV switchgear will also be replaced and a second 11.5/23MVA transformer from the former Doon St substation installed. The project is planned for completion in 2020-2021.

Underground Substations

The project to relocate Invercargill's 14 underground substations aboveground continued in 2018-19. Thirteen substations have now been moved, with plans to move the final substation deferred until CBD development plans are finalised.

This project represents significant improvements in workplace safety and infrastructural investment on the EIL network. The upgrades are creating a much safer working environment for PowerNet teams and establishing modern infrastructure to support the city. The substations house 11kV switchgear, distribution transformers and low voltage distribution boards.

Link Boxes

The three-year project to relocate Invercargill's 130 400V link boxes aboveground was completed in 2018-19, with the remaining 16 link boxes shifted during the year. Moving the link boxes has created a safer working environment for maintenance teams.

Customer Connections and Asset Replacements

New customer connections to the EIL network totalled \$297,000 and remained at a moderate level in 2018-19.

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.

All EIL zone substation sites have now been seismically strengthened to ensure continuing supply after a major earthquake. Work continues to strengthen distribution substations on the network.



Evacuation work at the site of the civic administration substation, Invercargill.

Electricity Invercargill Ltd Projects

Project	Approximate Expenditure
Underground substation replacements	\$2,294,000
Link box replacements	\$693,000
Transformer replacements	\$463,000
Southern substation upgrade	\$330,000
Ring main unit replacements	\$319,000
New customer connections	\$297,000

OtagoNet

In 2018-19, \$16.2 million was invested in capital on the OJV network (including the ESL network) and another \$5.5 million on maintenance.

Enhancing Network Reliability

Investment in network reliability improvement projects is a priority on the OtagoNet network. The installation of a 7.5km, 33kV ring protection upgrade cable from Clifton to Clydevale in January 2019 significantly improves network reliability for residents and businesses in the Clydevale area. The new cable means power can be transferred to a more reliable line in the event of a power outage or when maintenance is needed. PowerNet used a mole plough to install the cable—the technique is a more cost-effective way of installing cabling underground.

Waipiata and Hyde 33kV Smart Network Upgrade

Automating four of the existing 33kV switches at Waipiata and Cemetery Road will significantly improve electricity reliability for the Waipiata and Hyde areas in the event of a 33kV line fault.

The automation work is underway and due for completion in early 2019-20. Smart network automation is also planned for Finegand zone substation in 2019-20.

Customer Connections and Asset Replacements

In 2018-19, \$4.1 million was invested in new customer connections on the OJV network. A total of \$5.8 million was also invested in line and pole replacements to ensure reliability and safety.

Neutral Earthing Resistors

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

OtagoNet Projects

Project	Approximate Expenditure
Line and pole replacements	\$5,758,000
New customer connections	\$4,130,000
Clydevale 33kV ring rebuild and protection	\$1,725,000
Substation NERs and 33kV transformer circuit breakers	\$765,000
Reclosers in SCADA integration	\$754,000
Waipiata and Hyde smart network automation	\$572,000

15,064
CONNECTED CONSUMERS

4,516 km
Network LENGTH

CONSUMER DENSITY **3.3**
consumers/km

4,274
distribution transformers



Port Molyneux substation, South Otago.



Aerial view of Remarkables Park, Frankton.

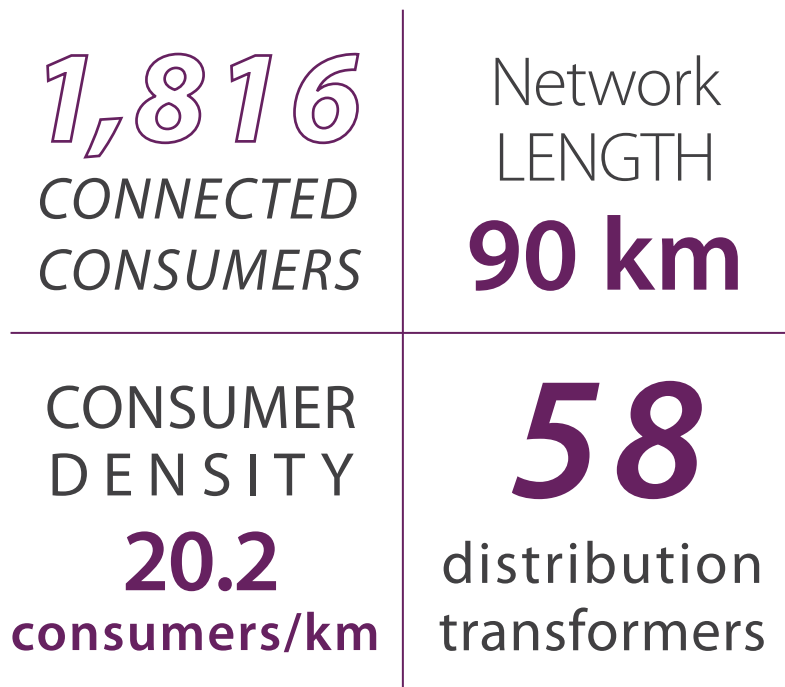


Formed in 1995, the ESL network in Central Otago is owned by EIL and TPCL. It continues to grow rapidly and has now reached a milestone of 1725 installation connection points.

The network is reticulated on the Frankton Flats area and extends across the Shotover River to supply the Shotover Country subdivision and Queenstown Country Club retirement village. It also brings electricity to the Kawarau Falls area, including the Hilton Queenstown Resort and extends south to supply the Hanley's Farm subdivision.

A new embedded network in Wanaka, comprising both the Northlake and Hikuwai subdivisions, is also part of the ESL network.

PowerNet's presence in the Queenstown Lakes area is now represented by PowerNet Central (formerly Peak Power Services Ltd). PowerNet Central's Queenstown team works alongside PowerNet's Southland and Otago teams to provide network design services, capital construction works, and a maintenance and faults service for the ESL network in Queenstown and Wanaka.





Stewart Island (photo supplied by Venture Southland).



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

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

451
CONNECTED
CONSUMERS

Network
LENGTH
25 km

CONSUMER
DENSITY
18
consumers/km

43
distribution
transformers

Network Waitaki

PowerNet has expanded its network management services by providing specialist system control services to Network Waitaki. The new service represents a significant milestone for PowerNet. The 24/7 system control room service has been in place since early May 2019 and will operate for an initial five-year term.

Based in Oamaru, Network Waitaki services approximately 12,700 consumer connections across a network of 1800km power lines. The network extends from Oamaru up the Waitaki Valley to Omarama and ends near Twizel.

Network Waitaki is an adjoining network to PowerNet's other managed networks and therefore it is a logical fit to provide it with specialist network management services.

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 provide industry direction in areas that include two regulators, the Commerce Commission and the Electricity Authority. Issues include tree regulations, tariff consolidation, line pricing methodologies, transmission pricing issues and low fixed charge regulations.

People and Leadership

People are our greatest asset. PowerNet has 268 staff working hard every day and night so that the people of Southland and Otago have a safe, efficient and reliable electricity supply for their homes and businesses.

Our People

Our goal is to recruit the best people, whether it's experienced veterans or new apprentices starting their careers. This year we have updated our careers website and put more effort into our social media activity. We want job seekers to know about the great career opportunities PowerNet has available and the wonderful lifestyle choices our region has to offer.

Developing a diverse workforce is important to us. Women make up approximately 20% of our workforce and we have a strong focus on increasing the number of women in our traditionally male-dominated industry.

Our main offices are in Invercargill, Balclutha, Frankton and Gore, with smaller depots in Ranfurly, Palmerston, Te Anau, Lumsden and Stewart Island. The challenge of working across the wide Otago and Southland region is addressed by depots sharing staff, resources and know-how.

Achieving our Business Goals

PowerNet continues to work with our people to align their behaviours and work outputs with the company's vision of providing safe, efficient, reliable power to our communities. We continue to work with leaders to equip them with the leadership tools and skills to build an engaging and positive workplace culture.

Strengthening PowerNet's capability is an ongoing focus. Our updated Orientation Programme is delivered to new employees who learn about PowerNet's Shared Vision and spend time with our senior leadership team.

We recruited 12 apprentices in 2018-19. These apprentices have embarked on structured training programmes and typically take four years to become qualified electrical workers. We have created leadership opportunities for aspiring leaders throughout the year. Developing a pool of talented leaders ensures we have succession capability within the workforce.

Our Performance Incentive Programme creates a financial incentive for staff to achieve safety, efficiency and reliability targets. These targets are challenging but achievable. The programme helps to focus work activities on goals that are important to PowerNet's vision and values.

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



Joe Reti, PowerNet working with a group of trainee line mechanics.



Invercargill based staff attending a wellbeing workshop on healthy cooking options.

Work continues to gather the necessary data so that our field teams are equipped with the right skills, knowledge and training to carry out their roles safely and efficiently. This information is now programmed into PowerNet's Human Resources Information System, with the capacity to provide competency assurance, gap analysis and refresher requirements for field teams. It means we have 'the right person with the right skills, in the right place, doing the right job'.

Early in 2018, it was proposed that a base core competency framework be developed nationally, with common competencies and requirements established throughout the electricity distribution businesses. This initiative came from the ENA Health and Safety Strategy 2017-2022, specifically to develop a health and safety Common Competency Framework for those involved in electricity distribution throughout New Zealand.

PowerNet is part of a project group supported by Connexis and the Electricity Networks Association (ENA) that has defined this framework and developed a common competency evidence system. We have been a key contributor to the group because of the work we have already completed. The national Common Competency Framework is expected to be signed off by the ENA board during the middle of 2019 and PowerNet will be one of the leading companies championing the framework.

The Network Access Certificate (NAC) refresher training continues to be provided for our teams with ongoing NAC assessment and training of external contractors.

During 2018 we conducted research and ran staff focus groups to determine how best to design a health and wellbeing programme. The outcome was the launch of our new 'Feeling Great' Health and Wellbeing programme. The programme is championed by two wellbeing champions and provides health-focused events, education, employee support, volunteer time and fruit in all depots.

One of the key findings from the focus groups was the need to provide education and support for mental wellness. This has been a focus for the programme and will continue to be a priority.

Our occupational health nurse has been busy conducting health testing for all our field staff. The ability to conduct in-house health testing and provide health advice means we can further promote the health of our employees. In 2019-20, we will also provide in-house flu vaccines.



Enhancing Business Processes

In 2018-19 we've continued to optimise our operations, eliminating non-value adding activities from our processes and integrating work and information flows. The overall goal is to improve future productivity and efficiency, and to add value for customers. We're continuing to benefit from work already completed in this area.

Promapp

Work continues to implement the cloud-based software, Promapp. Promapp documents company processes and knowledge, standardising processes across depots, networks and system control. It is also a useful management tool.

Nearly 490 PowerNet processes are now mapped in Promapp. We've increased the amount of people trained to use the system, both to create processes and consume content. The mapped processes help us with consistency across departments and depots, and to identify opportunities for improvement. Some departments have completed their entire internal processes on ProMapp. Amongst other benefits, this has allowed team members to take leave, knowing that critical duties and processes will be completed while they are away.

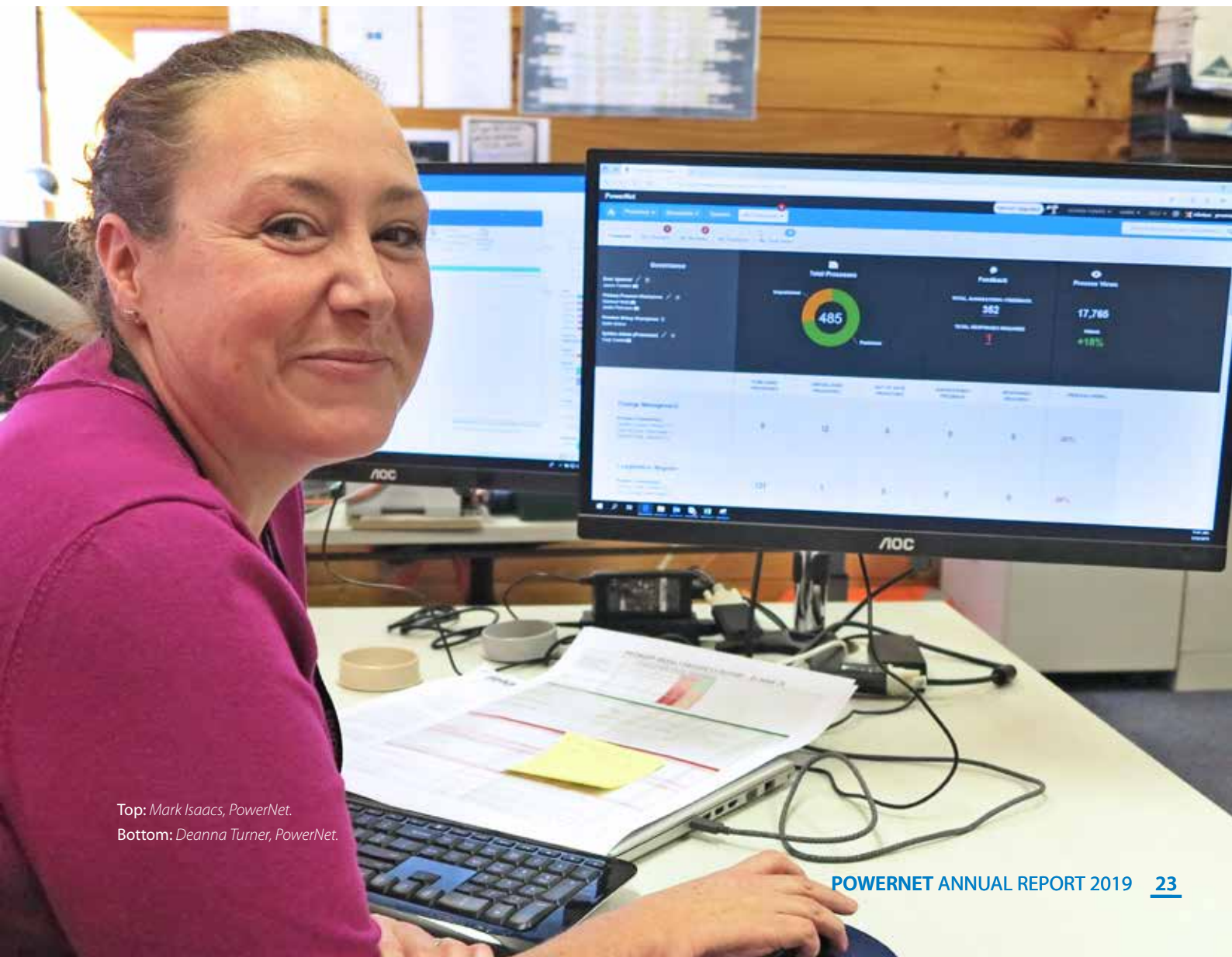
Replacement of ICP Database Software

A project to replace our current Installation Connection Point (ICP) database software started in February 2019 and is due to finish in September 2019. We have engaged Digital Stock, a local software solutions company, to develop the new application. Internal stakeholders and the current provider, ACE Computer Solutions, have been consulted and the new software is being developed with their input.

Top: Mark Way, PowerNet and Wayne Mackey (director).

Middle: Celebrating our achievements breakfast, Invercargill.

Bottom: Joe O'Connell (director) and Phil Chittock PowerNet.



Top: Mark Isaacs, PowerNet.

Bottom: Deanna Turner, PowerNet.

Workplace Health and Safety Initiatives

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

Health and Safety Systems Implementation

Our health and safety environment risk management system is now embedded in our business activities. The new system displays all information about incidents, hazards, risks, actions and audits on one platform, presenting incident workflows with ready access to investigation details and resolution actions. All leaders now use the system, which allows for easier management of incidents and actions to ensure they are resolved to prevent future harm.

Leaders Coaching in the Field

Prioritising workplace health and safety means fostering a commitment to safe behaviours amongst leaders and staff. It includes field and team leaders making the most of opportunities to coach good health and safety practices.

Coaching by Kilometre is a bi-monthly programme established by chief operating officer, Michelle Henderson. The programme's goal is to maximise employee safety by lifting leadership capability in health and safety.

Four leaders including Michelle, one department manager and two frontline leaders visit PowerNet's field teams and depots across Southland and Otago to observe work and provide safety feedback. The leaders also coach each other while travelling with tips, insights and knowledge sharing.

The programme is creating a greater awareness and understanding of health and safety and enhancing vertical and horizontal engagement amongst leaders and field staff. In May 2019, Michelle won the Safeguard Business Leaders Health and Safety Forum - Leader of the Year award for the Coaching by Kilometre initiative.

In another coaching initiative, an external consultant undertakes independent leadership coaching with depot supervisors to support their leadership growth.

Pause for Safety

Pause for Safety initiatives are used to raise team awareness about safety. The initiatives focus on simple yet effective exercises when teams stop a task briefly to consider an aspect of workplace safety. The goal is to raise awareness of safety and contribute to the PowerNet goal of 'everyone getting home unharmed every day.'

Operational teams held a Pause for Safety exercise in late November 2018-19 that focused on five injuries that could have been prevented.

Workplace Training and Assessment

PowerNet has implemented back-end systems for training records and reassessment and has good training structures in place for high-risk activities.

New trainees are supported by leaders and our assessment team. All trainees do a week-long induction that gives them a solid foundation in risk assessment and basic skills before they enter the work environment. This prepares them for keeping themselves and their workmates safe. PowerNet employs three training assessors as well as a training coordinator.



Coaching by Kilometre in action.

Managing Critical Risk

Activities that have the potential to kill or seriously injure our people are the key focus of PowerNet's Critical Risk project.

The project aims to ensure that the management of critical risks is integral to all PowerNet operations. It equips our field teams with the tools that allow them to focus on effective controls that keep themselves and members of the public safe.

Working with critical risk experts, Oreti Group, subject matter experts from our operational and health and safety teams have reviewed the failure modes and current controls used in our work activities, and considered how to monitor and verify that these are effective. Our field teams then verified the work of this group to ensure that all failure modes and controls had been identified.



Critical risk framework workshop.

This work has led to the development of a team leader's dashboard based on a mobile device platform provided by Risk Mentor. The dashboard leads the user through typical workflows, identifying critical risks and recording the controls used to manage these risks at each work stage. The dashboard also provides seamless access to other PowerNet systems and reference material. Over 2019-20, platform development will be extended to include more work flow phases.

Safety Representatives

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

During 2018-19, PowerNet's Health, Safety and Environment (HSE) committee completed a review of our health and safety committees. The HSE committee thought that a new structure would add value to PowerNet's safety management system and fit with PowerNet's 'one way of working' approach.

A restructure of these health and safety committees has resulted in the implementation of good leadership and training. All committee members are trained as health and safety representatives, and in how to conduct an effective health and safety committee meeting. As good safety leaders, these committee members are the critical link for communicating health and safety matters.

Live-Line Methods

A national code of practice for live-line methods is being developed in conjunction with PowerNet's HSE manager and the EEA. PowerNet is looking to slowly introduce live-line methods over the next 18 months. We've also been able to meet the challenge of achieving regulatory quality limits for electricity disruptions and their frequency, despite the shift to working on safer, de-energised lines.

Communications

Clear communications with the right messages are vital. PowerNet regularly uses simple, effective communication tools to support the dissemination of internal safety messages. These include incident investigation closeout fliers—safety learnings that are circulated to staff if an incident occurs. Safety messages are also shared with external audiences through mediums such as advertising and social media.

Verification

PowerNet employs the services of Network Compliance Ltd to verify that our teams and contractors are completing work as specified and to a high safety standard. All information from audits is stored in our health and safety system. The system automates any corrective action required, thus ensuring accountability at all levels and most importantly that issues are remedied so that people go home unharmed.

Collective Networks Operations Group (CNOG)

Comprising representatives from South Island electricity lines companies, CNOG's aim is to standardise operating processes to improve safety and operational efficiency, and to support high-quality customer service. CNOG members meet quarterly and share information and work collaboratively through online discussions and queries.

A recently completed CNOG project is the implementation of a single point of contact for transport operators moving high loads throughout the South Island. This standardises the way individual networks manage high loads and ensures that operators receive consistent and useful information about their responsibilities. Once fully established, this single point of contact approach will be extended to manage authorisations to operate machinery near network lines and cables. CNOG has also been active in consulting with electricity generators to establish common terminology around the disconnection and isolation of customers' installations.

In another project, the group is seeking to establish common processes for assessing competencies, particularly for network access authorisation, based on the ENA sponsored Common Competency Framework.

In our Industry

PowerNet is actively engaged with industry associations and forums including

- SmartCo Limited
- Electricity Networks Association (ENA)
- Electricity Engineers Association (EEA)
- Cigre
- NZ Arborist Association
- New Zealand Control Systems Security Information Exchange (CSSIE)



Staff Successes

Eleven PowerNet staff gained their TradeQual qualification this year.

PowerNet entered two line mechanic teams and one cable jointer in the 2018 Connexis Annual Connection Competition in Christchurch. Overall the teams won nine awards.

Team Circuit came second in the overall line mechanic competition and won the first-aid award. Team Breaker was the winner of the LV install section. Joe Reti won the 2018 Investing in Youth Training and Development Award, while Paul Barclay came third overall in the Cable Jointer of the Year Award and won three individual event awards. Sam Maurangi was a finalist in the Trainee of the Year Award.



Tradequal recipients

Back row: Craig O'Callaghan, Ione Pau, Gerard Anderson, Matthew Brown, Jackson Unahi, Mark Isaacs.
Front row: Samantha Maurangi and Gene Brookland.

PowerNet's Connexis Competition entrants

Top left: Joe Reti receiving his award from Karl Wallace, Electrix.

Top right: Cable jointer, Paul Barclay, 3rd overall in the Cable Jointer of the Year Award.

Middle: Team Breaker from left: Mike Johnston, Michael Blair, Joel Lee, Gary Stead (Gough Palfinger), Warren Dobson and Samantha Maurangi.

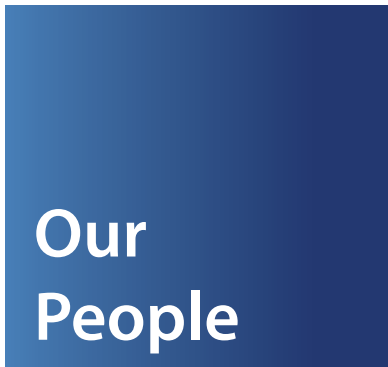
Bottom: Team Circuit from left: Roy Duffin, Guy Holden, Jackson Unahi, Trevor Laughton (Tait Communications), Paul Ashby and Shane Lawson.





PEOPLE AND LEADERSHIP

Shared Vision



Our People



Our Greatest Asset



Staff Success



Safe Efficient Reliable



Our Executives

Jason Franklin
Chief Executive



Anton Booyzen
GM Asset Management



Michelle Henderson
Chief Operating Officer



Greg Buzzard
Chief Financial Officer



Justin Peterson
GM Business Growth



Rangi Solomon
GM Health, Safety
and Environment



Kavi Singh
GM New Energy Development
and Strategy



Marcus Waters
GM People, Culture
and Communications



Rachael Watt
GM Business Support
and Improvement



Power to Communities

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

Public Safety

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

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

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

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

PowerNet has a Safety Management System (SMS) which complies with the requirements of NZS 7901:2008 Electricity and Gas Industries – Safety Management System for Public Safety. The SMS is audited annually to retain a current audit certificate. Telarc undertook its sixth annual compliance audit of our SMS in April 2018 and the audit report indicated that the SMS was functioning well.

We continue to be proactive in promoting safety messages to the community. Our Facebook page is a key tool for disseminating safety messages to southern communities. We've also formed a safety communication group with a focus on promoting safety in our community, including using branded public safety messages on our vehicles and working in collaboration with a major southern insurer, FMG, to promote our safety messages in rural communities.







PowerNet participated in the Balclutha Santa Parade enjoyed by many, including Aubree Watt, aged 2.

Customer Satisfaction

This year PowerNet surveyed 1206 customers across the EIL, TPCL and OJV networks to assess areas of our business that include safety, efficiency and outage management.

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

In 2018-19, knowledge of who PowerNet is remained the same as 2017-18, at 84%. There was a 3% decrease in overall familiarity with PowerNet's faults response number when compared with 2017-18. In 2018-19 total, 82% of customers surveyed were satisfied with the information they received from PowerNet system control and thought they received enough information when an outage occurred. This is an increase of 4% when compared with 2017-18.

Twenty-two commercial customers were surveyed to review their level of engagement with PowerNet. The results from these interviews continue to be favourable, with the overall performance rating marginally decreasing in 2018-19 from 8.6 to 8.3 out of 10 from the 2017-18 result.

Commercial customers were positive about the continuity and reliability of supply across the networks, with this being the highest ranking expectation at 82% up 2% from last year, and about our rapid response to unplanned outages.

Commercial customers also identified areas where PowerNet could assist them further. These included the use of automated email during unexpected outages to advise of expected restoration time.

Commercial Customer Breakfast

OtagoNet Joint Venture Board and PowerNet executives hosted OtagoNet's commercial customers at a breakfast event in Balclutha in August 2018. The successful event was an opportunity for commercial customers to hear about OtagoNet's future investment plans for the network and for PowerNet to gather ideas from customers about how OtagoNet could improve the quality of electricity supply and services.

Asset Management Plans

Asset management plans—which outline planned capital and maintenance expenditure on the EIL, TPCL and OJV networks—have been updated for the 2019-2029 period.

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

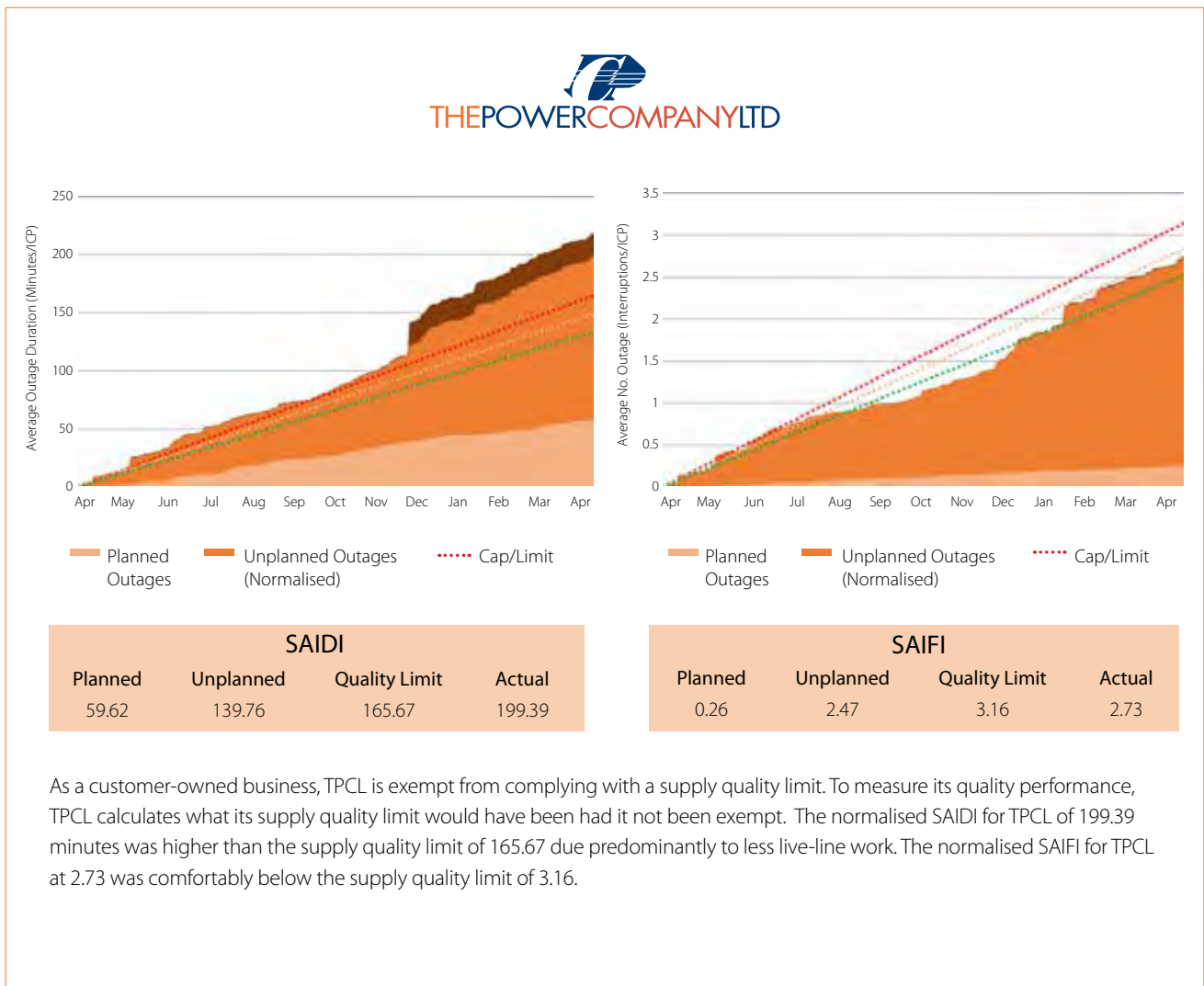
Considerations include drivers such as cost, equipment and life cycle, as well as regulatory requirements, demographic changes, environmental impact and required service levels. The plans can be viewed at PowerNet's website: www.powernet.co.nz.

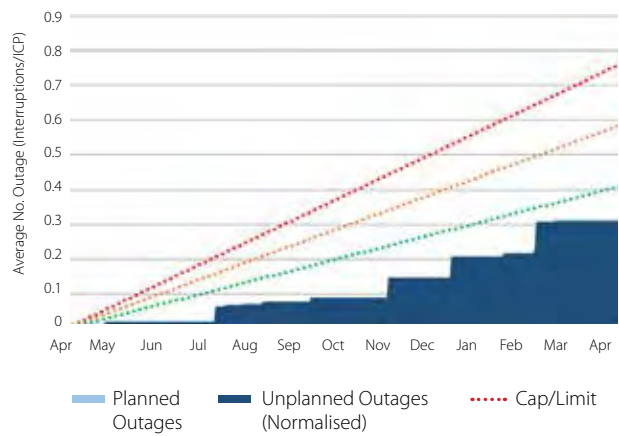
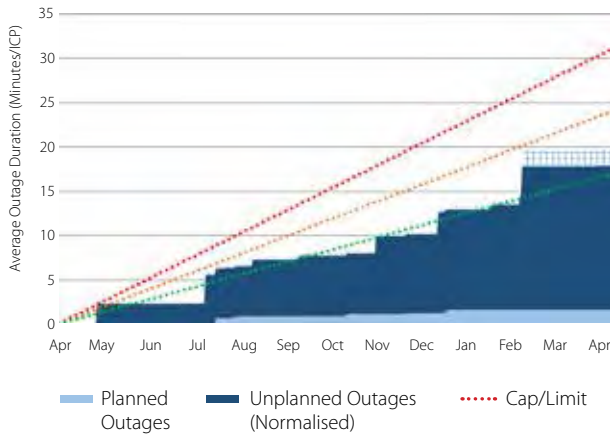
SAIDI and SAIFI

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

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

All significant events and outages on PowerNet managed networks are investigated to identify failure modes. Once identified improvement plans are implemented.

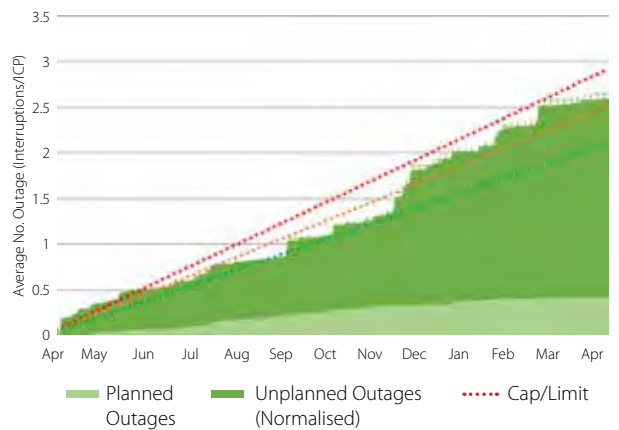
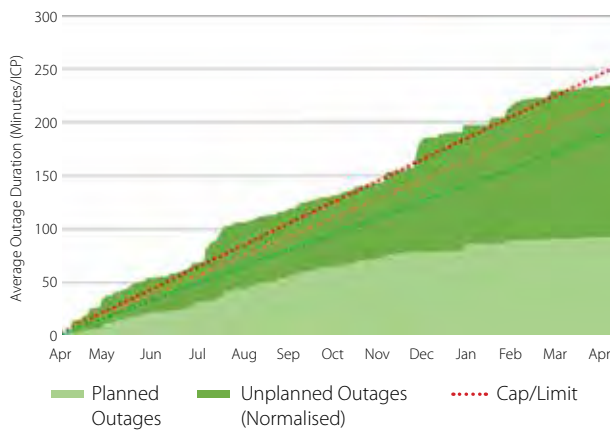




SAIDI			
Planned	Unplanned	Quality Limit	Actual
1.69	16.29	31.13	17.98

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.01	0.30	0.77	0.31

EIL's normalised SAIDI of 17.98 minutes was under the supply quality limit of 31.13 minutes. The company's normalised SAIFI at 0.31 was also well under the supply quality limit of 0.77. Although these outage statistics were below the quality limits, they were higher than normal. These outages were due to a faulty connection and cable fault. Continuous asset renewal programmes will ensure quality supply delivery and reduce EIL outages going forward.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
93.82	141.74	254.92	235.56

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.43	2.16	2.93	2.59

The network had a normalised SAIDI of 235.56, which was comfortably under the supply quality limit of 254.92. OJV's normalised SAIFI of 2.59 was closely managed to ensure it remained under the supply quality limit of 2.93. The increase in both measures when compared with 2017-18 reflects the impact of changes in work practices, including a significant reduction in live-line activities. Several projects are underway to improve network reliability to reduce unplanned outages in the future.



A donated AED saves a life

Back row: Marcus Waters, Don Nicolson, Jason Franklin, Julia Baxter, (Bill Richardson Transport World), Debbie Pipson, (St John).

Front row: Robin Eustance, Kathryn McCoy, Sue Bristow, Jason McVie, (St John) and cardiac arrest survivor, Janine Pine.

Sponsoring St John

Empowering our communities is an important part of PowerNet's customer focus and a core component of our 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 fifth year and set to expand.

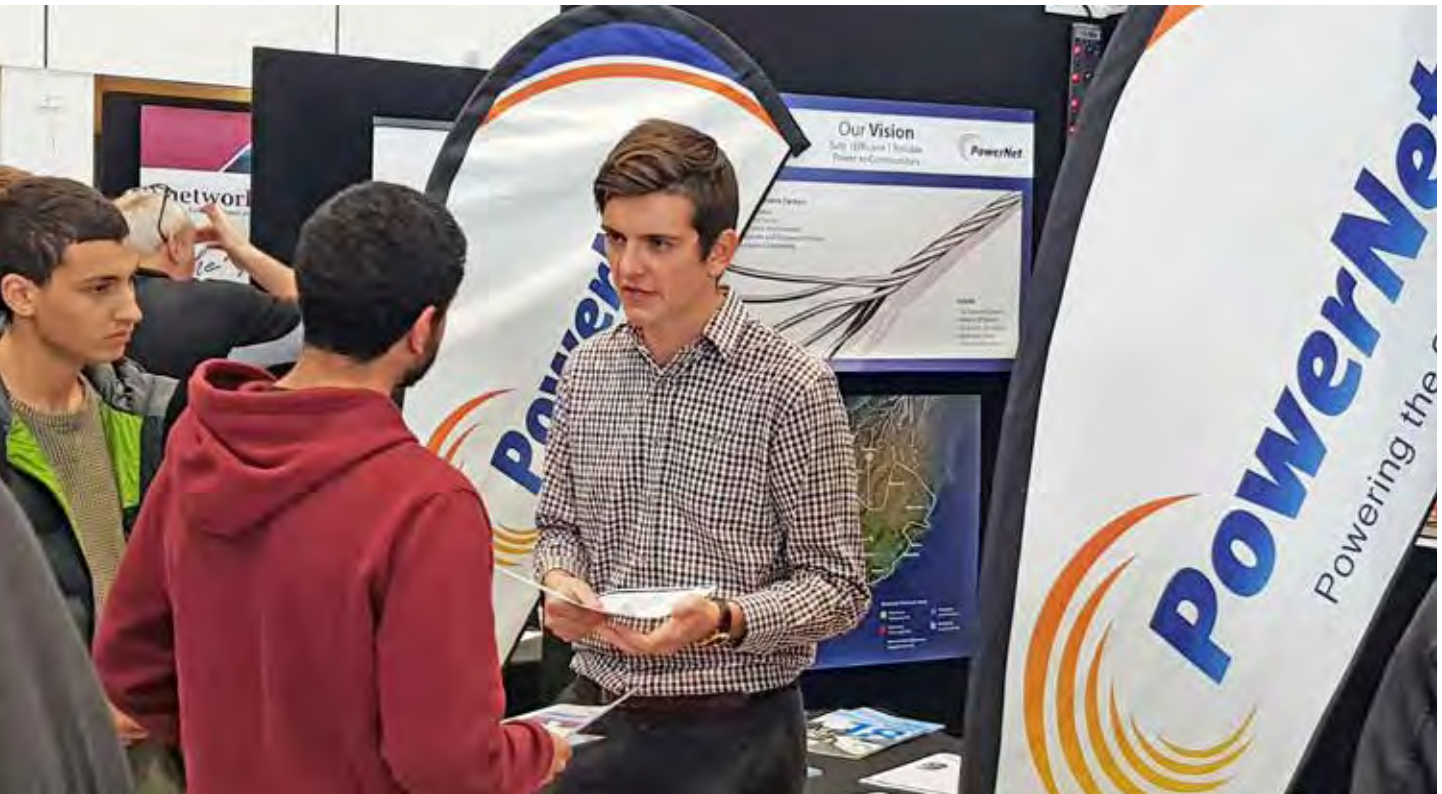
The programme supports first-aid training as well as other St John-related activities. A key goal is to achieve a trained first responder in every home—someone who can deal with a medical emergency until specialist assistance arrives. This is both a practical and powerful way that PowerNet can join with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

Between August 2014 and March 2019, 947 people received first-aid training as part of the programme. Fifty nine first-aid public and community courses were held in southern locations: Invercargill, Maitauro, Gore, Wakatipu, Bluff, Winton, Riverton, Fiordland, Lumsden, Lawrence, Ranfurly, Milton, Otago, Balclutha, Wyndham and Palmerston.

Since 2015, 33,696 students in 338 schools have been visited in the PowerNet and OtagoNet regions through the ASB St John in Schools Programme.

Thirteen AEDs have been donated since 2015 to southern community groups across PowerNet-managed networks. With each AED donation a free first-aid training session is provided.

In 2018, an AED gifted to Bill Richardson Transport World was used to save a woman's life after she suffered a cardiac arrest while visiting the automotive museum.



Ben Williams, PowerNet.

Other Community Activities

Waihopai Corpor8 Rowing Challenge

PowerNet again supported staff in the annual Corpor8 Rowing Challenge, an event where teams from Southland businesses and organisations compete against each other in eights and quads rowing events. The team achieved a third placing in the 'C' final, coming 11th overall. The Corpor8 Rowing Challenge provides a unique opportunity to bring PowerNet's field and office staff together in a team environment and push personal comfort zones—these are the real gains of PowerNet's participation.

Supporting Skills Growth

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

PowerNet continued its support of the Southern Institute of Technology, by sponsoring the Most Improved Student Award in the electrical pre-trade course.

Tour of Southland

The PowerNet-sponsored cycling team put in some great performances in this year's SBS Tour of Southland with three of its riders—Sam Gaze, Paul Odlin and Connor Brown—finishing in the top 10. There were other key successes: PowerNet won the team time trial around the Queens Park circuit and was third in the Wensley's team classification. The PowerNet team was managed by Aaron Sinclair with support from PowerNet staff and their families throughout the tour week. The team was sponsored by PowerNet, Pure Nutrition and Tineli.

PowerNet's 2018 cycling team consisted of Paul Odlin, Alex Heaney, Ollie Jones, Josh Kuysten, Connor Brown and Sam Gaze.

Sponsorship of 2018 NZ ARB Conference

PowerNet sponsored the New Zealand Arboriculture Association as a UA Stream Conference Sponsor for the 2018 NZ ARB Conference held in Dunedin during November, 2018.



Smart Energy Home tenants the Waru Family with Dyson Gentle, PowerNet.

New Energy Development

PowerNet continues to explore new energy and emerging technology initiatives that support a transition to a lower emissions future, create a better understanding of possible efficiencies and build a picture of likely future energy use trends.

Smart Energy Home

In a new energy project, PowerNet equipped a company-owned house with smart energy technologies including an electric vehicle, and tenanted it to a family for a year from February 2018. The ongoing project's goal is to understand more about energy technologies that enable smarter energy use and their benefits, and leverage these to create better efficiencies and services for customers.

Over the family's tenancy, PowerNet gathered energy data from installed technologies and appliances, and analysed efficiencies and benefits. Through this information PowerNet is gaining insights into smart energy use in the lower South Island environment and developing a better understanding of future energy use trends. The information and analysis will also aid in better planning and operations for electricity networks.

The Smart Energy Home project is now into its second year with new tenants who provide the opportunity to measure different energy use patterns.



OCC Med Link NZ owners Martin and Elisabeth Peterson, recipients of a PowerNet sponsored EV charger.

Supporting the Environment

PowerNet continues to support projects and community initiatives that encourage sustainable energy options and the transition to lower carbon emissions.

Promoting the uptake of electric vehicles (EVs) and positively influencing public perceptions about the practicalities of EV use are the goals of a project that supports Southland businesses to purchase an EV for their fleet. PowerNet funds a free EV charger for businesses that meet the project's criteria and provides support and advice. Businesses also have access to data on energy used for EV charging and can calculate costs and savings per kilometre.

PowerNet continues to explore ways to reduce its own impact on the environment. It operates two EVs and five hybrid EVs in the company's pool fleet. These are popular with staff. Two senior managers and CE, Jason Franklin, also drive electric vehicles.

PowerNet supports the development of rapid EV charging infrastructure and continues to work with organisations and industry to explore further opportunities to expand the public charging infrastructure in the southern region.

PowerNet makes a contribution to a better environment in other ways.

In November 2018, PowerNet's Health, Safety and Environment (HSE) team visited Oreti Beach to collect rubbish as part of their Christmas team building exercise. The six team members chose the exercise because they wanted to focus on the environment and give something back to the community. The rubbish collected over the three-hour period filled a large tandem trailer and was taken to the Invercargill Transfer Station.

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 of the oil we use is either sold or returned to the supplier for recycling.

PowerNet aims to have zero uncontrolled spillages or leakages. There were no waste oil spills during the 2018-19 year.

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

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

Power poles are replaced as required because of public safety or network performance. In total 1006 poles were replaced in 2018-19. Removed poles are either recycled or disposed of safely.

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 PowerNet managed networks is 465.4 kilograms.



Jim Hargest (Chair, SWHT) and Neil Boniface (past Chair, SWHT) cutting the cake to celebrate a decade of supporting warm, dry homes in the south.

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 & Conservation Authority (EECA), has completed more than 6500 insulation and heating retrofits in Southland and West Otago homes since 2008.

From 1 July 2018, a new four-year government programme called Warmer Kiwi Homes was introduced. The new subsidised insulation programme targets homeowners on low incomes, or who live in a low socio-economic area. The \$142 million government funding commitment is administered by EECA, through service providers who meet installation and health and safety standards.

SWHT was successfully awarded a service provider agreement for the Southland and West Otago region during the year.

Under the Warmer Kiwi Homes Programme, eligible homeowners can have two-thirds of the cost of ceiling and underfloor insulation funded by EECA, with those in Southland and parts of West Otago subsidised up to 92%, with an additional 25% contributed by SWHT from community funding. To be eligible homes must be built prior to 2008, the home owner (owner-occupier) must have a community services card or SuperGold combo card, or own and be living in an area identified as low income. Subsidised heating will also be offered to eligible homes from year two.

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

The SWHT presents an award annually to property managers who actively promote energy efficiency ideas that improve the living conditions of tenants and support SWHT's vision. In 2018, the Southland Real Estate property management team won the award.

Directors' Profiles



1. Donald Nicolson (Chair)

Don joined the board of PowerNet in 2015 after being appointed a director of The Power Company Ltd. He is also one of The Power Company Ltd nominees on the OtagoNet Joint Venture governing committee.

From 1999 until 2011, Don was a trustee on the Southland Electric Power Supply Consumer Trust.

Earlier, farming and agribusiness advocacy saw him hold many roles in the primary sector, culminating as the national president of Federated Farmers of New Zealand from 2008 until 2011.

Don is a member of the Institute of Directors.

2. Douglas Fraser

BSc (Chemistry) CFInstD

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

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

Doug is a chartered fellow of the Institute of Directors.

3. Thomas Campbell

BSc (Metallurgy) CFInstD

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

Tom's directorships include Todd Corporation Ltd and Port Otago Ltd. He is chair of the Energy Efficiency and Conservation Authority (EECA) and was chair of the Southland Regional Development Strategy governance group.

Tom is a chartered fellow of the Institute of Directors.

4. Sarah Brown LLB BA CFInstD

Sarah joined the board of PowerNet in October 2015.

She is a member of the OtagoNet Joint Venture governing committee, a director for Electricity Invercargill Ltd and Electricity Southland Ltd. Sarah is on the Provincial Growth Fund advisory panel and a director of the Southland Regional Development Agency. Sarah has also recently been appointed as a director of PGG Wrightson Ltd.

Sarah practiced as a commercial lawyer and works as an independent company director.

Sarah is a chartered fellow of the Institute of Directors.

5. Duncan Fea BCom FCA CFInstD

Duncan is a managing partner in Index, Queenstown, chartered accountants and business advisors.

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

Duncan is a fellow chartered accountant of the Chartered Accountants Australia and New Zealand and is a chartered fellow of the Institute of Directors.

6. Alan (Joe) O'Connell BCom FCA

Joe joined the boards of PowerNet and Electricity Invercargill Ltd in December 2016. He is deputy chair of PowerNet.

He serves as a director on a number of companies and was chairman of Invercargill Airport Ltd from 2011-2016.

He is chair of the PowerNet Health, Safety and Environment committee and has worked in many industries including transport, timber, concrete, petroleum distribution, drilling exploration, property and growing media.

Joe is a fellow chartered accountant of the Chartered Accountants Australia and New Zealand and a member of the Institute of Directors.

7. Lachlan McGregor

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

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

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

8. Wayne Mackey B.E. (Electrical)

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

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

Wayne joined the PowerNet board in September 2017 and is a director of The Power Company Ltd.

Wayne is also a member of the Institute of Electrical and Electronic Engineers.

9. Paul Kiesanowski

Paul joined the board of Electricity Invercargill Ltd on 28 March 2019.

He is a former partner of KPMG. Paul brings strong financial management skills, risk management and assurance over a career working with a large number of clients. He is currently company secretary for City Care Ltd.

Paul is also a commissioner for the Earthquake Commission, a director of Red Bus Ltd, and of Apex Environmental Ltd.



Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Financial Statements of PowerNet for the year ended 31 March 2019.

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, including PowerNet Central Ltd which is operated from Queenstown.

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 \$2,516,000.

A final dividend of \$1,248,229 was declared for 31 March 2019, with payment made on 31 May 2019.

State of Company's Affairs

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

Directors

The Shareholding Companies have appointed Directors as follows:

Appointed by Electricity Invercargill Ltd are:

Thomas Campbell

Sarah Jane Brown

Alan (Joe) O'Connell (Deputy Chair from 1 November 2018)

Paul Kiesanowski (from 28 March 2019)

Ross Smith (Chair until 30 June 2018, Deputy Chair until 31 October 2018) (Ceased Directorship 31 October 2018)

Karen Arnold (Ceased Directorship 22 February 2019)

Appointed by The Power Company Ltd are:

Douglas Fraser

Donald Nicolson (Chair)

Duncan Fea

Lachlan McGregor

Wayne Mackey

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.

Remuneration of Directors

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

Ross Smith	-	Chair, Deputy Chair and Member Audit and Risk Committee, Chair and Member Remuneration Committee
Douglas Fraser	-	Director, Member Health, Safety and Environment Committee, Member Audit and Risk Committee
Karen Arnold	-	Director, Member Audit and Risk Committee
Sarah Brown	-	Director, Member Health, Safety and Environment Committee
Thomas Campbell	-	Director, Member of Audit and Risk Committee
Duncan Fea	-	Director, Chair and Member Audit and Risk Committee
Lachlan McGregor	-	Director, Member Health, Safety and Environment Committee
Donald Nicolson	-	Chair, Chair and Member Audit and Risk Committee, Chair of Remuneration Committee
Joe O'Connell	-	Director, Deputy Chair, Chair Health, Safety and Environment Committee, Member of Remuneration Committee
Wayne Mackey	-	Director, Member Health, Safety and Environment Committee
Paul Kieranowski	-	Director, Member Audit and Risk Committee

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

Ross Smith	\$32,258	Lachlan McGregor	\$33,000
Douglas Fraser	\$33,000	Thomas Campbell	\$31,250
Donald Nicolson	\$59,025	Joe O'Connell	\$40,021
Sarah Brown	\$33,000	Duncan Fea	\$34,250
Karen Arnold	\$30,250	Paul Kieranowski	\$2,750
Wayne Mackey	\$31,750		

Employee Remuneration

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

\$100,000 - \$110,000	12	\$200,000 - \$210,000	2
\$110,000 - \$120,000	5	\$230,000 - \$240,000	1
\$120,000 - \$130,000	11	\$250,000 - \$260,000	1
\$130,000 - \$140,000	5	\$310,000 - \$320,000	1
\$140,000 - \$150,000	2	\$340,000 - \$350,000	1
\$150,000 - \$160,000	2	\$420,000 - \$430,000	1
\$170,000 - \$180,000	2	\$540,000 - \$550,000	1
\$180,000 - \$190,000	1		

Scholarships, Awards and Donations

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

Use of Company Information

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

Directors' and Employees' Indemnity and Insurance

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

Accounting Policies

There have been two changes to the accounting policies in the year to 31 March 2019. NZ IFRS 9, Financial Instruments and NZ IFRS 15, Revenue Recognition. These changes have had no financial impact on the results to 31 March 2019, but have changed the presentation of the accounts.

Auditor

Refer to Note 4 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.



Donald Owen Nicolson
Chair



Alan Joseph O'Connell
Deputy Chair

Approval by Directors

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2019 pages 47 to 73.

For and on behalf of the Board.



Donald Owen Nicolson
Chair
30 May 2019



Alan Joseph O'Connell
Director
30 May 2019

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

		GROUP	
	Notes	2019 \$'000	2018 \$'000
Operating Revenue	2	83,477	84,204
Other Income	3	152	442
Operating Expenses	4	(78,999)	(78,401)
Financial Expenses	4	(1,643)	(1,524)
Operating Surplus Before Taxation		2,987	4,721
Taxation (Expense)/Benefit	5	(471)	(1,357)
Net Surplus after Taxation		2,516	3,364
Total Comprehensive Income		2,516	3,364
Net Surplus Attributable to Minority Interests		18	45
Net Surplus Attributable to Parent		2,498	3,319

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Notes	GROUP	
		2019 \$'000	2018 \$'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		2,498	3,319
Minority Interest		18	45
		2,516	3,364
Contributions from Shareholders			
Change of Ownership in Minority Interest		-	(258)
		-	(258)
Distributions to Shareholders			
Minority Interest		-	-
Dividend Paid/Declared		(2,332)	(3,141)
Changes in Equity for the Year		184	(35)
Equity at Beginning of the Year, comprising:			
Parent Interest		4,907	4,730
Minority Interest		109	321
		5,016	5,051
Equity at End of Year comprising:			
Parent Interest		5,073	4,907
Minority Interest	11	127	109
		5,200	5,016

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

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

		GROUP	
	Notes	2019 \$'000	2018 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	1,648	3,569
Receivables and Prepayments	8	17,827	14,132
Unbilled Construction Work in Progress	10	7,069	6,067
Inventories	9	2,923	2,675
Total Current Assets		29,467	26,443
Non Current Assets			
Property, Plant and Equipment	17	19,443	15,700
Capital Work in Progress		369	1,719
Intangibles	18	9,274	9,279
Deferred Taxation Asset	16	1,066	958
Total Non Current Assets		30,152	27,656
Total Assets		59,619	54,099
LIABILITIES			
Current Liabilities			
Creditors and Accruals	12	7,434	8,039
Employee Entitlements	13	3,735	3,401
Dividend Payable		1,248	691
Finance Lease		-	15
Taxation Payable		171	324
Total Current Liabilities		12,588	12,470
Non Current Liabilities			
Advances	14	41,104	35,993
Deferred Taxation Liability	16	727	620
Total Non Current Liabilities		41,831	36,613
Total Liabilities		54,419	49,083
Net Assets		5,200	5,016
EQUITY			
Share Capital		4,000	4,000
Retained Earnings	6	1,073	907
Parent Equity		5,073	4,907
Minority Interest Equity	11	127	109
Total Equity		5,200	5,016

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

STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

		GROUP	
	Notes	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		80,311	89,786
Interest Received		19	17
		80,330	89,803
Cash Was Applied To:			
Payments to Suppliers and Employees		77,754	76,114
Income Tax Paid		655	911
Interest Paid		1,585	1,464
		79,994	78,489
Net Cash Flows From Operating Activities	22	336	11,314
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Fixed Assets		289	519
		289	519
Cash Was Applied To:			
Purchase of Fixed and Intangible Assets		5,868	3,972
Investments		-	550
		5,868	4,522
Net Cash Flows From/(Used In) Investing Activities		(5,579)	(4,003)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Advances, Loans and Finance Leases		5,111	4
		5,111	4
Cash Was Applied To:			
Advances, Loans and Finance Leases		15	3,357
Payment of Dividends - PowerNet		1,774	2,606
		(1,789)	(5,963)
Net Cash Flows From Financing Activities		3,322	(5,959)
Net increase (decrease) in cash and cash equivalents		(1,921)	1,352
Cash and cash equivalents at the beginning of the financial year		3,569	2,217
Cash and cash equivalents at end of year	7	1,648	3,569

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For The Year Ended 31 March 2019

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 Group consists of PowerNet and its subsidiary PowerNet Central 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 30th May 2019.

Basis of Preparation

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

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

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

The reporting currency of these financial statements is \$NZD.

The financial statements have a reclassification of prior year balances to align with the current year classification under the new accounting standards for comparability. These reclassifications have not resulted in a change to opening retained earnings.

The Group has applied the following standards for the first time for their annual reporting period commencing 1 January 2018:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies but the adoption has no material effects on the financial statements.

Use of Estimates and Judgements

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

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

- Property, Plant and Equipment
- Intangibles
- Employee Benefits
- Revenue

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

For The Year Ended 31 March 2019

Specific Accounting Policies

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

(a) Revenue from Contracts with Customers

(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 OtagoNet Joint Venture. This income is passed through to the networks on a monthly basis.

(ii) Capital Works Programme

PowerNet revenue earned on the capital works performed on network in which the work is derived from the asset management plan. Capital Revenue is calculated based on costs incurred with an agreed markup applied. Revenue from capital is recognised over time using an input methodology based on the costs incurred when the Company's performance creates or enhances an asset that the customer controls as the Network companies control Work in Progress of any assets created or enhanced.

(iii) Agency Services

Revenue from Agency services is earned for work carried out relating to the business management and administration function of the networks.

The transaction price is calculated by an allocation method of budgeted costs (determined at business planning) to recover costs associated to the Management of the Networks.

Revenue from agency services is recognised evenly over time as the customer simultaneously receives and consumes the benefit from the delivery of Management, Maintenance and Business Administration.

(iv) Maintenance Services

Revenue from Maintenance services is earned work carried out on the network assets that maintains the assets to a reliability driven standard which is based on the Asset Management Plan.

The transaction price is a commission designed to recover network costs incurred to maintain assets based on the Asset Management Plan.

Revenue from maintenance is recognised over time using an input methodology based on costs incurred as the customer simultaneously receives and consumes the benefit from the delivery of maintenance undertaken on assets that the Network owns.

(v) External Contracting Income

Revenue from External Contracting is earned on work carried out for non-network customers and includes contracts for services provided for the power supply of Stewart Island and district councils for street lighting.

Revenue from external contracting is recognised over time using an input methodology based on the costs incurred with the customer simultaneously receiving and consuming the benefit from the services performed. Invoices are produced on a monthly basis and the amount of the revenue is based on cost plus markup.

(vi) Management Service Fixed Fee

Revenue from Management services is earned for work carried out relating to the business management and administration function of different contracts held.

Revenue is recognised evenly over time with the customer simultaneously receives and consumes the benefit from the delivery of Management and Business Administration services.

(vii) Equipment Sales

Revenue from the sale of equipment is recognised at the point in time when the control of the asset is transferred to the customer, generally on delivery of the equipment.

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

For The Year Ended 31 March 2019

(b) Financial Expenses

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

(c) Unbilled Construction Work in Progress

Construction Work in Progress primarily 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 markup designed to cover PowerNet associated indirect overheads. Where charges relate to external customers, profit is recognised on a percentage completion basis.

Markups on contracts are recognised progressively over the period of each contract. Foreseeable losses on a contract are recognised immediately. Unbilled construction work in progress is considered a receivable rather than a contract asset under NZ IFRS 15. Impairment is therefore considered in line with the trade receivable loss provision methodology as per note (o)(ii).

(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 basis on all tangible assets with the exception of land, at rates calculated to allocate the assets' fair value, less any residual value, over their useful lives. The primary annual rates used are:

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

(g) Capital Work in Progress

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

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

For The Year Ended 31 March 2019

(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) Goodwill

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

(ii) Computer Software

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

(iii) Amortisation

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

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

(j) Goods and Services Tax (GST)

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

(k) Taxation

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

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

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

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

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

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

For The Year Ended 31 March 2019

(l) Operating Leases

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

(m) Employee Benefits

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

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

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

(n) Seasonality

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

(o) Financial Instruments

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. It has been determined that the new policy has no impact on prior year results. As a result the comparative information provided continues to be accounted for in accordance with the Groups previous policy.

(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 receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

During the year, the following gains/(losses) were recognised in profit or loss in other expenses in relation to impaired receivables.

Impairment losses

- individual receivables written off directly
- movement in provision for impairment

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

(iii) Trade and Other Payables

Trade and Other Payables are stated at amortised cost.

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

For The Year Ended 31 March 2019

(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.

Impairment of Financial Assets

The Group has two types of financial assets subject to NZ IFRS 9's new expected credit loss model:

- trade receivables and unbilled WIP; and
- debt investments carried at amortised cost.

The Group was required to revise its impairment methodology under NZ IFRS 9 for each of these classes of assets.

There has been no material change as a result of applying the new impairment methodology.

(i) Trade Receivables and Unbilled Work in Progress

For trade receivables and unbilled work in progress, the Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

(ii) Debt Investments

Debt investments at amortised cost and those at FVOCI are considered to be low risk, and thus the impairment provision is determined as 12 months expected credit losses.

(p) Principles of Consolidation

(i) Subsidiaries

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

The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control 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 2019

2 Income

	GROUP	
	2019	2018
	\$'000	\$'000
<i>Agency</i>		
Line Charges	112,230	110,136
Metering	4,414	4,514
	116,644	114,650
<i>Less</i>		
Transmission	29,198	31,494
Net Agency	87,446	83,156
Revenue from Contracts with Customers		
Contracting Revenue	8,930	8,607
Maintenance Fees	18,996	17,156
Agency Fees	7,844	7,143
Equipment Sales	224	369
Capital Works Programme	46,886	50,652
Management Fees	597	277
	83,477	84,204
Timing of Revenue Recognition		
Over time	83,253	83,835
At a point in time	224	369
	83,477	84,204

3 Other Income

	2019	2018
	\$'000	\$'000
Sundry Revenue	125	425
Interest Revenue	27	17
	152	442

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

For The Year Ended 31 March 2019

4 Expenses

	GROUP	
	2019	2018
	\$'000	\$'000
<i>Expenses Include:</i>		
Network Costs (excl. Depreciation)	49,687	50,482
Interest Expense	1,643	1,524
Deficit/(Profit) on Disposal of Property, Plant and Equipment	20	(178)
Operating Lease Expenses		
Tenancy and Repeater Site Leases	750	667
Motor Vehicle Leases	176	298
Office Equipment Leases	43	30
Total Operating Leases	969	995
Amortisation of Intangibles	413	369
Auditors' Fees		
Audit of Financial Statements - PwC	95	62
Internal Audit Fees - Deloitte	43	46
Regulatory and Consulting Fees - PwC	14	-
Software - PwC	35	-
Depreciation		
Buildings	196	194
Plant and Equipment	1,194	998
Motor Vehicles	1,152	1,189
Office Equipment	89	96
Computer Hardware	212	167
Total Depreciation	2,843	2,644
Directors' Fees	361	413
Donations	5	5
Employee Benefit Expenses	13,885	13,365
Scholarships and Awards	-	-

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

For The Year Ended 31 March 2019

5 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	
	2019	2018
	\$'000	\$'000
Operating Surplus/(Deficit) Before Income Tax	2,987	4,721
Prima Facie Taxation at 28% made up of:	836	1,322
Permanent Differences	59	36
Prior Period Adjustments	(169)	(52)
Tax effects of:		
• Tax benefit from use of Group losses	(255)	-
Tax on Taxable Income	471	1,306
Current Tax	668	1,306
Prior Period Adjustments in respect of Current tax	(197)	-
Deferred Tax	(27)	51
Prior Period Adjustments in respect of Deferred tax	27	-
Taxation Expense/(Benefit) for year	471	1,357

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

For The Year Ended 31 March 2019

6 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	
	2019 \$'000	2018 \$'000
Share Capital	4,000	4,000
Closing Balance	4,000	4,000
Minority Interest	127	108
Retained Earnings		
Opening Balance	908	730
Net Surplus for the Year	2,498	3,319
Dividend Declared/Paid	(2,332)	(3,141)
Closing Balance	1,073	908
	-	
Total Equity	5,200	5,016

7 Cash and Short Term Bank Deposits

	2019 \$'000	2019 \$'000
Current Account	846	1,257
Short Term Bank Deposits	802	2,312
Total Cash and Short Term Bank Deposits	1,648	3,569

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

For The Year Ended 31 March 2019

8 Receivables and Prepayments

	GROUP	
	2019 \$'000	2018 \$'000
Trade Debtors	1,719	663
The Power Company Ltd	8,578	7,570
Electricity Invercargill Ltd	2,443	2,401
Electricity Southland Ltd	559	558
OtagoNet Joint Venture	3,216	2,181
	16,515	13,373
Prepayments and Other Receivables	1,312	759
Total Receivables and Prepayments	17,827	14,132

9 Inventories

	2019 \$'000	2019 \$'000
Network Spares and Sundry Network Consumables	2,923	2,675

Network Spares includes Smart Meters totalling \$2,504,000 (2018: \$2,154,000).

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

For The Year Ended 31 March 2019

10 Unbilled Construction Work in Progress

	GROUP	
	2019 \$'000	2018 \$'000
<i>On behalf of:</i>		
The Power Company Ltd	4,114	3,769
Electricity Invercargill Ltd	436	318
OtagoNet Joint Venture	1,438	1,412
External Customers	1,081	568
Total Construction Work in Progress	7,069	6,067

11 Minority Interest

	2019 \$'000	2018 \$'000
Opening Balance	109	321
Change in shareholding	-	(258)
Minority Interest Share on Net Surplus	18	45
Closing Balance	127	108

The Minority Interest relates to PowerNet Central Ltd. In April 2017 the parent company purchased a further 38.62% leaving the Minority holding 9.68%.

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

For The Year Ended 31 March 2019

12 Creditors and Accruals

	GROUP	
	2019 \$'000	2018 \$'000
Trade Payables	4,943	5,386
Accruals	1,147	1,610
Inland Revenue - GST Payable	823	612
The Power Company Ltd	417	342
Electricity Invercargill Ltd	92	78
OtagoNet Joint Venture	12	11
	7,434	8,039

13 Employee Entitlements

	2019 \$'000	2018 \$'000
Opening Balance	3,401	3,261
Additional Accrued	3,245	2,884
Amount Utilised	(2,911)	(2,744)
Total Employee Entitlements	3,735	3,401

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

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

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

For The Year Ended 31 March 2019

14 Advances

	GROUP	
	2019	2018
	\$'000	\$'000
<i>Advances from:</i>		
The Power Company Ltd	32,169	28,505
Electricity Invercargill Ltd	8,935	7,488
Total Advances	41,104	35,993

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.

15 Finance Lease

	2019	2018
	\$'000	\$'000
Finance Lease Payable		
Not later than one year	-	15
Later than one year, not later than five years	-	-
	-	15
<i>Comprising:</i>		
Current	-	15
Non Current	-	-

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

For The Year Ended 31 March 2019

16 Deferred Taxation

	GROUP	
	2019 \$'000	2018 \$'000
Opening Balance	339	389
Charged to Income Statement		
- Depreciation (non current liability)	(100)	(76)
- Tax Losses (current assets)	-	-
- Employee Entitlements (current assets)	100	46
- Other (current assets)	-	-
- Other (current liabilities)	-	-
- Losses Utilised	-	(20)
Timing differences now treated as permanent adjustments	-	-
Total Deferred Taxation Asset/(Liability)	339	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 2019

17 Property, Plant and Equipment

	Land \$'000	Buildings \$'000	Plant & Equipment \$'000	Office Equipment \$'000	Motor Vehicles \$'000	Computer Hardware \$'000	Total \$'000
Cost							
Balance at 1 April 2017	509	5,682	12,033	1,589	12,451	1,892	34,156
Additions	-	-	1,388	60	1,329	399	3,176
Disposals	(97)	-	(254)	(1)	(872)	-	(1,224)
Balance at 31 March 2018	412	5,682	13,167	1,648	12,908	2,291	36,108
Balance at 1 April 2018	412	5,682	13,167	1,649	12,908	2,290	36,108
Additions	-	294	3,240	106	2,734	425	6,799
Disposals	-	-	(153)	-	(857)	(476)	(1,486)
Balance at 31 March 2019	412	5,976	16,254	1,755	14,785	2,239	41,421
Depreciation and Impairment							
Balance at 1 April 2017	-	1,397	7,377	1,010	7,269	1,595	18,648
Depreciation for Period	-	194	998	100	1,189	162	2,643
Disposals	-	-	(208)	-	(675)	-	(883)
Balance at 31 March 2018	-	1,591	8,167	1,110	7,783	1,757	20,408
Balance at 1 April 2018	-	1,591	8,167	1,110	7,783	1,757	20,408
Depreciation for Period	-	196	1,194	99	1,152	202	2,843
Disposals	-	-	(111)	-	(686)	(476)	(1,273)
Balance at 31 March 2019	-	1,787	9,250	1,209	8,249	1,483	21,978
Book Value at 31 March 2018	412	4,091	5,000	538	5,125	534	15,700
Book Value at 31 March 2019	412	4,189	7,004	546	6,536	756	19,443

Deemed Cost

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

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

For The Year Ended 31 March 2019

18 Intangible Assets

	Goodwill \$'000	Computer Software \$'000	Total \$'000
Cost			
Balance at 1 April 2018	7,633	6,991	14,624
Additions	-	415	415
Disposals	-	(926)	(926)
Balance at 31 March 2019	7,633	6,480	14,113
Amortisation and Impairment			
Balance at 1 April 2018	-	5,346	5,346
Amortisation for period	-	413	413
Disposals	-	(920)	(920)
Goodwill on Acquisition	-	-	-
Balance at 31 March 2019	-	4,839	4,839
Carrying Amount/Book Value			
Book Value at 31 March 2019	7,633	1,641	9,274

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

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

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

For The Year Ended 31 March 2019

19 Commitments

a) **Capital Commitments**

Capital Commitments as at 31 March 2019 total \$359,000 (2018: \$763,000)

	GROUP	
	2019	2018
	\$'000	\$'000
b) Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
Not later than one year	1,452	1,487
Later than one year and not later than two years	1,111	1,220
Later than two years and not later than five years	2,073	2,069
Later than five years	9,493	9,974
Total Operating Lease Commitments	14,129	14,750

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

20 Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2019 (2018: Nil).

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

For The Year Ended 31 March 2019

21 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 PowerNet subsidiary PowerNet Central Ltd, relate to the normal trading activities of PowerNet.

PowerNet Group also has transactions with Roaring Forties Ltd Partnership.

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

	GROUP	
	2019 \$'000	2018 \$'000
Asset Construction, Management Fees, Agency Fees and Directors Fees Supplied To:		
The Power Company Ltd	43,488	47,824
Electricity Invercargill Ltd	10,604	10,879
Electricity Southland Ltd	3,572	4,583
OtagoNet Joint Venture	19,514	16,269
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Ltd	12,693	11,339
Electricity Invercargill Ltd	2,879	2,719
Electricity Southland Ltd	559	558
OtagoNet Joint Venture	4,654	3,593
Miscellaneous Charges Supplied By:		
The Power Company Ltd	1,745	1,631
Electricity Invercargill Ltd	359	294
Electricity Southland Ltd	169	183
OtagoNet Joint Venture	122	109
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Ltd	417	342
Electricity Invercargill Ltd	92	78
OtagoNet Joint Venture	12	10
Advances Supplied By/(Repaid To):		
The Power Company Ltd	3,665	(2,535)
Electricity Invercargill Ltd	1,447	(272)
M Popenhagen	-	(424)
I Boud	-	(106)

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

For The Year Ended 31 March 2019

21 Transactions with Related Parties *continued*

Other Related Parties

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

PowerNet uses Crowe Horwath Ltd (now Findex) 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 \$78,213 (excl GST) (2018: \$48,419 excl GST) of which \$1,509 (incl GST) (2018: \$nil incl GST) is owing at balance date.

PowerNet has a rental agreement with McGregor Concrete in Winton, of which Lachlan McGregor is the Manager and Director of McGregor Group Ltd. Rent paid to McGregor Concrete for the year amounted to \$13,867 (excl GST) (2018: \$13,867 excl GST).

Key Management Personnel

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

	GROUP	
	2019	2018
	\$'000	\$'000
Directors' Fees, Salaries and Short Term Employee Benefits	2,734	2,720

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 2019

22 Net Cash Flows from Operating Activities

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

	GROUP	
	2019	2018
	\$'000	\$'000
Net Surplus After Taxation	2,516	3,364
Add/(Less) Non Cash Items:		
Amortisation	413	369
Depreciation	2,843	2,644
Deferred Tax	-	50
Deficit/(Profit) on Sale of Plant, Property and Equipment	(72)	(178)
	3,184	2,885
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	(119)	(2,110)
Receivables and Prepayments	(3,977)	5,674
Inventories	(248)	1,236
Construction Work in Progress	(1,003)	278
GST Payable/(Receivable)	169	(409)
Taxation Payable	(186)	396
	(5,364)	5,065
Net Cash Flow From/(Used In) Operating Activities	336	11,314

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

For The Year Ended 31 March 2019

23 Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit Risk

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

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk. There is no exposure for the Group.

Liquidity Risk

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

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

Market Risk

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

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

Fair Value

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

Capital Management

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

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

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

24 Subsequent Events

There were no events subsequent to balance date.

AUDITORS' REPORT

For The Year Ended 31 March 2019



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Independent Auditor's Report

To the shareholders of PowerNet Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies.

Our opinion

In our opinion, the financial statements of PowerNet Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2019, 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 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 Group 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 providing a software tool to assist in the preparation of financial statements and benchmarking 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 financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 2019

Responsibilities of the Directors for the financial statements

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

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Elizabeth Adriana (Adri) Smit.

For and on behalf of:



Chartered Accountants
30 May 2019

Christchurch

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Principal Bankers

ANZ Bank New Zealand Ltd

Auditors

PricewaterhouseCoopers,
Christchurch

Solicitors

AWS Legal

Materials Procurement and Management

Corys Ltd



