



Growth in the Central Otago Region

Oreti Valley Project Completion

Invercargill Network Safety Project Completion

Balclutha Office and Depot Redevelopment

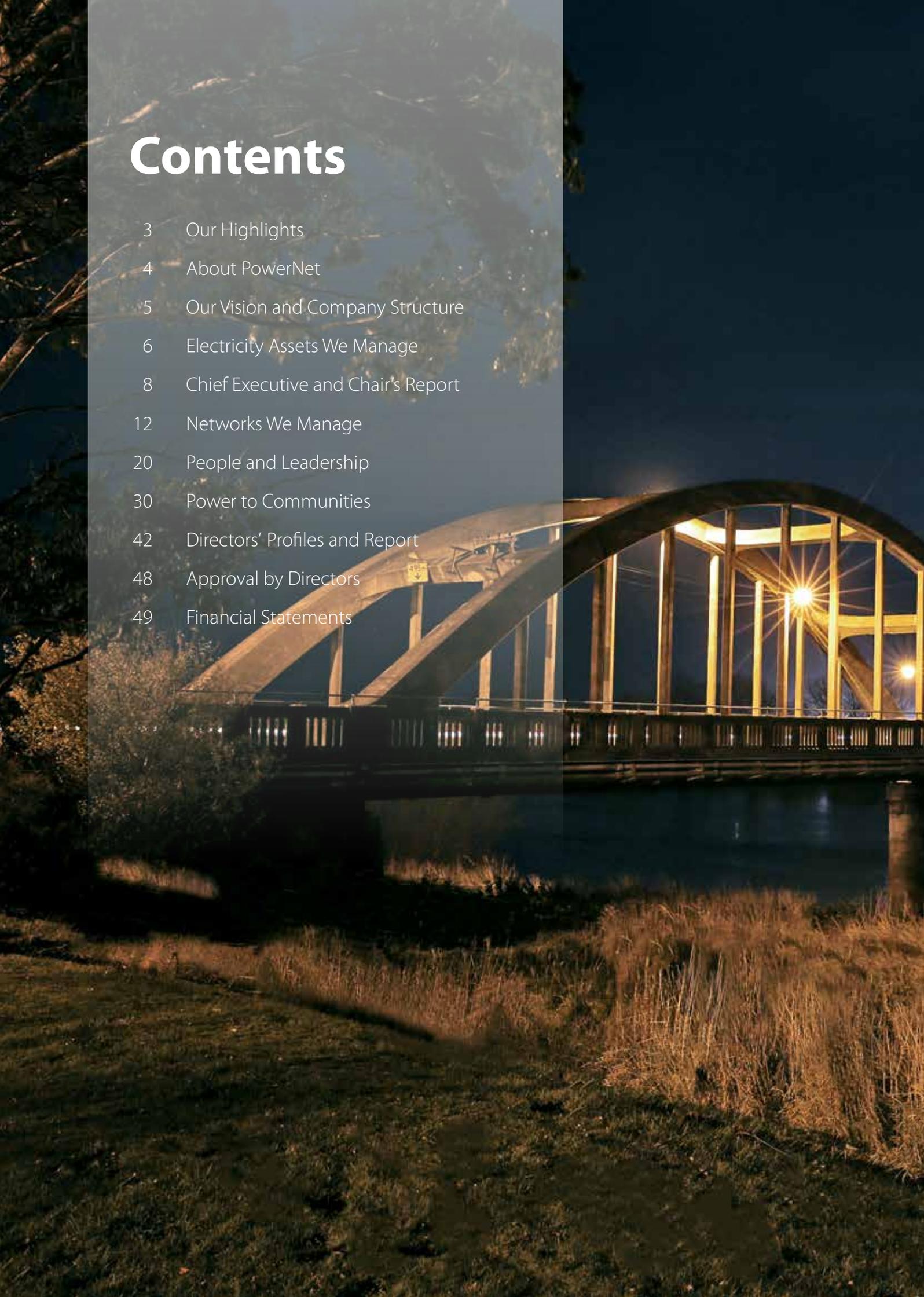


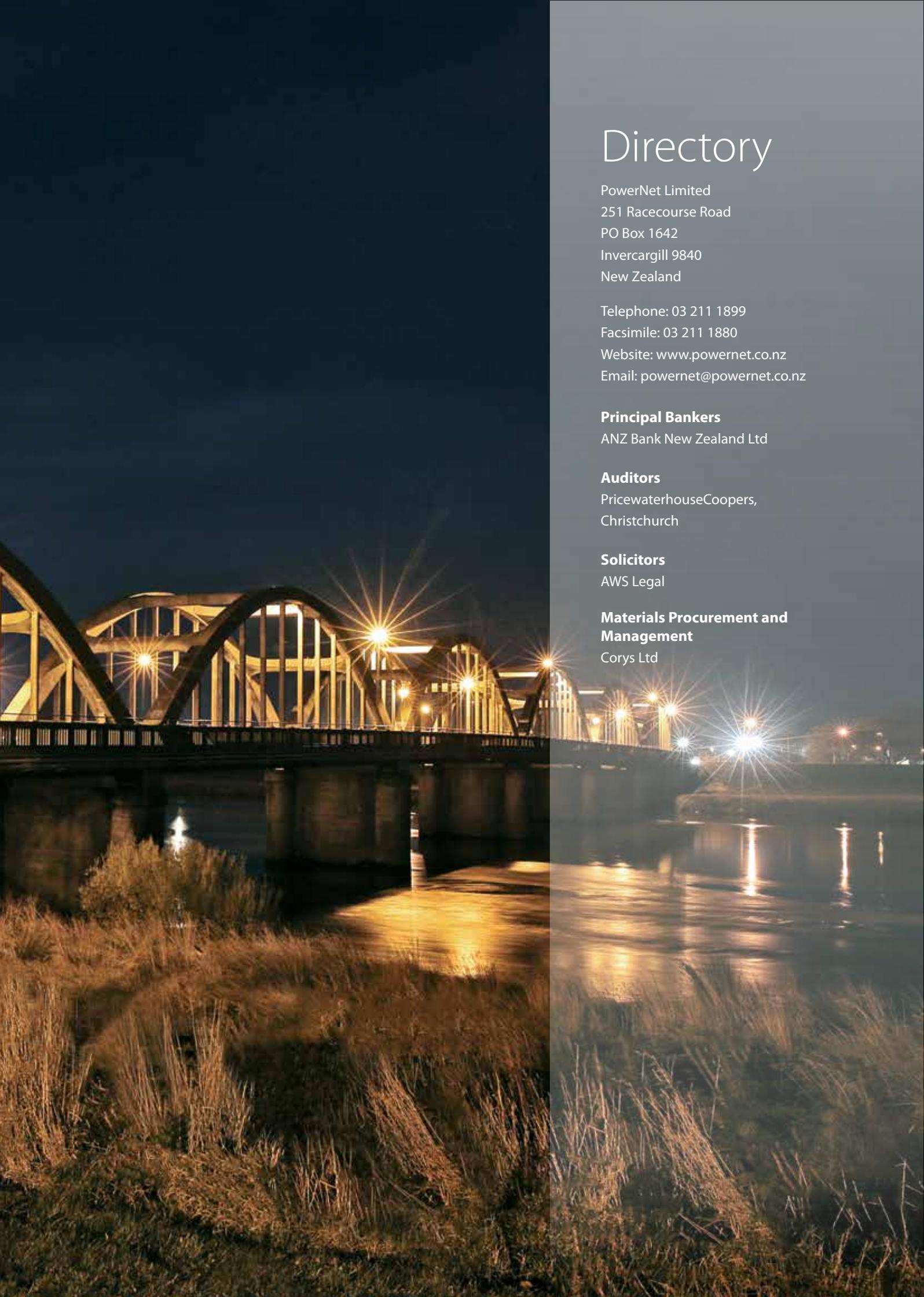
2020

ANNUAL REPORT

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Principal Bankers

ANZ Bank New Zealand Ltd

Auditors

PricewaterhouseCoopers,
Christchurch

Solicitors

AWS Legal

Materials Procurement and Management

Corys Ltd

In **2019-20**

Net Profit after tax
\$2.7 million

Capital Expenditure

\$52.3 million

\$26.6 million

Maintenance Expenditure

297

No. of Employees

Turnover
\$209.3 million

On behalf of our stakeholders **We Manage**

\$629 million

in Electricity Distribution Assets (Regulatory Value)

Transformers

16,050

Zone substations

74

Lines and cables
14,136 kms

Customers
71,756

Investments in wind and hydro-electricity

\$76 million

Renewable Generation Assets

46MW

Total Generation Capacity

Our Highlights...

- 1 Future-proofing Supply in the South**
Across the southern region, we've completed major asset upgrades and improvements that will future-proof the safety, reliability, and capacity of electricity supply to businesses and communities for decades to come.

Major Oreti Valley Project Completed

The significant \$27.3 million Oreti Valley Project was completed this year. It extends 66kV supply across central and northern Southland, delivering improved reliability and capacity that will support future growth.

- 3 Improving Workplace and Public Safety in Invercargill**
We've made major workplace and public safety improvements on the Electricity Invercargill Limited network. In this \$9.2 million project, 13 underground substations and 130 link boxes have been moved above ground.

Otago Consolidation

We are constructing a new, purpose-built depot at Balclutha, an operational centre for PowerNet's service delivery in South Otago. In Queenstown-Lakes, the PowerNet Queenstown team is now fully integrated into PowerNet, an important move to strengthen our presence in this high-growth area.

- 5 Emerging Technologies in Operation**
Our Smart Energy Home continues to provide us with useful data about a household's typical use of new energy. In a pilot for potential future new energy solutions, we've built the first off-the-grid power system with renewable solar generation on the The Power Company Limited network in Southland.

Supporting our Communities

Our sponsorship of St John is now in its sixth year. We're helping to keep our communities safe by supporting St John's work, training first aid responders and promoting safety messages. We co-sponsor the ASB St John in Schools programme in the southern region.

- 7 Supporting our Teams**
The health and wellbeing of our people is a top priority. After establishing the 'Feeling Great' programme in 2018-19, this year we've implemented a Psychological First Aid programme that offers support to team members and their families if needed.

National Success

Our people continue to do us proud. In 2019, we won the national EEA Workplace Safety award, the Leader of the Year award at the Safeguard Business Leaders Health and Safety Forum, and the Cable Jointer of the Year award at the national Connexis Annual Connection Excellence Awards. We were also finalists in the Deloitte Energy Awards and the Westpac Southland Business Excellence Awards. Great stuff!

- 9 Looking to the Future with Confidence**
We've reshaped our senior leadership team so that PowerNet is in the best position to meet future challenges and take advantage of the opportunities ahead as we build, maintain and manage electricity networks across the southern region.

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

What We Do

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



Our Vision

Safe | Efficient | Reliable
Power to Communities

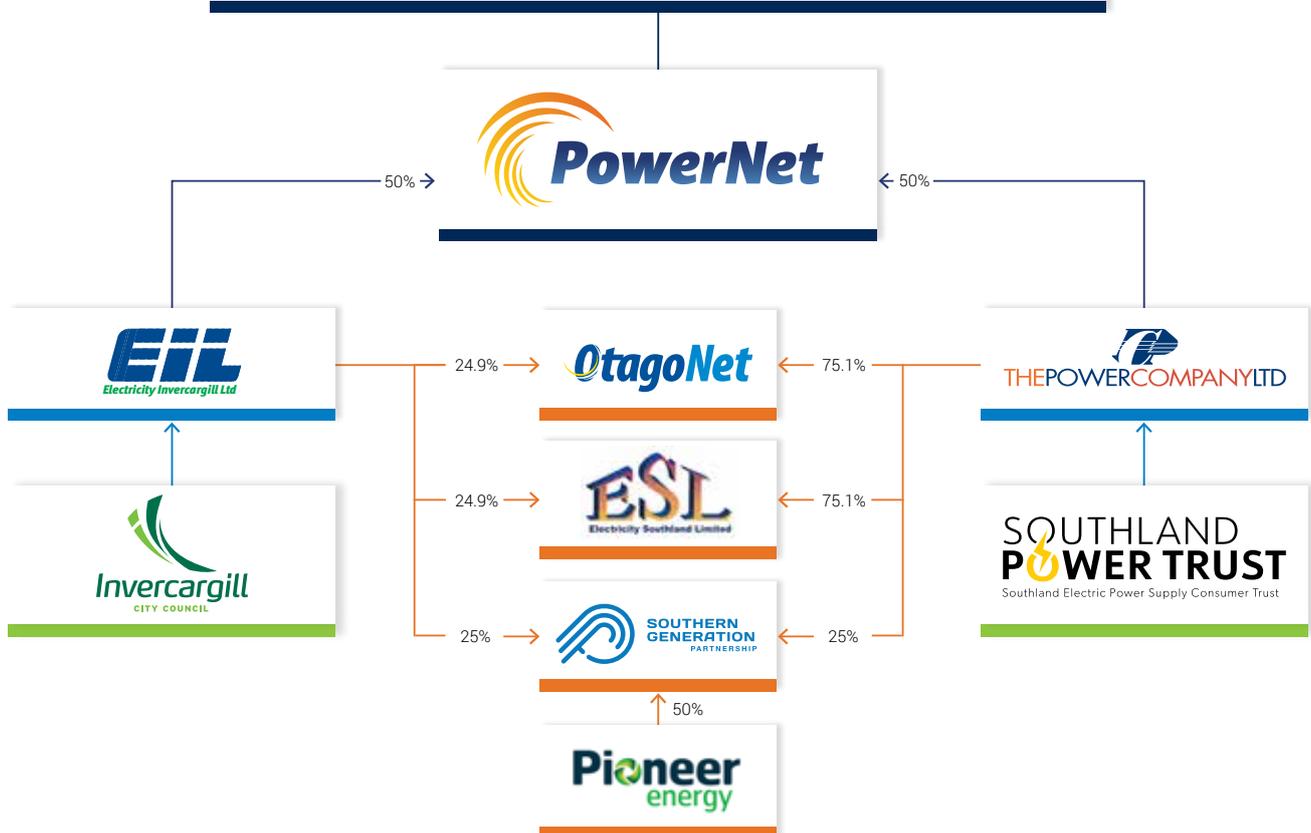
Critical Success Factors

- 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, Electricity Invercargill, OtagoNet Joint Venture and Electricity Southland.

The Power Company (TPCL)

TPCL has a proud history of innovation in the south. It owns electricity network assets across the Southland area, excluding Invercargill City and Bluff, and 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 (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 joint venture 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		OtagoNet Joint Venture
	Electricity Invercargill		Electricity Southland
	Stewart Island Electricity Supply Authority		

Chief Executive and Chair's Report



Jason Franklin
Chief Executive



Don Nicolson
PowerNet Chair

Reflecting on 2019-20, it has been a busy year of important milestones as we've completed significant, multi-year asset investments across the networks we manage.

These major infrastructure projects will bring tangible, positive benefits to communities and businesses across Southland and Otago now and for decades to come.

Future-Proofing for Growth

We finished the five-year, five-stage, Oreti Valley Project in September. This \$27.3 million project extends TPCL's 66kV electricity network to include Centre Bush, Dipton, Lumsden and Mossburn Zone substations, bringing improved reliability and capacity. It future-proofs supply to central and northern Southland communities and businesses, providing certainty for both customer growth and distributed generation capacity.

On EIL's network, we are close to concluding major improvements in workplace and public safety in the central business district. In a three-year, \$9.2 million project, 13 underground substations and 130 link boxes have been moved above ground, creating a much safer environment for the public and our work teams. This upgrade furnishes the inner city with modern electrical infrastructure to support future customer and business needs. One further substation is yet to be relocated as part of planned inner-city development work.



Celebrating the completion of the Oreti Valley Project. From left Doug Fraser, The Power Company Ltd chair, Roger Scott and Reece Stephenson, PowerNet, Peter Leith, Decom and Mark Zwies, PowerNet.

In Otago, through targeted investment, we made further improvements to network reliability on the OtagoNet network. This includes line and pole replacements and the construction of a new, purpose-built depot at Balclutha. This new facility anchors PowerNet's operations in South Otago and is an excellent base for service delivery.

We continue to invest in new residential and commercial developments in the high-growth Queenstown-Lakes and Wanaka areas, installing large-scale network infrastructure that services both commercial and residential developments.

In this area, PowerNet is represented by the PowerNet Queenstown team (formerly Peak Power Services). PowerNet Queenstown is now fully integrated with PowerNet, an important step in cementing our presence in this fast-growing region.

New Energy Solutions

PowerNet is exploring new energy solutions. The construction of an off-the-grid power system on Southland's south coast this year was a first for PowerNet within TPCL's network, and a good environmental and economic solution in such a remote location.

The project, which comprises renewable solar generation, energy storage and a back-up diesel generator, is a pilot for potential future off-grid power supplies on PowerNet-managed networks.

This year we've had a new family living in our Smart Energy Home, giving us the opportunity to gather a different set of data and to assess the impacts of other new energy technologies now emerging.

Through our successful business partnership programme, we continue to support southern businesses in introducing electric vehicles into their fleets.

Supporting our Teams

The successes and achievements of our company stem from the great work of our people and their dedication to health and safety.

Our commitment to workplace safety permeates our daily business. Leaders and teams are focused and dedicated to working safely and returning home each day unharmed. The development of a critical control framework—essentially the continued evolution of best practice workplace safety—is important in supporting safe practices. The framework aims to introduce workable, everyday processes that provide a real safety benefit.

We've been taking further steps to strengthen the wellbeing of our teams. Alongside our 'Feeling Great' programme established in 2019-20, this year we've introduced a further programme to foster health and wellbeing. This Psychological First Aid programme guides the provision of emotional and practical support to someone who has experienced a stress or mental health issue.

We're continuing PowerNet's Vision and Values workshops that introduces new team members to our culture and company goals, and the Leading with Courage Leadership programme designed for existing and emerging leaders. Both are important pillars in strengthening the knowledge and abilities of our people.

Community Contribution

Since 2014, our community partnership and sponsorship of St John has represented our commitment to the health and safety of our community. Our sponsorship supports St John to train first aid responders. We also co-sponsor the ASB St John in Schools programme in the southern region. The sponsorship includes donating four AED devices annually to communities across PowerNet managed networks. AED devices donated by PowerNet have saved lives.



Smart Energy Home tenants Hayden Arthur and Natalie Skeggs with Kavi Singh, PowerNet.





Michelle Henderson, formerly of PowerNet.

National Recognition

Our people have done us proud this year with their achievements on the national stage.

We won the EEA Workplace Safety Award for our innovative pole grab invention. This was the brainchild of training & assessment team leader Joe Reti, who identified a safety risk to field staff when working with a failing pole. This invention will be used in our business from 2020-21.

We were finalists in the 2019 Deloitte Energy Awards in the Network Initiative of the Year category for our project moving substations and link boxes above ground in the Invercargill CBD, and in a separate entry for the pole grab. We were also a finalist in the 2019 Westpac Southland Business Excellence Awards for the Construction, Trades, Manufacturing & Distribution Sector category.

Cable jointer Paul Barclay was named the 2019 Cable Jointer of the Year and won other category awards at the Connexis Annual Connection Excellence Awards.

Our former chief operating officer, Michelle Henderson, won the Safeguard Business Leaders Health and Safety Forum – Leader of the Year Award at the NZ Workplace Health and Safety Awards for the innovative ‘Coaching by Kilometre’ programme.

These are all fantastic achievements that show our teams’ commitment to delivering their best, and our company’s dedication to continuous improvement and innovation.

Leadership Changes

We’ve refreshed our senior leadership team this year. Justin Peterson has been appointed chief operating officer—he has an excellent understanding of the business, having held several key positions at PowerNet.

Justin takes over from Michelle Henderson who left PowerNet in October 2019. We thank Michelle for her strong leadership, her commitment to workplace safety and for her legacy. We also farewell GM people, culture and communications, Marcus Waters, and thank him for his contribution.

We welcomed new senior leaders: GM people, culture and communications, David Stevens, and GM business and customer growth, Kewal Bagal. Both bring extensive experience and a strong skillset to PowerNet.

At board level we’ve farewellled director Locky McGregor. We thank him for his contribution. We also welcome Peter Moynihan who was appointed to the PowerNet board during the year.



Joe Reti (third from the right) with the PowerNet HSE team.

To conclude, 2019-20 has been a productive year of investment and growth as PowerNet has brought major projects to fruition across Southland and Otago, and continued to strengthen the expertise and capabilities of our people.

Although we end the year in somewhat uncertain times, our endeavours over the past year mean we are well positioned for future growth, and to continue delivering on our commitment to supply safe, efficient, and reliable power to communities and businesses throughout southern New Zealand.

We extend our thanks to our PowerNet teams and board members who have all worked hard this year to achieve great things. Your commitment, enthusiasm, professionalism and teamwork are at the heart of our successes.

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 TPCL, EIL, 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—TPCL, EIL, OJV and ESL—have a combined Regulatory Value in electricity distribution assets of \$629 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

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

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







Centre Bush Zone substation.

36,436

CONNECTED CUSTOMERS

8,839 km

Network LENGTH

CONSUMER DENSITY **4.1**
consumers/km

11,218

distribution transformers



In 2019-20, 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 \$26.3 million with a further \$11.8 million spent on maintenance.

The most significant milestones on TPCL's network this year have been the completion of the Oreti Valley Project and the extension of TPCL's network to supply the new Mataura Valley Milk dairy nutrition plant at McNab near Gore. TPCL also began a major project to upgrade the supply capacity for the Open Country Dairy Plant's new electrode boiler and plant expansion.

Oreti Valley Project

The five-year, \$27.3 million Oreti Valley Project to upgrade and expand TPCL's 66kV network across western, central and northern Southland was completed in September 2019. This extensive upgrade increases network capability, reliability and supply, and future-proofs the area's electricity supply for potential growth. It strengthens the 66kV network to include Centre Bush, Dipton, Lumsden and Mossburn Zone substations.

Mataura Valley Milk

Construction of a new zone substation, as part of the \$6.5 million project to supply electricity to the Mataura Valley Milk dairy nutrition plant, was completed in August 2019. Situated near the plant, the new substation caters for future increased supply requirements. Power has been supplied to the site since August 2018, with an initial electrical capacity of 4MVA supplied from the South Gore Zone substation.



McNab Zone substation.

New Substation at Open Country Dairy

Design and construction of a new 33kV and 11kV supply from the Colyer Rd Zone substation to a new substation at Open Country Dairy has begun as part of the \$4.6 million project to supply electricity to the Open Country Dairy nutrition plant and boiler. Power is expected to be available to the site in August 2020, with an electrical capacity of 13MVA supplied from the Colyer Rd Zone substation.

Kennington Alternative 33kV Line Installation Project

The installation of a second 33kV line to Kennington Zone substation began in 2019 and is expected to be completed in 2020. This will provide customers with a more resilient and reliable electricity supply.

Neutral Earthing Resistor Installations

This year the Neutral Earthing Resistor (NER) installation project has been completed, with the last three NERs installed at substations on the TPCL network. NERs limit earth fault currents on the 11kV network, improving network safety for the public by reducing earth potential rise in earth fault conditions.

Customer Connections and Asset Replacements

TPCL invested \$2.2 million in new customer connections in 2019-20, an increase from the 2018-19 year.

In total, \$8.1 million was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a reliable and safe network.

PowerNet Lumsden Depot

Our Lumsden-based team moved into their new depot building in January 2020. The fit-for-purpose depot building includes a five-bay workshop, administration area, cafeteria and facilities. Site works are well underway and will be completed in 2020-21.



PowerNet's new Lumsden depot.

The Power Company Projects

Project	Approximate Expenditure
Line and pole replacements	\$8,158,000
New customer connections and subdivisions	\$2,239,000
Neutral earthing resistor installations	\$1,369,000
Kennington alternative 33kV line installation project	\$1,131,000
Completion of Oreti Valley Project - Centre Bush to Mossburn line	\$1,027,000

17,406
CONNECTED CUSTOMERS

658 km
Network LENGTH

CONSUMER DENSITY **26.4**
consumers/km

441
distribution transformers



Projects that enhance network reliability and safety are at the heart of work on the EIL network. The total capital investment in 2019-20 was \$4.7 million, with a further \$2.2 million 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 Zone 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 and provide a more resilient supply.

The upgrade includes already-completed work to the switch room building, including installing additional steel supports. The existing outdoor 33kV bus work and structures are being replaced with indoor 33kV switchgear. Old 11kV switchgear will also be replaced and a second 11.5/23MVA transformer from the former Doon St Zone substation installed. Construction work began in mid-2019 and the project is planned for completion in 2021.

Underground Substations and Link Boxes

Improving network safety is at the heart of two major EIL projects completed in mid-2019 —relocating Invercargill's aged, underground link boxes and substations above ground. These upgrades are creating a much safer working environment for staff and represent a major step forward in establishing the modern infrastructure needed for any new inner-city developments.

Relocating 130, 400V underground link boxes in Invercargill's CBD has been a significant undertaking carried out over three years, working around the safety and electricity needs of local businesses and the community.

Invercargill's 13 substations house 11kV switchgear, distribution transformers and low voltage distribution boards.

Customer Connections and Asset Replacements

New customer connections to the EIL network totalled \$510,000. This was significantly above the long-term average. This elevated level of customer connection activity will be sustained by development in the Invercargill CBD.

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 secure continuing supply in the event of a major earthquake. Work continues to strengthen distribution substations on the network.



Vikas Sharma, PowerNet.

Electricity Invercargill Projects

Project	Approximate Expenditure
Southern Zone substation upgrades	\$2,274,000
New customer connections and subdivisions	\$510,000
Underground substation replacements	\$402,000
Distribution transformer replacements	\$382,000
Ring main unit replacements	\$296,000
11kV cable replacements	\$204,000

OtagoNet

In 2019-20, \$16.5 million was invested in capital on the OJV network (including the ESL network) and another \$5.7 million on maintenance.

Clydevale Upgrades

The scope of this project includes replacement of the end-of-life 33kV line, and automated switching to restore supply to Clydevale and Clinton in response to a fault tripping off the in-service line. This project will deliver improved reliability for customers.

Customer Connections and Asset Replacements

In 2019-20, \$5.6 million was invested in new customer connections across the OJV network. A total of \$6.2 million was also invested in line and pole replacements to secure 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. There were three NERs installed at zone substations this year.

New Purpose-Built Depot at Balclutha

Construction of a new purpose-built PowerNet depot in Charlotte Street, Balclutha, began in 2019 and is scheduled for completion in late 2020.

The new building will provide an improved work environment with modern office spaces, and better vehicle and workshop safety for around 55 staff. The operational space will be more functional and provide an excellent base for service delivery.

In Stage 2 of the project a new warehouse and retail space for Corys Electrical Ltd (PowerNet's contracted electrical supplier) is to be constructed.

OtagoNet Projects

Project	Approximate Expenditure
Line and pole replacements	\$6,239,000
New customer connections	\$5,602,000
Clydevale 33kV ring rebuild and protection	\$1,248,000
Substation NERs and 33kV transformer circuit breakers	\$793,000
Ranfurly ripple plant upgrade	\$598,000
Halfway Bush substation (Transpower) to Palmerston Zone substation - Circuit 2 110/33kV conversion	\$212,000

15,193
CONNECTED CUSTOMERS

4,511 km
Network LENGTH

CONSUMER DENSITY **3.4**
consumers/km

4,275
distribution transformers



PowerNet's new Balclutha depot under construction.



Northlake subdivision.



Formed in 1995, the ESL network in Central Otago is owned by shareholders TPCL and EIL. It continues to grow rapidly and has now reached a milestone of 2,000 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 Hanley's Farm subdivision. At Hanley's Farm, Stage 6 (195 lots) is completed and Stage 5 (382 lots) is under construction. PowerNet's specialist cable pulling winch has been used extensively in installation work in this subdivision. High voltage network planning has also been critical to allow for future expansion into further stages and new subdivisions. Installation work continues at Shotover Country, Remarkables Park and the Queenstown Country Club. The construction of the new Southern Cross hospital is set to start mid-2020.

2,294
CONNECTED
CUSTOMERS

Network
LENGTH
103 km

CONSUMER
DENSITY
22.4
consumers/km

72
distribution
transformers

This large scale subdivision work has provided new opportunities for PowerNet's cable jointing staff from Invercargill and Balclutha to acquire new skills, learning techniques necessary for working on larger sites, and working with our local Queenstown cable jointers and health and safety trainers.

An 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 represented by the PowerNet Queenstown team, which fully integrated with PowerNet on 1 April 2020.

PowerNet's Queenstown team has worked closely with the wider Southland and Otago PowerNet teams over recent years. The team provides network design services, capital construction works, and a maintenance and faults service for the ESL network in Queenstown and Wanaka.



PowerNet's Stewart Island depot.



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.

427
CONNECTED
CONSUMERS

CONSUMER
DENSITY
17.1
consumers/km

Network
LENGTH
25 km

44
distribution
transformers

Electricity Sector and Government

This year the work of the Electricity Networks Association continued through a number of working groups. These groups included the Vegetation Management Working Group attended by PowerNet's arborist manager, the Distribution Pricing Working Group attended by our commercial manager, and the Regulatory Working Group attended by our chief financial officer. The groups actively provide industry direction in areas that include two regulators, the Commerce Commission and the Electricity Authority. Issues include tree regulations, the April 2020 price reset, line-pricing methodologies, transmission pricing issues and low fixed charge regulations.

People and Leadership

People are our greatest asset. PowerNet's 297 staff are committed to delivering a safe, efficient and reliable electricity supply to Southland and Otago homes and businesses 24/7.

Our People

Our goal is to recruit the best people, whether they are experienced veterans or new apprentices starting their careers. We want job seekers to know about the great career opportunities PowerNet offers and the fantastic lifestyle choices available in the regions we operate in. This year we continue to build our recruitment brand by advertising in diverse channels, including both print and online mediums, and by sustaining our social media activity.

This year we have changed our human resources service model introducing new 'HR Partner' roles. HR partners are assigned to different PowerNet departments and partner with their customers through all aspects of HR service delivery. Already this change is paying dividends with more timely HR service delivery, including our recruitment process and in our communications with potential job seekers.

Developing a diverse workforce is important to us. Women make up approximately 18% of our workforce and we have a strong focus on increasing the number of women in our traditionally male-dominated industry.

Since 2016, PowerNet has been a strong supporter of the Girls with Hi Vis initiative. Females account for only 6% of employees in the infrastructure industry in New Zealand, so this event allows businesses like PowerNet to showcase their industry to female school students. Every year PowerNet invites around 25 female school students from Southland high schools to spend a day learning about our industry and participating in practical work. The participants also have the opportunity to learn about career opportunities in PowerNet's wider electricity distribution business. This initiative is a key part of our strategy to increase women's participation in our field-based roles. Over the past three years, PowerNet has offered three apprenticeships to students who have attended this event.

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



A Girls with Hi Vis participant with Tony Clarke, PowerNet.

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 and reliable power to our communities. In 2019, we reintroduced PowerNet's Vision and Values workshops. These workshops are organised for new employees and explain PowerNet's purpose, vision and critical success factors. They also provide an opportunity for new employees to meet our senior leadership team.

We continue to work with leaders to equip them with the leadership tools and skills to build an engaging and positive workplace culture. In 2019, we reintroduced the Leading with Courage Leadership programme which had previously been put on hold. Twelve PowerNet leaders participated in the programme which covers leadership theory and application over five, two-day workshops.

We recruited five apprentices in 2019-20. These apprentices have embarked on structured training programmes and typically take four years to become qualified electrical workers.

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.

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 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'.



Trainee line mechanics.



Graduates from the Psychological First Aid course.

In 2019, PowerNet aligned its common competency framework to the common competencies and requirements of the electricity distribution sector. The framework was developed by the Electricity Network Association as part of its Health and Safety Strategy 2017-2022.

This framework is actively used in our health, safety and environment teams to align operational competencies with those of our electricity distribution partners.

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

PowerNet's Health and Wellbeing programme continues to provide health-focused events, education, employee support and volunteer opportunities. An employee survey sought feedback on the programme to ensure that it is meeting staff needs. An annual calendar of events places a priority on supporting the mental, physical and social wellbeing of our staff.

Part of the Health and Wellbeing programme promotes a healthy lifestyle outside of work. A wellbeing subsidy contribution to support membership, participation or equipment costs for staff to pursue personal activities and interests, has been positively received.

Our Psychological First Aid initiative is run in conjunction with our Employee Assistance programme which offers free, confidential, professional support to employees and their families.

In 2019, in-house influenza vaccines were provided to staff and will be offered to all staff in the future.



Paul Kiesanowski, PowerNet director and Jason Franklin, PowerNet chief executive.

Enhancing Business Processes

In 2019-20, we 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.

FYSH – Find Your Stuff Here

PowerNet’s Quality Management System has been overhauled this year and is now called FYSH or Find Your Stuff Here. FYSH sets the foundation for PowerNet’s policies, procedures, instructions and processes.



FYSH has strict document control principles in place and all office-based staff have been trained in FYSH processes, principles and tools. Document templates have been created to ensure consistency of records and communications.

The Quality documents in FYSH have direct links to the processes mapped in 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.

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 allows team members to take leave, knowing that critical duties and processes can be completed while they are away.

PowerNet Connect - Customer Database Software

Local software solutions company Digital Stock was engaged to develop PowerNet Connect, our new Installation Connection Point (ICP) management and billing application. This has been a collaborative project with involvement from internal stakeholders and the current provider, ACE Computer Consultants.

PowerNet Connect is a modern web-based application with innovative search functionality, integrated faults (create, dispatch and resolve) plus a storm mode feature that is utilised when the storm gallery is activated. PowerNet Connect is fully integrated with the Electricity Authority Registry.



Trainee line mechanics.

Workplace Health and Safety Initiatives

Workplace health and safety continues to be 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 and environment team is the foundation for initiatives in safety leadership, training and competency.

Health and Safety System Implementation

Our health and safety environment risk management system is well-embedded in our business activities. The 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 public and workplace incidents. This system also identifies actions to ensure they are resolved to prevent future harm.

Workplace Training and Assessment

PowerNet has implemented a new third-party induction and assessment process to better support safe access to the PowerNet network. In addition to this, all identified high-risk training is now supported with reassessment modules and an improved back-end training system.

New field employees, from qualified staff to trainees, are supported by leaders and our assessment team to achieve compulsory industry training and to progress personal development.

As a way of supporting their careers, PowerNet assesses the practical skills of newly qualified and apprentice line mechanics.

Line mechanic apprentices now complete 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 two field trainers, a training coordinator and a training & assessment team leader.

Managing Critical Risks

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 the effective controls needed to keep themselves and members of the public safe.

Working with Risk Mentor Pty Ltd, subject matter experts from our operational and health and safety teams reviewed the failure modes and current controls used in our work and considered how to monitor and verify that these controls were effective. Our field teams then verified that all failure modes and controls had been identified.

This work has been the basis for the development of a mobile device app used by team leaders to make sure that the correct controls are in place for each stage of the work they do. The app leads the user through the elements of typical workflows, identifying and recording the required critical controls used to manage risks at each stage. This app also provides seamless access to other PowerNet systems and reference material. Several teams are already using the app with full roll-out planned for 2020-21.

Safety Representatives

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

During 2019-20, PowerNet’s health, safety and environment (HSE) committee continued to meet regularly and provide guidance and assurance that PowerNet is meeting legislative and regulatory obligations.

Refreshed health and safety committees have 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 continues to be developed in conjunction with PowerNet’s HSE manager and the EEA. Over the past 18 months, PowerNet has positioned itself to reintroduce live-line work. A robust process for approval to undertake live work for up to 11kVA has been developed and live work refresher training has begun. PowerNet has 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 field teams and contractors are completing work as specified and to a high safety standard. All information from filed 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)

CNOG’s aim is to standardise operating processes to improve safety and operational efficiency and to support high-quality customer service. Comprising representatives from South Island electricity lines companies, the group meets quarterly, shares information and works collaboratively through online discussions and queries.

The web-based single point of contact for transport operators moving high loads throughout the South Island, introduced by the group last year, has been a notable success. This single point of contact approach is being extended to manage authorisations to operate machinery near network lines and cables. CNOG liaises closely with the EEA on reviews of guides and has also been active in consulting with electricity retailers to establish common terminology around disconnection and isolation of customers’ installations.

In other projects, the group is seeking to establish common processes for assessing competencies based on the Common Competency Framework and is investigating a common approach to reducing inadvertent contact with overhead lines.

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 Arborists Association
- New Zealand Control Systems Security Information Exchange (CSSIE)



Shared
Vision



Our
People



Our
Greatest
Asset



Staff
Success



Safe
Efficient
Reliable



Staff Successes

A haul of awards for an experienced team member and valuable experience for new competitors were the highlights of the 2019 Connexis Annual Connection Competition in Hastings. Invercargill's Paul Barclay was the individual star of the team, winning the 2019 Cable Jointer of the Year, as well as picking up the awards for HV joint, HV outdoor termination, pit rescue and spiking gun (second year in a row).

Paul was joined by his Queenstown-based colleague Ronnan do Nascimento, while the line mechanic team comprised Mase Salese (Invercargill), Lyndon Whale (Balclutha), Daniel Marshall (Balclutha), Metua Marama (Invercargill) and Matthew Barton (Balclutha).

PowerNet won the EEA Workplace Safety Award for the innovative pole grab invention. Training & assessment team leader Joe Reti developed the concept after identifying a safety risk to field staff working with a failing pole.

Three of our Balclutha team received their industry awards at the 2019 Clutha District Training and Development Awards. Tyler Brouwer and Matt Barton were both awarded Electricity Supply (line mechanic distribution) Level 4 certificates. Matthew Olsen received his National Certificate in Utility Arboriculture Level 3.

Mark Way (arborist services manager) and Lyndon Whale (Balclutha depot supervisor) also attended the awards ceremony.

Five Southland PowerNet graduates celebrated their qualification successes at the 2019 Southland TradeQual dinner in Invercargill.

Paul Ashby and Leighton Bagrie celebrated achieving their New Zealand Certificate Electricity Supply (line mechanic distribution) Level 4. Mark Frew and Mase Salese were acknowledged for achieving their New Zealand Certificate Electricity Supply (Field Switching) Level 3. Phil Johnson was acknowledged for gaining his New Zealand Certificate Occupational Health & Safety (Co-ordination) L4. PowerNet team leaders Travis Bastiaansen and Jack Wadworth attended the awards, together with chief operating officer, Justin Peterson.



2019 TradeQual Awards.



Clutha District Training and Development Awards.

Paul Barclay, PowerNet.



Ronnan do Nascimento, PowerNet.



PowerNet Connexis line mechanic team.



Our Executives

Jason Franklin
Chief Executive



Anton Booyzen
GM Asset Management



Justin Peterson
Chief Operating Officer



Kavi Singh
GM New Energy Development
and Strategy



Rangi Solomon
GM Health, Safety and
Environment



Greg Buzzard
Chief Financial Officer



David Stevens
GM People, Culture and
Communication



Rachael Watt
GM Business Support
and Improvement



Kewal Bagal
GM Business and Customer
Growth



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.

PowerNet has an ongoing investment in vegetation management across the networks. The 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.

The 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 again had a presence at the three-day Southern Field Days event held at Waimumu in February. Team members enjoyed engaging with the community, including sharing public safety messages such as how to stay safe around fallen electricity lines.

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 annual compliance audit of our SMS in February 2020 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. PowerNet's safety communication group continues to focus on promoting safety in our community. This includes displaying branded public safety messages on our vehicles and working in collaboration with Southland Farm Machinery and major southern insurer, FMG, to promote our safety messages in rural communities.







Photo supplied by Stuff.

Justin Petterson, PowerNet, right, loading sandbags into a tractor front-end loader during the floods in Gore (partly obscured from left Scott Fillbrook, Cole Birse and Mitchell Bone, PowerNet).

Operational Challenges

In 2019-20, PowerNet teams rose to the challenge of managing unexpected events that could have significantly interrupted customers' power supplies. These events demonstrated a strong internal culture where we help each other out in situations that could impact on our service to businesses and communities, or on the wellbeing of our own people.

On New Year's Eve 2019 a tree fell onto a section of TPCL's Hillside-Mosburn 66kV circuit, snapping multiple poles on two 18.5m pole structures with electricity lines stretching over 200m. The incident had the potential to cause a significant power loss in Te Anau, at a time when many holidaymakers were in town. PowerNet teams were able to quickly intervene with plans for a back-up generator and to organise temporary repairs. The fault was repaired by a contractor within the week.

In late January 2020, PowerNet teams had to mount a significant response to a storm that lasted several days in Southland and Otago. Excellent team support saw us through this event, with wider PowerNet teams supporting operational teams as we responded to an extremely high number of faults calls.

Another storm occurred almost a week later causing widespread flooding and a Civil Defence emergency. PowerNet triggered a business continuity plan to ensure the safety of our teams and to inspect and isolate assets that could be affected.

Customer Satisfaction

This year PowerNet surveyed 1,203 customers across the TPCL, EIL and OJV networks, to assess areas of our business that include safety, efficiency and outage management. This year is also the first year we surveyed 270 customers from our Lakeland Network (LLN) in Queenstown-Lakes and Wanaka.

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. We also surveyed our customers' awareness and thoughts on new and emerging technologies.

Across all of the four networks PowerNet manages, knowledge of who PowerNet is remained similar to previous years at 88% for TPCL, 89% for EIL and 79% for OJV. Our newer LLN network had a strong awareness level of 52%. PowerNet expects this to increase with the successful integration of PowerNet Queenstown with PowerNet.

There was a 1% increase in overall familiarity with PowerNet's faults response number when compared with 2018-19. In 2019-20, 89% of customers surveyed were satisfied with the level of reliability of power supplied. PowerNet is highly regarded as caring for its customers and being safety conscious.

We also surveyed our customers on evolving technologies. More than 90% of customers are aware of electric vehicles and 82% are aware of solar panels, an increase of 2% compared to previous years. This year 9% of customers surveyed were aware of home energy management systems compared to the previous year. In total, 77% of PowerNet customers were interested in new energy technologies, which is in line with PowerNet's strategy to promote and incentivise the use of new energy technologies in our network. For customers with solar panels installed on their rooftop, more than 70% had experienced some benefit such as lowered overall electricity bills. This is also true for customers who own an electric vehicle. A high percentage of customers said that environmental reasons would prompt them to adopt these technologies.

Asset Management Plans

Asset management plans—which outline planned capital and maintenance expenditure on the TPCL, EIL, and OJV networks—have been updated for the 2020-2030 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.

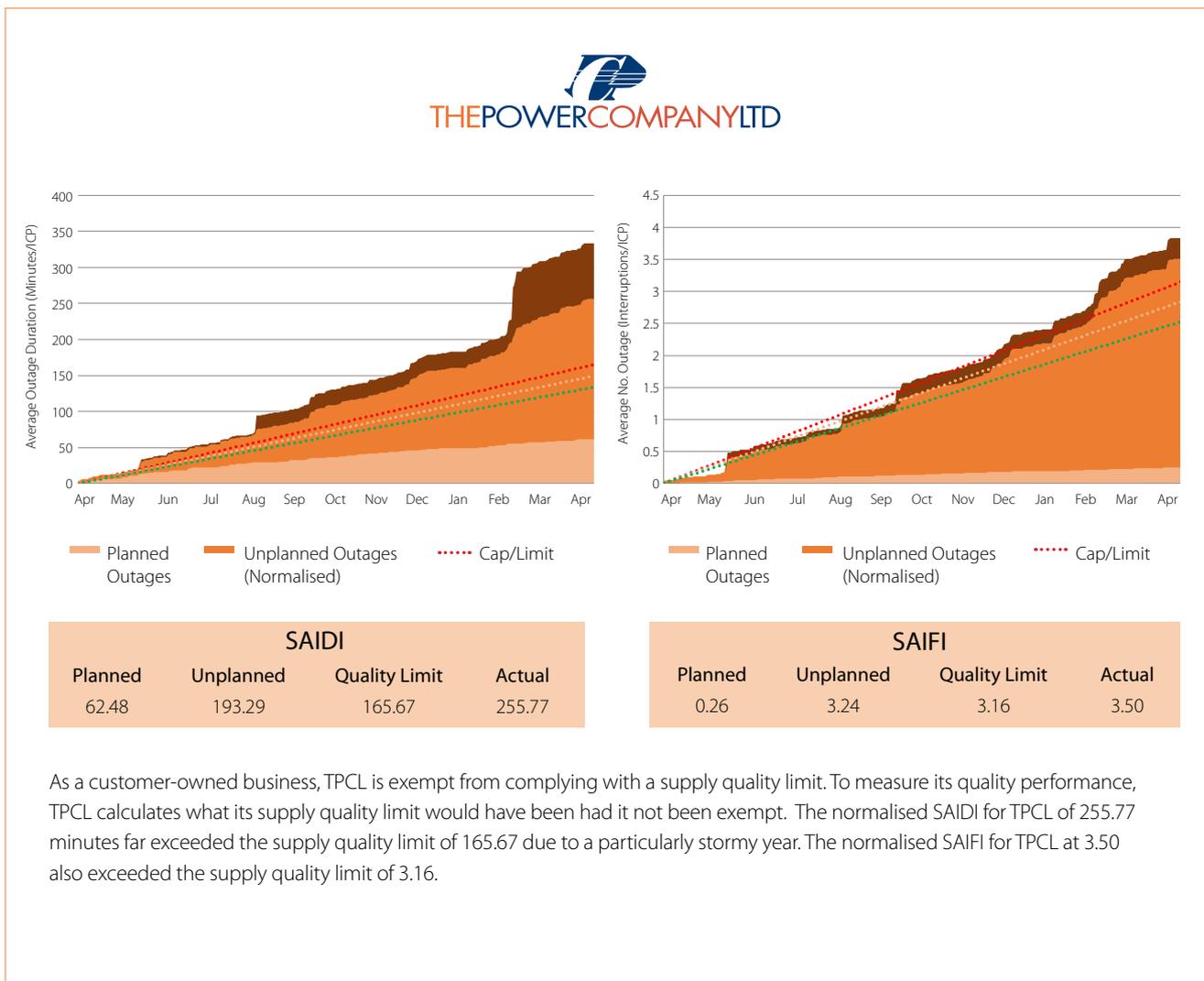
Considerations include drivers such as cost, equipment and life cycle, as well as regulatory requirements, demographic changes, environmental impact and required service levels. The plans can be viewed on our website: www.powernet.co.nz.

SAIDI and SAIFI

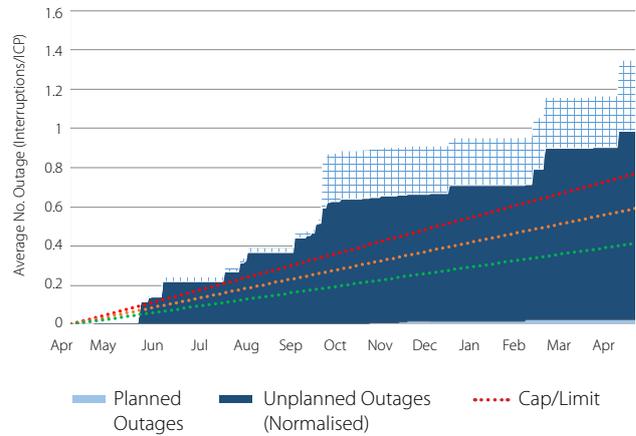
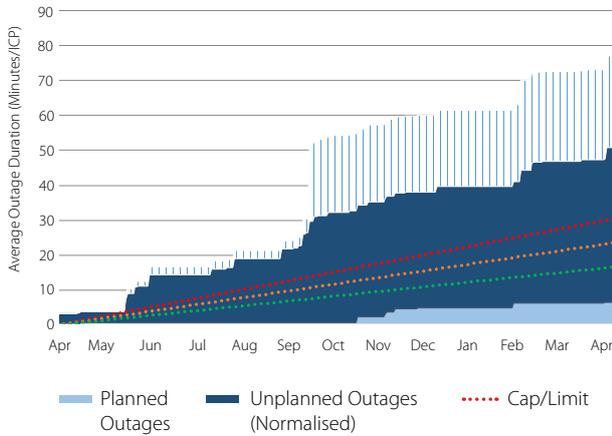
There are two reliability indexes that are commonly used by electricity management companies. They are SAIDI (the system average interruption duration index) and SAIFI (system average interruption frequency index).

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.



As a customer-owned business, TPCL is exempt from complying with a supply quality limit. To measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt. The normalised SAIDI for TPCL of 255.77 minutes far exceeded the supply quality limit of 165.67 due to a particularly stormy year. The normalised SAIFI for TPCL at 3.50 also exceeded the supply quality limit of 3.16.

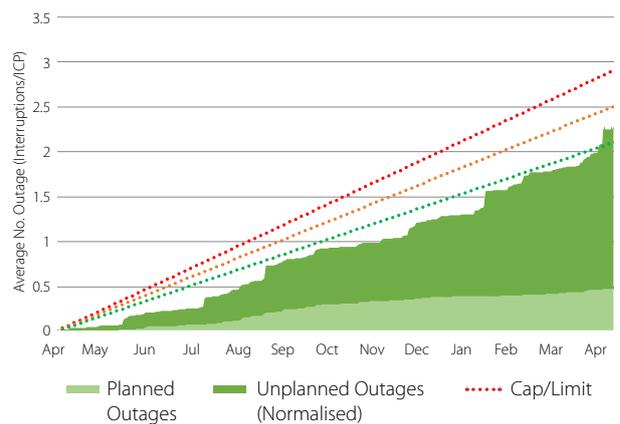
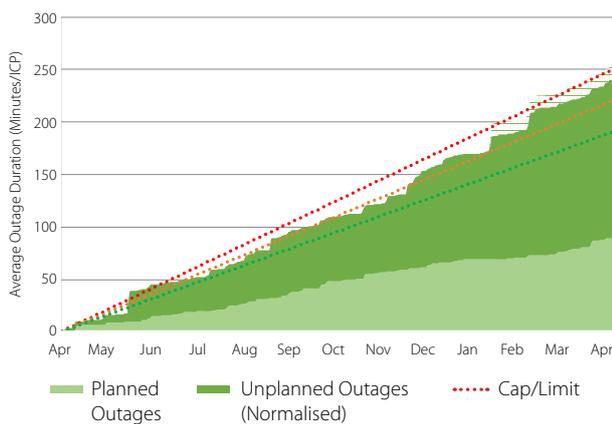


SAIDI			
Planned	Unplanned	Quality Limit	Actual
6.58	42.65	31.13	49.23

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.02	0.96	0.77	0.98

EIL's normalised SAIDI of 49.23 minutes exceeded the supply quality limit of 31.13 minutes. The company's normalised SAIFI at 0.98 was also over the supply quality limit of 0.77. The number of cable faults was much higher than would be expected in any given year. The location and difficulty of finding those faults meant that the number of customers and areas affected were greater than normal. Faults included a single zone substation trip and a series of cable faults in Invercargill.

Continued asset renewal and maintenance will ensure delivery of quality supply.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
90.33	152.37	254.92	242.70

SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.48	1.78	2.93	2.26

The network had a normalised SAIDI of 242.70, which was under the supply quality limit of 254.92, and OJV's normalised SAIFI of 2.26 was closely managed to ensure it remained under the supply quality limit of 2.93. Several projects have been completed to improve network reliability and reduce the impact of unplanned outages in the future.

Partnering St John

With far-reaching benefits for southern communities, PowerNet's support for St John's work is now into its sixth year.

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. Other benefits delivered through the programme include support for the ASB St John in Schools programme and donations of AEDs to southern communities.

In August 2019, PowerNet received St John's Priority Vote of Thanks in acknowledgement of the company's six-year relationship with St John in Southland. This is one of St John's highest honours for organisations that show exceptional support for St John's work.

Over the past six years, PowerNet's financial sponsorship of St John has totalled \$600,000.

Since the sponsorship started in 2014, it has funded 71 public first aid courses throughout Southland and Otago, including rental support for the St John Training Centre in Invercargill, which holds 18-20 courses every month. The partnership has enabled St John to train 1,139 people in life saving, first aid skills.

It has funded 16 publicly accessible AEDs (automated external defibrillators) installed around the southern region, and supported training in CPR and AED use at these locations.



St John Priority Vote of Thanks presented to PowerNet.



MW Compliance Solutions team with PowerNet chief executive, Jason Franklin and Invercargill Mayor Sir Tim Shadbolt KNZMJP.

Since 2014, 40,835 school students have become lifesavers through 453 sessions of the ASB St John in Schools programme at preschool, primary and intermediate schools (nearly 20% of all students in the southern region). This year in Southland, four students were awarded a St John Super Saver Bravery award for confidently helping an injured elderly woman and a little boy who was choking.

Westpac Southland Business Excellence Awards

PowerNet continued its sponsorship of the New and Emerging Business Award in the Westpac Business Excellence Awards. CE Jason Franklin presented the winner, MW Compliance Solutions, with its trophy at the awards ceremony in September 2019.

Other Community Activities

Waihopai Corpor8 Rowing Challenge

A large crew of 12 enthusiastic PowerNet staff, including a host of new staff members, participated in the annual Corpor8 Rowing Challenge on the Oreti River in November 2019. The team was ably coached under the direction of Dougal McDonald who has been onboard for the past eight years.

After placing second in the heat, the crew went straight through to the semi-final, gaining third place. They won the 'C' final to finish ninth overall. With a great team spirit and a satisfying result, it was a very enjoyable experience for all.

Supporting Skills Growth

Supporting the development of new skills and talent in the engineering industry is another way 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, sponsoring the Most Improved Student Award in the electrical pre-trade course.

Tour of Southland

The PowerNet-sponsored cycling team achieved excellent results again in the 2019 SBS Tour of Southland.

The team comprised Paul Odlin, Alex Heaney, Ollie Jones, Andrew King, Antonie van Noppen and Hamish Schreurs.

PowerNet riders claimed three of the top four positions at the completion of the final stage. Alex Heaney was 2nd, Hamish Schreurs 3rd and Antonie van Noppen 4th. PowerNet won the Wensley's Cycles Team Classification. Antonie van Noppen clinched the Henderson Construction Under 23 title on the final stage and Ollie Jones won the King of the Mountain classification.

Sponsored by PowerNet, Pure Nutrition and Tineli, the team was managed by Aaron Sinclair with support from PowerNet staff and their families throughout the tour week.

Commercial Customer Hosting

Hosting our commercial customers at key events is a great opportunity for us to connect with them. In May 2019, we hosted commercial customers at a Central Otago hospice fundraiser with our joint venture partner, Pioneer Energy Ltd. In August 2019, we hosted commercial customers at the Westpac Southland Business Excellence Awards. In November, we celebrated completing the Oreti Valley Project, with a function for staff and contractors who worked on the project, and for commercial customers along the Oreti Valley route.



The PowerNet Corpor8 Rowing team.



The PowerNet SBS Tour of Southland team.



Smart Energy Home tenants Hayden Arthur and Natalie Skeggs.

New Energy Development

Globally over the past decade, there has been an increase in initiatives to lower carbon emissions. This has led to a rapid rise in the development of new energy technologies comprising energy storage, electric vehicles, renewable generation and smart appliances. Many technologies will reach economic parity in the next few years, allowing greater choice and adoption for customers.

PowerNet is committed to remaining at the forefront and continuing its efforts to deliver customer-centric and innovative services, as these are key to the adaptation and progress of our business.

An essential enabler to achieving our business objectives is the smart and cost-effective use of new and established energy technologies and being able to leverage existing infrastructure and investments to deliver the best outcomes for our customers and shareholders.

PowerNet continues to explore new energy technologies and 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 scenarios.

The Smart Energy Home

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

Over the tenancy, PowerNet is gathering energy data and analysing the benefits from installed technologies and appliances. Through this information, PowerNet is gaining insights into smart energy use in the lower South Island environment and developing a better understanding of potential energy use trends as new energy technologies mature. The information and analysis will also aid in better planning and operations for electricity networks.

The tenants for the first and second year of the Smart Energy Home project have been different. This helps us to develop an understanding of changing customer behaviour, preferences, and energy usage patterns based on incentives and information. Customer centric solutions will be key to ensuring that customers continue to value the quality and reliability of service the network delivers.

Smart Meter Data Usage

Data driven decision-making is key for developing and adapting strategies and activities that benefit our networks and customers. PowerNet is using smart metering data and analytics to determine sub-hourly load profiles on major assets in our network. This provides understanding of capacity utilisation and network congestion, and informs decisions on safety, operations, maintenance and investments.

Developing our capability to harness different data sources and systems will enable PowerNet to extract valuable information that supports timely decision-making. Market research on technology trends, and analytic and visualisation tools are being developed to forecast future scenarios that support strategy and planning.



Transformer utilisation estimation based on aggregation of Smart Meter data.



Proportion of Smart Meter and Non-Smart Meter connections on a transformer.

Rowallan Microgrid

The ongoing evolution of new energy technologies provides opportunities for networks to develop alternative ways to supply power to customers. Two (TPCL and OJV) of the four networks that PowerNet operates and manages have the lowest densities of customer connections to network assets in New Zealand, and include remote customers connected through electricity lines that are long or cross challenging terrain. In these kinds of situations, new energy technologies may enable a more robust and economic solution to supply remote customers rather than maintaining or replacing aging power lines.

The Rowallan Microgrid is PowerNet's first such power supply system. The site is near the start of the Hump Ridge Track in the coastal Rowallan region and comprises solar generation, battery storage and a backup generator. In addition to being a reliable system, the primary source of generation is renewable, thus producing clean energy.



Rowallan Microgrid.

Supporting the Environment

PowerNet continues to support projects and community initiatives that encourage sustainable energy options and a 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 can also access energy use data on EV charging and calculate costs and savings per kilometre.



McCallums Group, recipients of a PowerNet sponsored EV charger.

The most recent partnership is with St John. PowerNet will provide EV chargers for their Invercargill, Winton, Otago and Bluff stations. St John will use two electric health shuttles to transport members of the public to health appointments. This is a proof of concept project. If successful, it would support the goal of electrifying the health shuttle fleet over the next eight years, lowering the fleet's environmental impact and reducing fuel and servicing costs. The project will be based in the Southland area with two EVs operating out of Winton and Invercargill.

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 regional organisations and industry to explore further opportunities to expand the charging infrastructure in the southern region.

Managing Waste

We aim for best practice in managing network waste with 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 oil we use is either sold or returned to the supplier for recycling. There were no waste oil spills during the 2019-20 year.

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

Power poles are replaced as required because of public safety or network performance. In total 1,098 poles were replaced in 2019-20. 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 584.4 kilograms.

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 7,000 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 subsidised insulation programme targets homeowners on low incomes, or homeowners 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 Warmer Kiwi Homes service provider agreement for the Southland and West Otago region.

Under the Warmer Kiwi Homes programme, eligible homeowners can have two-thirds of the cost of ceiling and underfloor insulation or a new efficient heating unit (heat pump or wood/pellet burner) 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 homeowner (owner-occupier) must have a community services card or SuperGold combo card, or own and be living in an area identified as low income.

Subsequent to the 2019-20 year, the Government has announced a change to increase the EECA funding contribution to 90%, from 28 April 2020.

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



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, and is currently trustee on the Environomics Trust.

While farming, active involvement in 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) CFIInstD

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

He is chair of The Power Company Ltd and a member of the OtagoNet Joint Venture governing committee. Doug 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) CFIInstD

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 was chair of the Energy Efficiency and Conservation Authority (EECA) and chair of the Southland Regional Development Strategy governance group.

Tom is a chartered fellow of the Institute of Directors.

4. Sarah Brown

LLB BA CFIInstD

Sarah joined the board of PowerNet Ltd 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 also a director of PGG Wrightson Ltd.

She is on the Provincial Growth Fund advisory panel and is a past project manager for the Southland Regional Development Agency.

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

Sarah is a chartered fellow of the Institute of Directors.

5. Duncan Fea

BCom FCA CFIInstD

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

He is chair of the OtagoNet Joint Venture governing committee and the PowerNet Ltd 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 chartered fellow of Chartered Accountants Australia and New Zealand and is a chartered fellow of the Institute of Directors.

6. Alan (Joe) O'Connell

BCom FCA CFIInstD

Joe joined the boards of Electricity Invercargill Ltd and PowerNet Ltd (currently deputy chair) in December 2016. 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 chartered fellow of the Institute of Directors.

7. Wayne Mackey

B.E. (Electrical) MIEEEE

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 Ltd 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.

8. Paul Kiesanowski

BCom ACA CMIInstD

Paul joined the board of PowerNet 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.

Paul's directorships include Electricity Invercargill Ltd, Craigpine Timber Ltd, Red Bus Ltd and Amalgamated Holdings Ltd.

Paul was until recently a commissioner for the Earthquake Commission.

Paul is a member of the Chartered Accountants Australia and New Zealand and a chartered member of the Institute of Directors.

9. Peter Moynihan

B.AgSc.

Peter joined the board of PowerNet Ltd on 1 November 2019. He is also a director of The Power Company Ltd.

Peter brings experience as a director in the agribusiness sector.

He is currently on the board of agricultural cooperative, Ravensdown Ltd, and a director of dairy farming businesses, Rathmore Farm Ltd and Aerodrome Farm Ltd.

Since 1993, Peter has held several roles with Westpac NZ Ltd. He is currently the bank's agribusiness regional manager - South Island.



Governance Report

The Directors have pleasure in presenting their Annual Governance Report together with the Financial Statements of PowerNet for the year ended 31 March 2020.

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 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.

Risk Management

PowerNet acknowledge the critical importance of Risk Management within the business, and aligns this with their vision of Safe, Efficient and Reliable Power to Communities.

The Company has a risk management policy and framework incorporating the ISO 31000:2009 risk management processes. Risk management programmes are in place to ensure that risks are identified and mitigated, where possible, and that risk is considered when internal policies and procedures are drafted.

The Board has overall responsibility for the Company's systems of operational and financial control.

The Board monitors the operational and financial aspects of the Company's activities, principally through the Audit and Risk Committee, and the Board considers the recommendations and advice of external and internal auditors and other external advisors on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external and internal auditors and other external advisers are investigated and appropriate action is taken to ensure that the Company has an adequate control environment in place to manage the key risks identified.

The Health, Safety and Environment Committee also consider health and safety risks.

Health, Safety And Environment Management

The Board has a strong commitment to ensuring PowerNet's employees, contractors and the public remain safe and well. The Board monitors the health, safety and environment aspects of the Company's activities, principally through the Health, Safety and Environment Committee.

Monthly reports to the Board provide information on accidents, near misses and incidents, together with monthly data on PowerNet's health, safety and environment performance.

Risks are further identified through regular monitoring and a variety of methods, including on-site management/checklists, Director field observation visits, visual hazard inspection, and near misses and formal risk reviews.

Result And Distribution

The Directors report that the Group's after tax profit for the year under review was \$2,691,000.

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. Details of the year under review are included in this Annual Report and the accompanying Financial Statements.

Directors

The Shareholding Companies have appointed Directors as follows:

Appointed by Electricity Invercargill are:

Thomas Campbell

Sarah Jane Brown

Alan (Joe) O'Connell (Deputy Chair)

Paul Kiesanowski

Appointed by The Power Company are:

Donald Nicolson (Chair)

Douglas Fraser

Duncan Fea

Lachlan McGregor

(ceased 1 November 2019)

Wayne Mackey

Peter Moynihan

(appointed 1 November 2019)

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.

Donald Nicolson

Electricity Southland Ltd	Director
Environomics (NZ) Trust	Trustee
Last Tango Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
The Power Company Ltd	Director

Joe O'Connell

Abbot NZ Holdings Ltd	Director
Abbot Management Ltd	Director
AJO Management Ltd	Director
Electricity Invercargill Ltd	Director
Fraser Properties Ltd	Director
H & J Smith Holdings Ltd (and associated companies)	Director
K G Richardson Ltd	Association
KGR Properties Ltd	Association
Log Logistics Ltd	Director
Log Marketing New Zealand Ltd	Director
McNeill Distribution Ltd	Association
Niagara Forestry Ltd	Director
Niagara Sawmilling Company Ltd	Association
O'Connell Holdings Ltd	Director
OKC Holdings Ltd	Director
Property South Ltd	Director
Pylon Ltd	Director
R Richardson Ltd	Director
R W Transport Ltd	Director
SBS Bank	Director
SBS Charitable Trust	Trustee
Southfuels Ltd	Director
Southsure Assurance Ltd	Director
TNZ Growing Products Ltd	Director

Douglas Fraser

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

Sarah Brown

Electricity Invercargill Ltd	Director
Electricity Southland Ltd	Director
OtagoNet Joint Venture	Member, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
PGG Wrightson Ltd	Director
Provincial Growth Fund Advisory Panel	Panellist
Pylon Ltd	Director
Southland Regional Development Strategy	Project Manager

Thomas Campbell

Electricity Invercargill Ltd	Chair
Energy Efficiency and Conservation Authority	Chair
Port Otago Ltd	Director
Pylon Ltd	Director
Roaring Forties Energy GP Ltd	Chair
Southern Generation GP Ltd	Director
Todd Corporation Ltd	Director
Todd Offshore Ltd	Director
Venture Southland (renamed Great South July 2019)	Director

Duncan Fea

Electricity Southland Ltd	Chair
Findex	Partner
Last Tango Ltd	Director
OtagoNet Joint Venture	Chair, Governing Committee
OtagoNet Ltd	Director
OtagoNet Properties Ltd	Director
Roaring Forties Energy GP Ltd	Director
Southern Generation GP Ltd	Director
The Power Company Ltd	Director

Lachlan McGregor

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

Wayne Mackey

The Power Company Ltd	Director
Last Tango Ltd	Director

Amalgamated Holdings Ltd	Director
Apex Environmental Ltd	Director
City Care Ltd	Company Secretary
Craigpine Timber Ltd	Director
Earthquake Commission	Commissioner
Electricity Invercargill Ltd	Director
Paul Kiesanowski Advisory Ltd	Director/Shareholder
Pylon Ltd	Director
Red Bus Ltd	Director

Peter Moynihan

Aerodrome Farm Ltd	Director/Shareholder
Last Tango Ltd	Director
Rathmore Farm Ltd	Director
Ravensdown Ltd	Director
The Power Company Ltd	Director
Westpac (NZ) Ltd	Employee

Remuneration Of Directors

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

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

Don Nicolson	- Chair, Chair of Remuneration Committee
Joe O'Connell	- Deputy Chair, Chair Health, Safety and Environment Committee, Member of Remuneration Committee
Douglas Fraser	- Director, Member Audit and Risk Committee
Sarah Brown	- Director, Member Health, Safety and Environment Committee
Thomas Campbell	- Director, Member Audit and Risk Committee
Duncan Fea	- Director, Chair Audit and Risk Committee
Lachlan McGregor	- Director, Member Health, Safety and Environment Committee
Wayne Mackey	- Director, Member Health, Safety and Environment Committee
Paul Kiesanowski	- Director, Member Audit and Risk Committee
Peter Moynihan	- Director, Member Health, Safety and Environment Committee

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

Don Nicolson	\$76,113	Joe O'Connell	\$54,250
Doug Fraser	\$38,250	Tom Campbell	\$38,250
Duncan Fea	\$42,500	Sarah Brown	\$38,250
Wayne Mackey	\$38,250	Paul Kiesanowski	\$38,250
Peter Moynihan	\$15,938	Lachlan McGregor	\$25,500

Employee Remuneration

Seventy-one continuing or former employees received remuneration in the following bands:

\$100,000 - \$110,000	24	\$180,000 - \$190,000	1
\$110,000 - \$120,000	17	\$210,000 - \$220,000	2
\$120,000 - \$130,000	6	\$230,000 - \$240,000	1
\$130,000 - \$140,000	8	\$240,000 - \$250,000	1
\$140,000 - \$150,000	4	\$320,000 - \$330,000	1
\$150,000 - \$160,000	2	\$330,000 - \$340,000	2
\$170,000 - \$180,000	1	\$560,000 - \$570,000	1

Scholarships, Awards And Donations

Donations were made by the Company during the year totalling \$15,000.

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 has been one change to the accounting policies in the year to 31 March 2020. NZ IFRS 16, Lease Accounting. This change has decreased profit for the group by \$256,000 and has created a right-of-use asset on the Statement of Financial Position of \$5.9m and a Finance Lease liability of \$6m.

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 Group for the year ended 31 March 2020 pages 49 to 73.

For and on behalf of the Board.



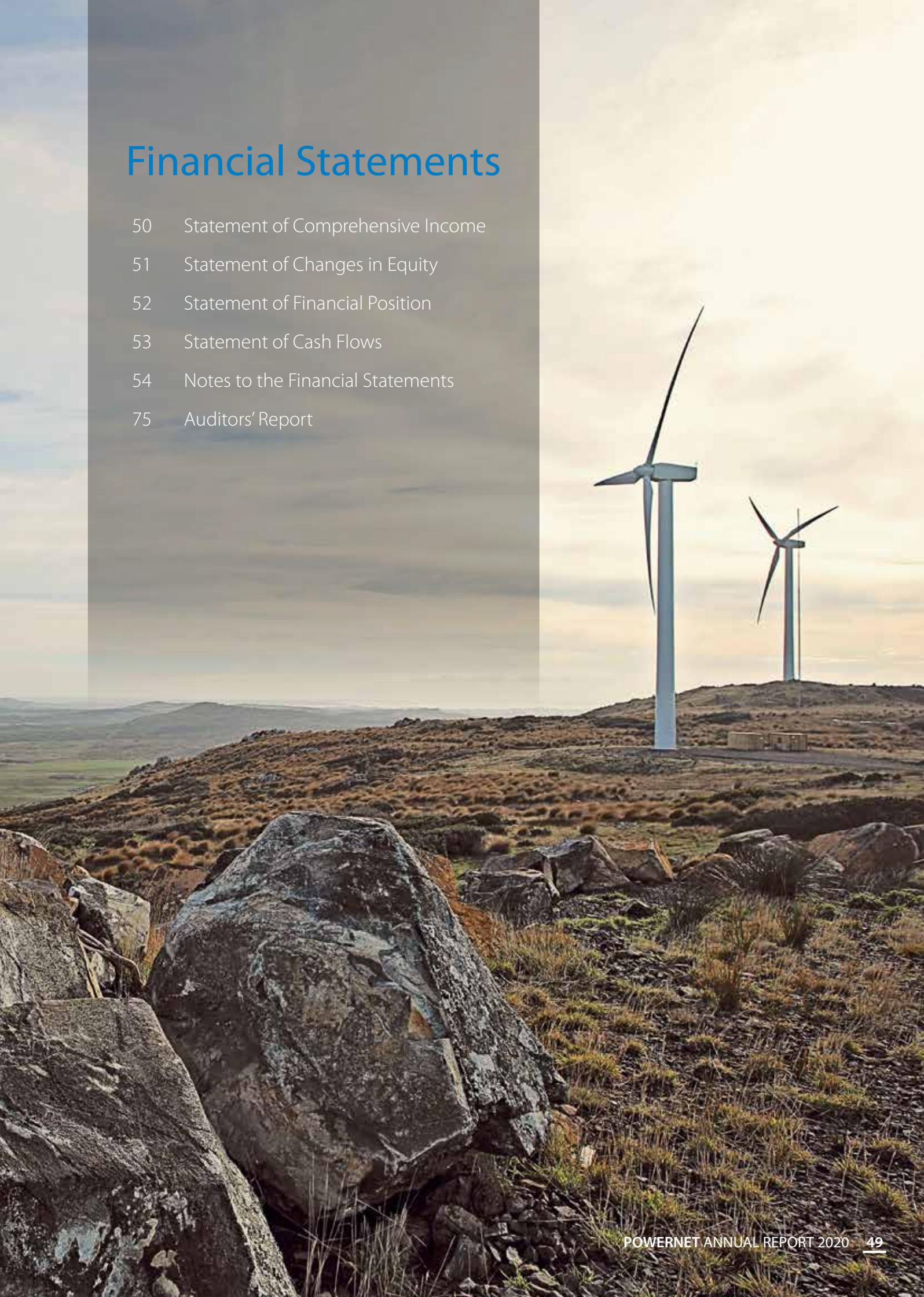
Donald Owen Nicolson
Chair
28 May 2020



Alan Joseph O'Connell
Director
28 May 2020

Financial Statements

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

		GROUP	
	Notes	2020 \$'000	2019 \$'000
Operating Revenue	2	90,340	83,477
Other Income	3	155	152
Operating Expenses	4	(84,994)	(78,999)
Financial Expenses	4	(2,092)	(1,643)
Operating Surplus Before Taxation		3,409	2,987
Taxation (Expense)/Benefit	5	(718)	(471)
Net Surplus After Taxation		2,691	2,516
Total Comprehensive Income		2,691	2,516
Net Surplus Attributable to Minority Interests		-	18
Net Surplus Attributable to Parent		2,691	2,498

The accompanying notes on pages 54-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

		GROUP	
	Notes	2020 \$'000	2019 \$'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		2,691	2,498
Minority Interest		-	18
		2,691	2,516
Contributions from Shareholders			
Change of Ownership in Minority Interest		(783)	-
Gain on Amalgamation		47	-
		(736)	-
Distributions to Shareholders			
Dividend Paid/Declared		(1,580)	(2,332)
Changes in Equity for the Year		375	184
Equity at the Beginning of the Year, comprising:			
Parent Interest		5,073	4,907
Minority Interest		127	109
		5,200	5,016
Equity at End of Year comprising:			
Parent Interest		5,575	5,073
Minority Interest	11	-	127
		5,575	5,200

The accompanying notes on pages 54-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

		GROUP	
	Notes	2020 \$'000	2019 \$'000
ASSETS			
Current Assets			
Cash and Short-Term Bank Deposits	7	3,503	1,648
Receivables and Prepayments	8	20,852	17,827
Unbilled Construction Work in Progress	10	2,879	7,069
Inventories	9	1,948	2,923
Total Current Assets		29,182	29,467
Non-Current Assets			
Property, Plant and Equipment	17	19,098	19,443
Capital Work in Progress		540	369
Intangibles	18	9,127	9,274
Deferred Taxation Asset	16	1,392	1,066
Right-of-Use Assets	15	5,938	-
Total Non-Current Assets		36,095	30,152
Total Assets		65,277	59,619
LIABILITIES			
Current Liabilities			
Creditors and Accruals	12	8,513	7,434
Employee Entitlements	13	4,124	3,735
Dividend Payable		-	1,248
Taxation Payable		217	171
Provisions		50	-
Lease Liabilities	15	184	-
Total Current Liabilities		13,088	12,588
Non-Current Liabilities			
Advances	14	39,769	41,104
Deferred Taxation Liability	16	834	727
Lease Liabilities	15	6,011	-
Total Non-Current Liabilities		46,614	41,831
Total Liabilities		59,702	54,419
Net Assets		5,575	5,200
EQUITY			
Share Capital		4,000	4,000
Retained Earnings	6	1,575	1,073
Parent Equity		5,575	5,073
Minority Interest Equity	11	-	127
Total Equity		5,575	5,200

The accompanying notes on pages 54-73 form part of and should be read in conjunction with these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Notes	GROUP	
		2020 \$'000	2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		87,945	80,311
Interest Received		9	19
		87,954	80,330
Cash Was Applied To:			
Payments to Suppliers and Employees		74,737	77,754
Income Tax Paid		894	655
Interest Paid		2,151	1,585
		77,782	79,994
Net Cash Flows From Operating Activities	22	10,172	336
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Fixed Assets		320	289
		320	289
Cash Was Applied To:			
Purchase of Fixed and Intangible Assets		4,062	5,868
Purchase of Minority Interest		235	-
		4,297	5,868
Net Cash Flows From/(Used In) Investing Activities		(3,977)	(5,579)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Advances and Loans		3	5,111
		3	5,111
Cash Was Applied To:			
Advances and Loans		1,345	15
Payment of Dividends - PowerNet		2,828	1,774
Principal Elements of Lease Payments		170	-
		(4,343)	(1,789)
Net Cash Flows From Financing Activities		(4,340)	3,322
Net Increase (Decrease) in Cash and Cash Equivalents		1,855	(1,921)
Cash and Cash Equivalents at the Beginning of the Financial Year		1,648	3,569
Cash and Cash Equivalents at End of Year	7	3,503	1,648

The accompanying notes on pages 54-73 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 2020

1 Statement of Accounting Policies

Reporting Entity

PowerNet Ltd 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 now fully amalgamated subsidiary PowerNet Central Ltd (in February 2020, PowerNet acquired the remaining 9.68% of shares in PowerNet Central Ltd and amalgamated on 31 March 2020).

PowerNet Ltd 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 28th May 2020.

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.

Impact of COVID19 on Financial Statements

The outbreak of the novel coronavirus (COVID-19), which was designated a pandemic by the World Health Organisation on 11 March 2020, is a rapidly evolving situation adversely affecting global commercial activities. On 25 March 2020, New Zealand went into a Level 4 lockdown requiring all non-essential businesses, whose employees cannot work from home, to close for a four-week period (extended by a further five days to 27 April 2020).

The PowerNet operating activities have been significantly impacted by the pandemic restriction measures, with Network Works revenue and External Customer Project revenues in March and April 2020 adversely affected where field staff were unable to perform planned work.

With Electricity Distribution Businesses deemed an essential service, some network maintenance work continued, in a significantly reduced capacity to comply with COVID-19 Health and Safety precautions. The financial performance of the business and the continued employment of its workforce has been supported by the receipt of the Government wage subsidy.

Having considered the potential impact of COVID-19 on the business, we believe no significant changes to the presentation of the financial statements are required.

New standards adopted by the Company

- PowerNet has applied the following standard, for the first time, for their annual reporting period commencing 1 April 2019:

NZ IFRS 16: Leases

In accordance with the transition provisions in NZ IFRS 16 the standard has been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 April 2019. Comparatives for the 2019 financial year have not been restated.

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 (Note 17)
- Intangibles (Note 18)
- Revenue (Note 2)

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

For The Year Ended 31 March 2020

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, OtagoNet Joint Venture and Electricity Southland Ltd. 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 works 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 for 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.

(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 2020

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

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

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

(g) Capital Work in Progress

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

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

For The Year Ended 31 March 2020

(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 pretax cash flows are discounted to their present value using a pretax 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 2020

(l) Operating Leases

The Group has changed its accounting policy for leases and has adopted NZ IFRS 16.

Until the 2019 financial year, leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments and income under these leases are recognised in the income statement in the periods in which they are incurred.

Refer to Note 15 for the current accounting policy in respect of leases.

(m) Employee Benefits

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

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

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

(n) Seasonality

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

(o) Financial Instruments

(i) Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and demand deposits and other shortterm 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

(iii) Trade and Other Payables

Trade and Other Payables are stated at cost.

(iv) Borrowings

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

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

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

For The Year Ended 31 March 2020

(v) Impairment of Financial Assets

The Group has one type of financial assets subject to NZ IFRS 9's expected credit loss model:

- Trade Receivables and Unbilled Work in Progress

(vi) 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.

(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 Comprehensive Income in the period of acquisition.

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

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

In February 2020, PowerNet acquired the remaining shares in PowerNet Central Ltd and amalgamated on 31 March 2020, resulting in no adjustment for Minority Interest in the results to 31 March 2020.

(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 2020

2 Income

	GROUP	
	2020	2019
	\$'000	\$'000
<i>Agency</i>		
Line Charges	114,315	112,230
Metering	4,444	4,414
	118,759	116,644
<i>Less</i>		
Transmission	28,973	29,198
Net Agency	89,786	87,446
Revenue from Contracts with Customers		
Contracting Revenue	6,541	8,930
Maintenance Fees	20,819	8,996
Agency Fees	8,259	7,844
Capital Works Programme	54,311	46,886
Equipment Sales	156	224
Management Fees	254	597
Total Revenue from Contracts with Customers	90,340	83,477
Timing of Revenue Recognition		
Overtime	90,184	83,253
At a point in time	156	224
	90,340	83,477

3 Other Income

	2020	2019
	\$'000	\$'000
Sundry Revenue	153	125
Interest Revenue	2	27
Total Other Income	155	152

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

For The Year Ended 31 March 2020

4 Expenses

	GROUP	
	2020	2019
	\$'000	\$'000
<i>Expenses Include:</i>		
Network Costs (excl. Depreciation)	54,522	49,687
Interest Expense	2,092	1,643
Deficit/(Profit) on Disposal of Property, Plant and Equipment	73	20
Operating Lease Expenses		
Tenancy and Repeater Site Leases	-	750
Motor Vehicle Leases	-	176
Office Equipment Leases	-	43
Total Operating Leases	-	969
Amortisation of Intangibles	448	413
Auditors' Fees		
Audit of Financial Statements - PwC	92	95
Internal Audit Fees - Deloitte	4	43
Regulatory and Consulting Fees - PwC	2	14
Software - PwC	20	35
Depreciation		
Buildings	192	196
Plant and Equipment	1,435	1,194
Motor Vehicles	1,161	1,152
Office Equipment	92	89
Computer Hardware	285	212
Right-of-Use Assets	427	-
Total Depreciation	3,592	2,843
Directors' Fees	406	361
Donations	15	5
Employee Benefit Expenses	14,754	13,885
Scholarships and Awards	-	-

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

For The Year Ended 31 March 2020

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	
	2020	2019
	\$'000	\$'000
Operating Surplus/(Deficit) Before Income Tax	3,409	2,987
Prima Facie Taxation at 28% made up of:	954	836
Permanent Differences	94	59
Prior Period Adjustments	(71)	(169)
Tax effects of:		
• Tax benefit from use of group losses	(259)	(255)
Tax on Taxable Income	718	471
Current Tax	941	668
Prior Period Adjustments in respect of Current Tax	(3)	(197)
Prior Period Adjustments in respect of Deferred Tax	(68)	27
Deferred Tax	(152)	(27)
Taxation Expense	718	471

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

For The Year Ended 31 March 2020

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	
	2020 \$'000	2019 \$'000
Share Capital	4,000	4,000
Closing Balance	4,000	4,000
Minority Interest	-	127
Retained Earnings		
Opening Balance	1,073	908
Net Surplus for the Year	2,691	2,498
Amalgamation	(609)	-
Dividend Declared/Paid	(1,580)	(2,332)
Closing Balance	1,575	1,073
Total Equity	5,575	5,200

7 Cash and Short-Term Bank Deposits

	2020 \$'000	2019 \$'000
Current Account	1,003	846
Short-Term Bank Deposits	2,500	802
Total Cash and Short-Term Bank Deposits	3,503	1,648

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

For The Year Ended 31 March 2020

8 Receivables and Prepayments

	GROUP	
	2020	2019
	\$'000	\$'000
Trade Debtors	1,421	1,719
The Power Company Ltd	9,799	8,578
Electricity Invercargill Ltd	1,299	2,443
Electricity Southland Ltd	1,664	559
OtagoNet Joint Venture	5,496	3,216
Prepayments and Other Receivables	1,173	1,312
Total Receivables and Prepayments	20,852	17,827

9 Inventories

	2020	2019
	\$'000	\$'000
Network Spares and Sundry Network Consumables	1,948	2,923

Network Spares includes Smart Meters totaling \$1,416,000 (2019: \$2,504,000).

10 Unbilled Construction Work in Progress

	2020	2019
	\$'000	\$'000
<i>On behalf of:</i>		
The Power Company Ltd	1,773	4,114
Electricity Invercargill Ltd	447	436
OtagoNet Joint Venture	236	1,438
Electricity Southland Ltd	81	-
External Customers	342	1,081
Total Construction Work in Progress	2,879	7,069

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

For The Year Ended 31 March 2020

11 Minority Interest

	GROUP	
	2020 \$'000	2019 \$'000
Opening Balance	127	109
Change in Shareholding	(127)	-
Minority Interest Share on Net Surplus	-	18
Closing Balance	-	127

The Minority Interest relates to PowerNet Central Ltd. In February 2020 the parent company purchased the remaining 9.68% of the shares in PowerNet Central Ltd.

12 Creditors and Accruals

	2020 \$'000	2019 \$'000
Trade Payables	4,491	4,943
Accruals	1,827	1,147
Inland Revenue GST Payable	1,702	823
The Power Company Ltd	351	417
Electricity Invercargill Ltd	80	92
OtagoNet Joint Venture	11	12
Electricity Southland Ltd	51	-
Total Creditors and Accruals	8,513	7,434

13 Employee Entitlements

	2020 \$'000	2019 \$'000
Opening Balance	3,735	3,401
Additional Accrued	3,514	3,245
Amount Utilised	(3,125)	(2,911)
Total Employee Entitlements	4,124	3,735

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 2020

14 Advances

	GROUP	
	2020	2019
	\$'000	\$'000
<i>Advances from:</i>		
The Power Company Ltd	31,168	32,169
Electricity Invercargill Ltd	8,601	8,935
Total Advances	39,769	41,104

Interest on the Advances is paid quarterly. The interest rate in respect of the Advances is 3% 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 Leases

	2020	2019
	\$'000	\$'000
Right-of-Use Assets Net Book Value		
Properties	5,838	-
Vehicles	19	-
Equipment	81	-
Total Right-to-Use Assets Net Book Value	5,938	-
Lease Liabilities		
Current	184	-
Non-Current	6,011	-
Total Lease Liabilities	6,195	-

(a) Amounts recognised in the Statement of Comprehensive Income

The Statement of Comprehensive Income shows the following amounts relating to leases:

	2020	2019
	\$'000	\$'000
Depreciation Charge of Right-of-Use Assets		
Properties	335	-
Vehicles	51	-
Equipment	41	-
Total Depreciation Charge of Right-to-Use Assets	427	-
Interest Expense (included in finance cost)	429	-
Expense relating to short-term leases (included in operating expenses)	285	-

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

For The Year Ended 31 March 2020

15 Leases *continued*

The total cash outflow for leases in the year ended 31 March 2020 was \$598,467.

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. These leases consist of commercial leases, lease of office equipment and vehicle leases.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including insubstance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straightline basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of property, equipment and vehicles are recognised on a straightline basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

16 Deferred Taxation

	GROUP	
	2020 \$'000	2019 \$'000
Opening Balance	339	339
Charged to Income Statement		
- Depreciation (non-current liability)	(107)	(100)
- Tax Losses (current assets)	(5)	-
- Employee Entitlements (current assets)	120	100
- Other (current assets)	71	-
- Leases	82	-
Timing differences now treated as permanent adjustments	58	-
Total Deferred Taxation Asset/(Liability)	558	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 2020

17 Property, Plant and Equipment

	Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Office Equipment \$'000	Motor Vehicles \$'000	Computer Hardware \$'000	Total \$'000
Cost							
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
Balance at 1 April 2019	412	5,976	16,254	1,755	14,785	2,239	41,421
Additions	-	40	1,640	44	1,162	201	3,087
Disposals	-	-	(1,401)	(3)	(1,011)	(110)	(2,525)
Balance at 31 March 2020	412	6,016	16,493	1,796	14,936	2,330	41,983
Depreciation and Impairment							
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
Balance at 1 April 2019	-	1,787	9,250	1,209	8,249	1,483	21,978
Depreciation for Period	-	192	1,435	92	1,160	285	3,164
Disposals	-	-	(1,321)	(3)	(822)	(110)	(2,256)
Balance at 31 March 2020	-	1,979	9,364	1,298	8,587	1,658	22,886
Book Value at 31 March 2019	412	4,189	7,004	546	6,536	756	19,443
Book Value at 31 March 2020	412	4,037	7,129	498	6,349	673	19,098

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 2020

18 Intangible Assets

	Goodwill \$'000	Computer Software \$'000	Total \$'000
Cost			
Balance at 1 April 2019	7,633	6,480	14,113
Additions	-	804	804
Disposals	(499)	(972)	(1,471)
Balance at 31 March 2020	7,134	6,312	13,446
Amortisation and Impairment			
Balance at 1 April 2019	-	4,839	4,839
Amortisation for period	-	448	448
Disposals	-	(968)	(968)
Goodwill on Acquisition	-	-	-
Balance at 31 March 2020	-	4,319	4,319
Carrying Amount/Book Value			
Book Value at 31 March 2020	7,134	1,993	9,127

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

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

19 Commitments

Capital Commitments

Capital Commitments as at 31 March 2020 total \$122,904 (2019: \$359,000)

20 Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2020 (2019 \$nil).

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

For The Year Ended 31 March 2020

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.

Pylon Ltd and Last Tango Ltd jointly hold a 100% interest in OtagoNet Joint Venture.

PowerNet Group also has transactions with Roaring Forties Energy Ltd Partnership, a limited partnership owned jointly by Last Tango Ltd and Pylon Ltd.

Electricity Southland Ltd has the same ownership as the OtagoNet Joint Venture.

All transactions between PowerNet Ltd, its joint venture parties and Electricity Southland Ltd, relate to the normal trading activities of PowerNet Ltd.

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

	GROUP	
	2020	2019
	\$'000	\$'000
Asset Construction, Management Fees, Agency Fees and Directors Fees Supplied To:		
The Power Company Ltd	46,555	43,488
Electricity Invercargill Ltd	10,554	10,604
Electricity Southland Ltd	5,495	3,572
OtagoNet Joint Venture	18,988	19,514
Roaring Forties Energy Ltd Partnership	98	86
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Ltd	11,557	12,693
Electricity Invercargill Ltd	1,745	2,879
Electricity Southland Ltd	1,742	559
OtagoNet Joint Venture	5,697	4,654
Roaring Forties Energy Ltd Partnership	9	8
Miscellaneous Charges Supplied By:		
The Power Company Ltd	1,787	1,745
Electricity Invercargill Ltd	374	359
Electricity Southland Ltd	255	169
OtagoNet Joint Venture	112	122
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Ltd	349	417
Electricity Invercargill Ltd	80	92
OtagoNet Joint Venture	11	12
Advances Supplied By/(Repaid To):		
The Power Company Ltd	(1,001)	3,665
Electricity Invercargill Ltd	(334)	1,447

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

For The Year Ended 31 March 2020

21 Transactions with Related Parties *continued*

Other Related Parties

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

PowerNet Ltd uses Findex Ltd as its tax advisors, of which Duncan Fea is a Principal. Fees for taxation advice paid to Findex Ltd during the year amounted to \$17,753 (excl GST) (2019: \$78,213 excl GST) of which \$nil (2019 \$1,509 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. Lachlan McGregor was a director of PowerNet Ltd up until 1 November 2019. Rent paid to McGregor Concrete for the period to 1 November 2019 amounted to \$8,089 (excl GST) (2019: \$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	
	2020	2019
	\$'000	\$'000
Directors' Fees, Salaries and Short Term-Employee Benefits	2,958	2,734

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.

22 Reconciliation of Net Surplus with Net Operating Cash Flows

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:

	2020	2019
	\$'000	\$'000
Net Surplus After Taxation	2,691	2,516
Add/(Less) Non-Cash Items:		
Amortisation	448	413
Depreciation	3,592	2,843
Movement in Deferred Tax	(219)	-
Deficit/(Profit) on Sale of Property, Plant and Equipment	(47)	(72)
	3,774	3,184
Add/(Less) Movements in Working Capital:		
Creditors, Accruals and Employee Entitlements	525	(119)
Receivables and Prepayments	(2,958)	(3,977)
Inventories	975	(248)
Construction Work in Progress	4,190	(1,003)
GST Payable/(Receivable)	879	169
Taxation Payable	46	(186)
Provisions	50	-
	3,707	(5,364)
Net Cash Flow From Operating Activities	10,172	336

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

For The Year Ended 31 March 2020

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.

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

For The Year Ended 31 March 2020

25 Changes in Accounting Policies

Impact of Change in Accounting Policy on Statement of Financial Position

The Group has adopted NZ IFRS 16 Leases from 1 April 2019, as permitted under the specific transition provisions in the Simplified Modified Retrospective Method. Comparatives for the 2019 financial year have therefore not been restated.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using either the rate implicit in the lease or the Group's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April was 7.00%.

	GROUP	
	2020 \$'000	2019 \$'000
Operating lease commitments disclosed as at 31 March 2019	14,129	-
Discounted using the Group's incremental borrowing rate	10,201	-
Less: Agreements not recognised as leases under NZ IFRS 16	(6,869)	-
Less: Short-term leases recognised on a straight-line basis as expense	(261)	-
Agreements recognised as leases under NZ IFRS 16	14	-
Add/(less): Adjustments relating to changes in variable payments	3,280	-
Lease Liability recognised at 1 April 2019	6,365	-

The Group has elected to apply the practical expedient not to apply to requirements of NZ IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application.

These agreements relate to commercial leases, leases of office equipment and vehicle leases. Previously New Investment and Customer Investment Contracts with Transpower were classified as operating leases, however these leases are held on behalf of networks managed by the Group and as such the Group does not have the right to obtain substantially all of the economic benefits from the use of these assets, therefore these agreements do not meet the definition of a lease under NZ IFRS 16.

Under NZ IFRS 16 the Group has assessed rights of renewal available and have included periods covered by an option to extend the lease where it is reasonably certain the Group will exercise that option.

AUDITORS' REPORT

For The Year Ended 31 March 2020



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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 2020;
- the 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 2020, 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 an annual regulatory benchmarking publication. The provision of 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 2020

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
28 May 2020

Christchurch





