# ANNUAL REPORT

**For the year ended: 31 March 2017**

**Network Waitaki Limited**
10 Chelmer Street
PO Box 147,
Oamaru 9444

Telephone 03 433 0065
Facsimile 03 434 8845
service@networkwaitaki.co.nz
www.networkwaitaki.co.nz

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# DIRECTORY

## DIRECTORS:

Mrs. C. M. Kearney (Chairman)

Mr. D. Atkinson

Mr. C. J. Dennison

Mr. D. A. Ruddenklau

Mr. J. D. Walker

Mr. A. J. Wood

## WAITAKI POWER TRUST TRUSTEES:

Dr. H. F. Brookes (Chairman)

Mr. A. J. Brady

Mr. J. Clements

Mr. H. J. Tonkin

Mr. J. Webster

## SOLICITORS:

Berry & Co., Eden Street

Oamaru

## AUDITORS:

Nathan Wylie

PricewaterhouseCoopers

Christchurch

ON BEHALF OF The Auditor-General

## REGISTERED OFFICE:

10 Chelmer Street, Oamaru

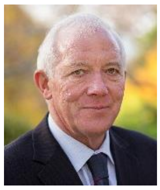
## CHIEF EXECUTIVE

Mr. G. B. Clark

## PRINCIPAL BANKERS

ANZ, The Octagon, Dunedin

# Message from Chairman and Chief Executive



Clare Kearney

Graham B. Clark

## Introduction

It is with pleasure that we present the 2017 Network Waitaki Annual Report. The Annual Report provides the opportunity for the Company to report on its performance during the past year and highlight influences that potentially will impact on electricity distribution businesses through emerging technologies and regulatory reviews.

From a regulatory perspective, we have embarked on a distribution price structure review. Our Industry is changing with new and exciting technologies entering the market. Network Waitaki intends to stay informed with developments that will impact our network and consumers, ensuring our prices reflect the service we provide and the expectations of our community.

The Transmission Pricing methodology guidelines, currently being developed by the Electricity Authority, have the potential for impact on our tariffs to consumers. We have fully communicated our concerns to the Electricity Authority through the submission process.

Progress has also been made in terms of signing up retailers to our new Use of System Agreement. The Electricity Authority is of the view that Default Distribution Agreements are necessary and we will be monitoring developments in that arena. Our intention is to work co-operatively with the Electricity Authority on developing standardised agreements. Our two-yearly customer engagement survey has been conducted and we are pleased to note that our community rated us highly in terms of provision of a reliable service.

An upgrade of the Company's logo has been undertaken to increase the visibility of the Company in the community.

## Ownership

Network Waitaki is owned by the Waitaki Power Trust which holds the shares in Network Waitaki for the benefit of the electricity consumers in the wider Waitaki District.

The Company's mission statement is to support the economic growth and wellbeing of the community it serves. It is necessary to ensure that the Company has sufficient capital to meet the increased demand for electricity in our region.

Income comes from our distribution charges and capital contributions made by developers. Surplus revenues are returned to consumers by way of an annual discount. The Inland Revenue Department is currently scrutinising and reviewing the treatment of discounts as a reduction in revenue and therefore, a deduction for tax purposes. The Electricity Networks Association, of which we are a member, has strongly submitted on this review on behalf of our industry.

Network Waitaki's Board of Directors has a positive and constructive relationship with the Waitaki Power Trust. The Board reports on the performance of the Company, quarterly, to the Trust followed by opportunities for Directors and Trustees to discuss Company matters as required.

Health and Safety of our staff and the public is imperative for Network Waitaki. Continuous improvement is expected and monitored. We have a strong focus on the provision of risk reduction processes, appropriate Personal Protection Equipment, training and equipment to ensure staff have the competencies and processes to safely perform in the workplace.

The Health and Safety at Work Act 2015 has necessitated a review of all procedures. One of these has been the practice of working Live Line. This practice is seen by the Company as not meeting the requirements of the "Act to take all practical steps to eliminate the risk" and has ceased, unless the alternative creates a greater risk. The health and safety statistics show the Company had 2 Lost Time Incidents in the 2016/17 year and had a safety measure of 3.31 per 200,000 hours' work. We are very proud of our staff and their continuous improvement in health and safety practices. Across our company, from field staff to board, there is a positive engagement in managing risk to protect others.

## Network Performance

The decision to work predominantly with de-energised lines, has resulted in increased planned disruptions on the Network and is reflected in the increase in customer minutes lost, as measured by System Average Incident Duration Index (SAIDI). The Company is investigating opportunities of minimising these disruptions and the SAIDI measure, by strategic use of generators, in the short term, and longer term, through Network design.

### Capital Projects

With approximately 40% of the overhead network build in the 1970s it is expected that there will be an increase in asset replacement as assets come to the end of their life. Over recent years there has been increased spending on pole replacement with 272 poles having been replaced in the 2016/17 year at a cost of $1,165,000.

*Heliventures NZ Ltd's Craig McMillan talking to pupils and staff of Five Forks School prior to stringing the Enfield to Five Forks Line*

A significant project in the year under review has been the need to increase capacity into the Kakanui Valley. This has necessitated the building of 12km of sub-transmission line and a new substation at Five Forks.

Other projects have included the refurbishment of four zone substation transformers, and the rebuilding of 15km of 11kV lines in the Haka Valley.

Looking forward in the 2017/18 year will see upgrades to the 11kV line suppling the Ohau Valley and a new line in the Waiareka Valley to improve supply security.

The Pukeuri Substation will receive an upgrade with the installation of new Circuit Breakers and an additional feeder to supply the Hilderthorpe area.

### Emerging Technologies

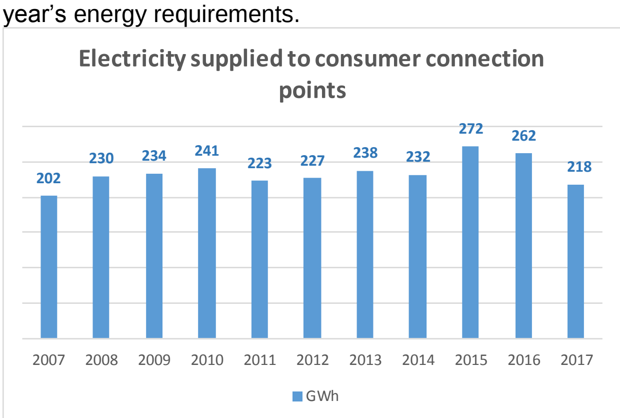
There are a number of emerging technologies now available to the energy sector providing challenges and opportunities for all electricity distributions businesses like Network Waitaki. These include battery storage, photo voltaic generation, micro fuel cells and electric vehicles. Network Waitaki is investigating each of the technologies and when the time is right the opportunity to test these will be taken. The Company has purchased four electric vehicle charging stations and an electric vehicle to support the Government's wish to encourage the use of this form of transport. In the 2017/18 year Network Waitaki will install a micro fuel cell at one of its sites for evaluation.

*Chairman, Clare Kearney opening the first Electric Charging Station, Oamaru*

To accommodate the introduction of distributed generation, the Electricity Authority has required all electricity distribution businesses, including Network Waitaki Ltd, to develop a roadmap for the review of their tariffs to ensure that the appropriate pricing signals are provided to electricity consumers when they are contemplating alternative forms of energy. Network Waitaki has prepared this roadmap and it can be viewed attached to the Company's pricing methodology on our website (www.networkwaitaki.co.nz).

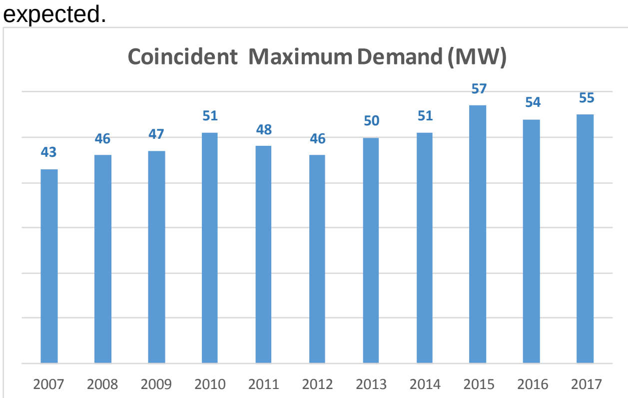
### Network Growth

Energy delivered has increased by 11.4% over the past 10 years. The wet summer has impacted on the 2017 year's energy requirements.

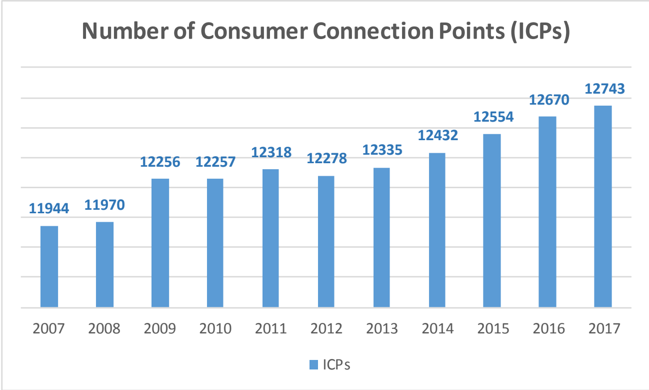



Volumes are based on retailer supplied information
Volumes include Blackpoint

The Network coincident maximum demand has increased by 27.9% over the past 10 years. Further growth is expected.



The number of Consumer Connections points (ICPs) has increased by 6.7% over the past 10 years




### Community Support

Network Waitaki is pleased to be able to support a variety of community groups through its sponsorship policy. This year $110,000 was donated to 58 groups.

*Sponsorship Presentation 2016*

### Scholarship

Network Waitaki provides a scholarship to students from North Otago secondary schools who wish to further their education in disciplines the Company requires. To date we have one recipient having completed his degree and a further three studying at university. We encourage local students intending to attend university to consider and apply for the Network Waitaki Scholarship.

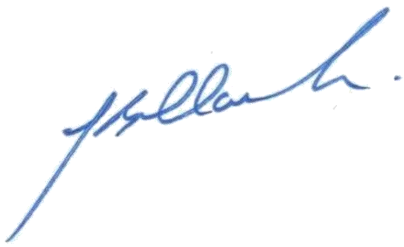
### Looking Forward

The primary focus for Network Waitaki is the continued maintenance and development of the distribution network in a safe and efficient way to meet the evolving needs of the electricity consumers in the area served by the Company.

A significant portion of the Company's 11kV lines were built in the period between 1960 and 1990. The wooden poles used in the construction of these lines have a standard life of 45 years. As poles come to the end of life, there will be increased capital expenditure on asset replacements.

### Conclusion

We are pleased to have reported on a very successful year and would like to acknowledge the commitment of Directors and the dedication of all employees that have allowed the Company to attain these results.
The interaction with and support of the Waitaki Power Trust is acknowledged.



| | |
|---|---|
| Clare Kearney<br>Chairman | Graham Clark<br>Chief Executive |

# DIRECTORS' REPORT

Back row: Derek Atkinson, Tony Wood and David Ruddenklau.
Seated: Chris Dennison, Clare Kearney (chairman) and John Walker

## DIRECTORS' INTERESTS

The following Directors of Network Waitaki Limited have declared interests in identified entities as shareholder and/or director. The declaration serves as notice that the Director may benefit from any transactions between Network Waitaki Limited and the identified entities.

### Clare Kearney (Chairman)

Clare has been a member of the board since 2005 and Chairman from July 2008. Currently she is Chairman of Sport Otago, Chairman of Waitaki Safer Community Trust, a Director of South Port New Zealand Ltd, a Director of Awarua Holdings Ltd and a Trustee of KP & CM Kearney Family Trust.

### Derek Atkinson

Derek has been a Director since June 2011.

### John Walker

John has been a Director since June 2005. He is a Director/Shareholder of Mighty Mix Dog Food Limited.

### Chris Dennison

Chris has been a Director since June 2013. He is a Director of Dennison Farms Limited, Chairman of Tracmap Aviation Ltd, Chairman of Tracmap Holdings Ltd, Chairman of Tracmap NZ Ltd, a Director of Farmlands Co-operative, a Director of the Waitaki Irrigators Collective and an advisor to the board of the Lower Waitaki Irrigation Company.

### David Ruddenklau

David joined the board in July 2011. He is a Director and Shareholder of Newhaven Farms Limited, and Carhill Limited, a Trustee for Pukeraro Trust and Otago/Southland Child Cancer Foundation and a Shareholder of North Otago Irrigation Company.

### Tony Wood

Tony joined the board in July 2012. He is a Director and Shareholder of A J Wood Chartered Accountants Ltd, A J Wood Trustees Ltd (also Trustee to various Clients' Family Trusts) and Mackismith Properties Ltd, and a Trustee of Wood Family Trust. Tony is the Chairman of North Otago Search and Rescue.

## GENERAL DISCLOSURES

## PRINCIPAL ACTIVITIES

The principal activity of Network Waitaki Limited is ownership of its electricity distribution network.

## REVIEW OF OPERATIONS

The Operating Revenue (before customer discount) was $22,781,957 (2016 $23,795,848) for the year.
Operating Profit before Taxation is $4,643,626 (2016 $7,260,360)

## SHARE CAPTIAL

Total issued and paid up capital as at 31 March 2017 was 14,000,000 Ordinary Fully-Paid Shares. There has been no movement in Share Capital during the year.

## USE OF COMPANY INFORMATION

There were no notices from Directors of Network Waitaki Limited or a Director of a related body corporate requesting to use company information received in their capacity as Directors which would not otherwise have been available to them.

## DIVIDENDS

No dividend was declared for the 2017 year. (2016 Nil)

## DISCOUNT

A discount (excluding GST) of $1,740,810 has been paid to Customers (2016 $1,767,952).

## DONATIONS

The company made donations totaling $109,540 in the year (2016 $78,586).

## CORPORATE GOVERNANCE

Network Waitaki Limited operates under a set of corporate governance principles designed to ensure the Company is effectively managed.

**Board of Directors**

The Board is the governing body of the company and currently has six members. The Board is appointed by the shareholders to oversee the management of the Company and is responsible for all corporate governance matters. The Board endeavors to ensure that the activities undertaken are carried out in the best interests of all shareholders, while respecting the right of other stakeholders. The Board formally met eleven times during the financial year.

**Responsibilities**

The Board is responsible for the management, supervision, regulatory compliance, health and safety, and direction of the Company. This incorporates the long-term strategic financial plan, strategic initiatives, budgets and the policy framework. The Board has developed and maintains clear policies which define the individual and collective responsibilities of the Board and management.

## REMUNERATION OF DIRECTORS

| | Total Directors’ fees paid $ |
|---|---:|
| Mrs. C.M. Kearney | 46,615 |
| Mr. D. Atkinson | 30,427 |
| Mr. D.A. Ruddenklau | 30,427 |
| Mr. C.J. Dennison | 30,427 |
| Mr. J.D. Walker | 30,427 |
| Mr. A.J. Wood | 30,426 |
| **Total Directors’ fees** | **198,749** |

## EMPLOYEE REMUNERATION

The Companies Act 1993 requires the number of employees receiving remuneration greater than $100,000 to be disclosed. Three employees within Network Waitaki Limited received remuneration in the range of $100,000 to $110,000, one employee received remuneration in the range of $110,000 to $120,000, one employee received remuneration in the range of $120,000 to $130,000, one employee received remuneration in the range of $130,000 to $140,000, one employee received remuneration in the range of $140,000 to $150,000, one employee received remuneration in the range of $150,000 to $160,000 and one employee received remuneration in the range of $250,000 to $260,000.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

The Company continues to indemnify all Directors named in this report against any liability to any person other than Network Waitaki Limited or a related company for any act done or omission made in a Director’s capacity as a Director of Network Waitaki Limited and all costs incurred in defending or settling any claim or proceedings related to such liability, unless the liability is criminal liability or liability for breach of Section 131 of the Companies Act 1993.

During the financial year, Network Waitaki Limited paid insurance premiums in respect of Directors’ and Officers’ liability insurance. The policies do not specify the premium for individual Directors and executive officers.

The Directors’ and Officers’ liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than Network Waitaki Limited or a related body corporate) incurred in their position as Director or executive officer unless the conduct involves a willful breach of duty or an improper use of inside information or position to gain advantage.

## EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter of circumstance since the end of the financial year, not otherwise dealt with in this report that has significantly affected or may significantly affect the operation of Network Waitaki Limited, the results of those operations or the state of affairs of Network Waitaki Limited.

## AUDITORS

In accordance with Section 45 of the Energy Companies Act 1992, the Controller and Auditor-General are responsible for the audit of Network Waitaki Limited. In accordance with Section 29 of the Public Finance Act 1977, the Controller and Auditor-General have contracted the audit of Network Waitaki Limited to Nathan Wylie using the staff and resources of PricewaterhouseCoopers. The auditor’s fee for 2016/17 is $58,900 (2015/16 was $64,450).

Clare Kearney

**C.M. Kearney**
**Chairman**

AJWood.

**A.J. Wood**
**Director**

# TREND STATEMENT

| | | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **FINANCIAL PERFORMANCE** | | | | | | | |
| Operating Revenue | | 22,782 | 23,796 | 26,903 | 21,825 | 19,305 | 16,322 |
| Operating Profit before Tax | | 4,644 | 7,260 | 7,887 | 3,859 | 3,344 | 1,860 |
| Taxation | | (972) | (2,036) | (2,137) | (1,163) | (955) | (261) |
| Net Surplus | | 3,672 | 5,224 | 5,750 | 2,696 | 2,389 | 1,599 |
| | | | | | | | |
| Customer Discounts | | 1,741 | 1,768 | 1,729 | 1,676 | 2,023 | 1,873 |
| | | | | | | | |
| **FINANCIAL POSITION** | | | | | | | |
| Current Assets | | 11,937 | 14,591 | 15,688 | 12,416 | 11,119 | 8,387 |
| Non-Current Assets | | 91,376 | 85,551 | 79,444 | 74,039 | 72,246 | 71,150 |
| Total Assets | | 103,313 | 100,142 | 95,132 | 86,455 | 83,365 | 79,537 |
| Liabilities | | 17,152 | 17,653 | 17,867 | 14,940 | 14,546 | 13,108 |
| Net Assets | | 86,161 | 82,489 | 77,265 | 71,515 | 68,819 | 66,429 |
| Share Capital | | 14,571 | 14,571 | 14,571 | 14,571 | 14,571 | 14,571 |
| Retained Earnings | | 71,590 | 67,918 | 62,694 | 56,944 | 54,248 | 51,858 |
| Equity | | 86,161 | 82,489 | 77,265 | 71,515 | 68,819 | 66,429 |
| | | | | | | | |
| **FINANCIAL RATIOS** | | | | | | | |
| NPBT to Shareholders Funds | | 5.4% | 8.8% | 10.2% | 5.4% | 4.9% | 2.8% |
| NPAT to Shareholders Funds | | 4.3% | 6.3% | 7.4% | 3.8% | 3.5% | 2.4% |
| | | | | | | | |
| Ratio of Shareholders' Funds to Total Assets | | 83.4% | 82.4% | 81.2% | 82.7% | 82.6% | 83.5% |
| | | | | | | | |
| NPBT Earnings Per Share in Cents | | 33.17 | 51.86 | 56.34 | 27.56 | 23.89 | 13.29 |
| | | | | | | | |
| Net Assets Per Share | | $6.15 | $5.89 | $5.51 | $5.11 | $4.89 | $4.74 |
| | | | | | | | |
| **STATISTICS** | | | | | | | |
| SAIDI (normalised) | | 124.16 | 135.74 | 51.07 | 79.62 | 54.73 | 50.85 |
| SAIFI (normalised) | | 1.06 | 0.76 | 1.10 | 1.28 | 1.41 | 0.65 |
| | | | | | | | |

# DIRECTORS’ RESPONSIBILITY STATEMENT

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of Network Waitaki Limited as at 31 March 2017 and its financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of Network Waitaki Limited have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all relevant reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of Network Waitaki Limited and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of Network Waitaki Limited and to prevent and detect fraud and other irregularities.

The Directors have pleasure in presenting the Financial Statements of Network Waitaki Limited for the year ended 31 March 2017.

The Board of Directors of Network Waitaki Limited authorises these Financial Statements for issue on 29 May 2017.

For and on behalf of the Board of Directors

**C.M. Kearney**
**Chairman**

**A.J. Wood**
**Director**

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| Operating Revenue | 2 | 22,781,957 | 23,795,848 |
| Less | | | |
| Customer Discount | | (1,740,810) | (1,767,952) |
| Operating Revenue after Customer Discount | | 21,041,147 | 22,027,896 |
| Less | | | |
| Operating Expenses | 3 | (4,349,158) | (3,196,724) |
| Transmission Costs | | (4,973,882) | (4,899,750) |
| Employee Costs | | (2,975,214) | (2,639,514) |
| Depreciation, Amortisation and Impairment | 4 | (4,099,267) | (4,031,548) |
| Operating Profit Before Tax | | 4,643,626 | 7,260,360 |
| Taxation | 5 | (971,393) | (2,035,964) |
| Net Profit for the Year | | 3,672,233 | 5,224,396 |
| | | | |
| Total Comprehensive Income | | 3,672,233 | 5,224,396 |

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

| | Share Capital | Retained Earnings | Total Equity |
|---|---|---|---|
| | $ | $ | $ |
| Balance at 1 April 2015 | 14,571,119 | 62,692,997 | 77,264,116 |
| Profit for the year, being total comprehensive income | - | 5,224,396 | 5,224,396 |
| Balance at 31 March 2016 | 14,571,119 | 67,917,393 | 82,488,512 |
| | | | |
| Balance at April 2016 | 14,571,119 | 67,917,393 | 82,488,512 |
| Profit for the year, being total comprehensive income | - | 3,672,233 | 3,672,233 |
| Balance at 31 March 2017 | 14,571,119 | 71,589,626 | 86,160,745 |

***These financial statements should be read in conjunction with the attached notes.***

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

| | | Notes | 2017 | 2016 |
|---|---|---|---|---|
| | | | $ | $ |
| Assets | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | | | 735,442 | 630,137 |
| Short Term Deposits | | | 6,700,000 | 9,950,000 |
| Trade and Other Receivables | | 6 | 2,655,193 | 2,559,772 |
| Inventories | | 9 | 1,292,068 | 1,286,825 |
| Work in Progress | | | 561 | 152 |
| Taxation Receivable | | | 553,480 | - |
| Deferred Tax | | 5 | - | 164,392 |
| Total Current Assets | | | 11,936,744 | 14,591,278 |
| | | | | |
| Non-Current Assets | | | | |
| Trade and Other Receivables | | 6 | 335,600 | 407,060 |
| Property, Plant and Equipment | | 7 | 90,351,416 | 84,380,188 |
| Intangible Assets | | 8 | 688,767 | 763,418 |
| Total Non-Current Assets | | | 91,375,783 | 85,550,666 |
| Total Assets | | | 103,312,527 | 100,141,944 |
| | | | | |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Trade and Other Payables | | 10 | 2,209,783 | 2,767,742 |
| Employee Entitlements | | 11 | 663,264 | 587,928 |
| Taxation Payable | | | - | 253,966 |
| Total Current Liabilities | | | 2,873,047 | 3,609,636 |
| | | | | |
| Non-Current Liabilities | | | | |
| Loan from Waitaki Power Trust | | 15 | 1,150,000 | 1,150,000 |
| Deferred Tax | | 5 | 13,128,735 | 12,893,796 |
| Total Non-Current Liabilities | | | 14,278,735 | 14,043,796 |
| Total Liabilities | | | 17,151,782 | 17,653,432 |
| | | | | |
| Equity | | | | |
| Share Capital | | 12 | 14,571,119 | 14,571,119 |
| Retained Earnings | | 13 | 71,589,626 | 67,917,393 |
| Total Shareholders' Equity | | | 86,160,745 | 82,488,512 |
| | | | | |
| Total Liabilities and Shareholders' Equity | | | 103,312,527 | 100,141,944 |

***These financial statements should be read in conjunction with the attached notes.***

# STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| Cash Flows from Operating Activities | | | |
| *Cash was Provided from:* | | | |
| Receipts from Customers | | 20,753,129 | 21,529,392 |
| Interest Received | | 300,273 | 397,354 |
| | | 21,053,402 | 21,926,746 |
| Cash was Disbursed to: | | | |
| Payments to Suppliers and Employees | | (12,713,369) | (11,985,630) |
| Income Tax Paid | | (1,379,508) | (1,208,131) |
| Net GST Paid | | (109,376) | (75,423) |
| | | (14,202,253) | (13,269,184) |
| | | | |
| | | | |
| Net Cash from Operating Activities | 14 | 6,851,149 | 8,657,562 |
| | | | |
| Cash Flows from Investing Activities | | | |
| *Cash was Provided from:* | | | |
| Transfer from Term Deposits | | 3,250,000 | - |
| Proceeds of Sale of Assets | | 20,653 | 8,848 |
| | | 3,270,653 | 8,848 |
| *Cash was Applied to:* | | | |
| Transfer to Term Deposits | | - | (6,446,398) |
| Purchase of Property, Plant and Equipment and Intangible Assets | | (10,016,497) | (9,740,371) |
| | | (10,016,497) | (16,186,769) |
| | | | |
| Net Cash from Investing Activities | | (6,745,844) | (16,177,921) |
| | | | |
| Cash Flows from Financing Activities | | | |
| *Cash was Provided from:* | | | |
| Repayment of Loan | | - | - |
| | | - | - |
| | | | |
| Net Cash from Financing Activities | | - | - |
| | | | |
| | | | |
| Net Increase/(Decrease) in Cash Held | | 105,305 | (7,520,359) |
| | | | |
| Cash and Cash Equivalents at Beginning of the Year | | 630,137 | 8,150,496 |
| | | | |
| Cash and Cash Equivalents at End of the Year | | 735,442 | 630,137 |

***These financial statements should be read in conjunction with the attached notes.***

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES

### ENTITY REPORTING
Network Waitaki Limited is a consumer trust-owned electricity distribution network operator in North Otago. The Company's registered office is 10 Chelmer Street, Oamaru, New Zealand.

### PARENT TRUST
The parent trust is the Waitaki Power Trust.

### GENERAL INFORMATION
Network Waitaki Limited is a limited liability company incorporated and domiciled in New Zealand.

### STATEMENT OF COMPLIANCE WITH NZ IFRS
**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) as applicable for profit-oriented entities.

The company 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 the company has no public accountability and is not a large public sector nonprofit entity.

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

### DATE OF ISSUE FOR THE FINANCIAL STATEMENTS
These financial statements have been approved for issue by the Board of Directors on 29 May 2017. The entity's owners do not have the power to amend the financial statements after its issue.

### PROFIT-ORIENTED ENTITY
The Company is a profit-oriented entity for the purpose of complying with NZ IFRS.

### STATUTORY BASE
Network Waitaki Limited is:

- a New Zealand registered company under the Companies Act 1993,
- an energy company as defined in the Energy Companies Act 1992.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Energy Companies Act 1992.

### FUNCTIONAL AND PRESENTATION CURRENCY
The Company's financial statements are presented in whole New Zealand dollars, which is the Company's functional and presentation currency.

### MEASUREMENT BASE
The financial statements have been prepared on the historical cost basis, and its modification by the revaluation of certain assets as identified in specific accounting policies below. Accounting policies adopted and applied ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES
The preparation of financial statements in conformity with NZ IFRS requires management to make certain critical accounting estimates and judgments that affect the application of policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable in the circumstances.

These estimates and judgments form the basis for the carrying values of assets and liabilities where these are not readily apparent from other sources. Actual results may differ from these estimates.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates and underlying judgments are regularly reviewed. Any changes to estimates are recognised in the period if the change affects that period, or in future periods if the change also affects future periods.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments that have had the most significant impact on the amounts recognised in these financial statements.

**Network reticulation assets**
Network reticulation assets are depreciated at the rates provided by the ODV handbook issued by the Commerce Commission in 2004. These rates are considered a reasonable estimate of useful lives.

**Easements**
Easements are recorded at cost.

### GOODS AND SERVICES TAX (GST)

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables.

### REVENUE

**Sale of goods**
Revenue from the sale of goods is recognised in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the consumer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

**Services supplied**
Revenue from the sale of services is recognised in the Statement of Comprehensive Income when it is probable that the economic benefits associated with the transaction will flow to the company. No revenue from services supplied is recognised when the stage of completion of the transaction cannot be measured reliably or the amount of revenue from the transaction cannot be reliably measured.

**Investment income**

- Interest is recognised using the effective interest method.
- Dividends are recognised when the right to receive payment is established.
- Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

**Lease income**
Revenues from operating leases are recognised on a straight line basis over the period between rental reviews.

**Customer contributions**
Contributions from customers in relation to the construction of new lines for the network are accounted for as income in the year in which the Company completes the actual work.

**Construction Contracts**
Revenue from construction contracts is recognised by reference to the recoverable cost incurred during the period plus the percentage of fees earned.
When a loss is expected to occur, it is recognised immediately.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INCOME TAX
Income tax expense in relation to the profit or loss for the period comprises current tax and deferred tax.

**Current tax** is the amount of income tax payable on the taxable profit from the current year, plus any adjustments to income tax payable in respect of the prior year. Current tax is calculated using rates that have been enacted or substantially enacted by balance date.

**Deferred tax** is the amount of income tax payable or receivable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

### CAPITAL AND OPERATING EXPENDITURE
**Capital expenditure** relates to expenditure incurred in the creation of a new asset and expenditure incurred on existing reticulation system assets to the extent the system is enhanced.

**Operating expenditure** relates to expenditure incurred in maintaining and operating the property, plant and equipment and investment properties of the Company.

### DIVIDENDS
Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date. Distribution of dividends to the Company shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Board of Directors.

### CASH AND CASH EQUIVALENTS
Cash and Cash Equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

### CURRENT INVESTMENTS
Current investments comprise cash deposits held with financial institutions with an original maturity greater than three months and less than twelve months.

### HELD FOR SALE ASSETS
An asset is classified as 'held for sale' if its carrying amount will be recovered principally through a sale rather than continuing use. On classification, as 'held for sale', assets are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as 'held for sale' are included in the Statement of Comprehensive Income.

### WORK IN PROGRESS
Work in progress is stated at actual direct costs incurred, less non-recoverable amounts.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### CAPITAL RISK MANAGEMENT

The Company's objective when managing capital, which comprises share capital plus retained earnings, is to safeguard the ability to continue as a going concern and to provide acceptable returns to shareholders.

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of discount paid to customers.

### TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and realisable value. The amount of the provision is recognised in the Statement of Comprehensive Income.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise mainly buildings, land, meters and relays, and office equipment. Buildings, meters and relays purchased prior to the adoption of NZ IFRS, 1 April 2006, are shown at 'deemed cost' less subsequent depreciation and impairment write-down. Land purchased prior to 1 April 2006 is shown at deemed cost.

**Property, Plant and Equipment** acquired subsequent to the adoption of 'deemed cost', after 1 April 2006, is recorded at the value of the consideration given to acquire the assets, plus the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service, less subsequent depreciation and impairment write-down.

**Network Reticulation Assets** comprises mainly Low Voltage, 11kV, 33kV and LV conductor and associated transformers and substations. Reticulation assets are shown at deemed cost less subsequent depreciation and impairment write-down.

**Network Reticulation Assets** acquired subsequent to the adoption of 'deemed cost' are recorded at the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service less subsequent depreciation and impairment write-down.

**Capital Contributions** are amortised over 10 years.

**Easements** Assets sited on easements will normally be renewed at the end of their economic life in the same location in which they are currently housed. On this basis, the easement itself has an indefinite life. Annually, easements are tested for signs of impairment.

**Contracting Equipment** comprises mainly plant and equipment used in the construction and repair of network reticulation systems. Items are recorded at the value of the consideration given to acquire the assets and the value of directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service less subsequent depreciation and impairment write-down.

**Depreciation of Property, Plant and Equipment** Depreciation is provided on all property, plant and equipment, other than freehold land, at rates that will allocate the assets' cost or valuation, to their residual values, over their estimated lives. All network reticulation system assets and contracting equipment assets are depreciated on a straight line basis; other assets are depreciated using both straight line and diminishing value.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Depreciation of Property, Plant and Equipment (continued)**

The following depreciation rates have been used:

| Item | Depreciation rate |
|---|---|
| Contracting Equipment | 6.0% to 30.0% |
| Distribution System | 1.4% to 10.0% |
| Fibre Network | 7.0% |
| Freehold Buildings | 1.25% to 2.5% |
| Motor Vehicles | 13.5% to 26.0% |
| Plant and Equipment | 5.0% to 80.0% |
| Office Furniture and Equipment | 8.0% to 40.0% |

Gains and losses on disposal of property, plant and equipment are taken into account in determining the operating result for the year.

### INTANGIBLE ASSETS

Intangible Assets consist solely of computer software, which is recorded at the value of the consideration given to acquire the assets plus the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Amortisation of intangible assets is provided for at rates that will allocate the assets' cost or valuation, to their residual values, over their estimated lives. All intangible assets are amortised on a straight line basis.

Intangible assets are carried at cost less accumulated amortisation.

The following amortisation rates have been used:

| Item | Amortisation rate |
|---|---|
| Computer Software | 15% to 48% |

### IMPAIRMENT

Assets that have an indefinite useful life, for example easements, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### INVENTORIES

Inventories are valued at the lower of cost and net realisable value, with additional allowance for obsolescence where necessary. The cost of finished goods comprises direct materials and, where applicable, direct labour and other direct variable costs incurred in order to bring inventories to their present location and condition. Costs are assigned to individual items of inventory on a weighted average cost basis.

### BORROWING COSTS

Borrowing costs for assets are capitalised when the construction period of qualifying assets is greater than nine months. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the current cost of borrowing from financial markets.

### BORROWINGS

Borrowings are initially measured at fair value plus transaction costs.

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

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings, using the effective interest method.

### FINANCIAL ASSETS

The only financial assets that the Company has are loans and receivables. Purchases and sales of financial assets are accounted for at trade date.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and receivables', current investments and cash and cash equivalents in the Statement of Financial Position.

### FINANCIAL RISK MANAGEMENT

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates relevant financial risks and acts to manage these risks where possible within the parameters set out by the board of directors. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk and credit risk.

**Market risk**

*(i) Foreign exchange risk*

The Company's revenue is entirely denominated in New Zealand dollars and it has limited currency exposure in the foreseeable future. The Company may from time to time purchase assets denominated in foreign currency. Board approval is required for foreign currency-denominated contracts valued above a specified threshold, together with a recommendation on the manner in which the foreign currency exposure is to be managed, which may include the use of foreign exchange contracts.

*(ii) Cash flow and fair value interest rate risk*

Apart from a loan from the Waitaki Power Trust, the Company has no interest risk from long-term borrowing. The loan from the shareholder is an unsecured loan with interest charged at a commercial rate. Board approval is required for borrowings, together with a recommendation on the manner in which the interest rate risk is to be managed.

**Credit risk**

Credit risk is managed by the Company under policy approved by the board. Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposure to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent parties with a minimum Standard and Poor's rating of BBB for long-term investments and A-2 for short-term investment, or financial institutions that provide well-supported first ranking security, are acceptable. Investments with banks and financial institutions are limited to a term of no more than 24 months and no more than $3 million or 25% of current investments, whichever is the greater, in any one institution. Credit risk associated with trade receivables is limited through electricity retailer invoicing for line and metering charges rather than individual consumer invoicing for line and metering charges. Credit risk is also limited in trade receivables by the requirement of a minimum of 50% deposit of the total cost of new connections before work is started.

**Liquidity risk**

Cash flow forecasting is performed in the operating entities of the Company. The Company monitors its rolling forecast liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom at all times. Such financial forecasting takes into consideration the Company's debt financing plans and compliance with the Statement of Corporate Intent.

Surplus cash held by the operating entities over and above the balance required for working capital management is invested in interest-bearing call accounts and term deposits.

Note 18 analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period, at the statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analyses if their contractual maturities are essential for an understanding of timing of the cash flows. The amounts disclosed in the table are contractual undiscounted cash flows.

**Fair value estimation**

The fair value of financial assets and liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value for any financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date. Foreign currency monetary items at balance date are translated at the exchange rate in effect at the balance date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value is determined.

Exchange differences on foreign currency balances are recognised in the Statement of Comprehensive Income in the period that they occur.

### TRADE AND OTHER PAYABLES

Trade and Other Payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Trade and Other Payables are recognised at fair value.

### PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### EMPLOYEE ENTITLEMENTS

**Wages, salaries and annual leave**

Employee Entitlements to salaries, wages and annual leave are recognised when they accrue to employees.

**Sick and special leave**

Employee Entitlements to sick and special leave are recognised when taken by employees. A provision is made for the additional amount that the Company expects to pay as a result of unused sick or special leave that has accumulated at balance date.

**Long service leave**

Long service leave is not recognised in the first 10 years of service. After 10 years of service an allowance is made of 1/5 per year towards long service leave entitlement. This allowance is then discounted back to current value. Employees are entitled to long service leave after serving for 15 years

### SHARE CAPITAL

Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### LEASES

#### Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss component of the statements of comprehensive income on a straight-line basis over the period of the lease.

#### Finance Leases

**The Company is the Lessor**

Assets leased to third parties under operating leases are included in property, plant and equipment in the Statement of Financial Position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of incentives given to lessees) is recognised on a straight-line basis over the lessee term.

**The Company is the Lessee**

Leases in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and

the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the asset's useful life and the lease term.

### CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

**New and amended standards adopted by the company**
There are no changes in 2016/17.

**New Standards and interpretations not yet adopted**
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out below:

***NZ IFRS 9: Financial Instruments***
NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but beginning on or after 1 January 2018. Early adoption is permitted. The company intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

***NZ IFRS 15: Revenue from contracts with customers, (effective for annual periods beginning on or after 1 January 2018)***
NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 *Revenue* and IAS 11 *Construction contracts* and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company has yet to assess IFRS 15's full impact. The Company will apply this standard from 1 April 2018.

***NZ IFRS 16: Leases***
NZ IFRS 16, "Leases' replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, because the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers.
The company intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

**Prior Year Comparatives**
Prior year comparatives have been restated where necessary in line with current year reporting.

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 2 | **Operating Revenue** | | |
| | *Operating Revenue Comprises:* | | |
| | Network | 17,520,381 | 18,813,718 |
| | Capital Contributions | 2,034,517 | 2,480,806 |
| | Metering | 704,445 | 872,913 |
| | Interest | 300,273 | 397,354 |
| | Bad Debts Recovered | 3,281 | 3,561 |
| | Rent | 16,398 | 65,414 |
| | Contracting | 1,261,863 | 309,458 |
| | Other | 940,799 | 852,624 |
| | | 22,781,957 | 23,795,848 |
| | | | |
| 3 | **Operating Expenses** | | |
| | *Operating Expenses Comprise:* | | |
| | Operating Costs | 3,887,765 | 2,762,665 |
| | Directors' Fees | 198,749 | 193,748 |
| | Donations | 109,540 | 78,586 |
| | Audit Fees (Financial Statements) – PWC | 58,900 | 64,450 |
| | Audit Disbursements (Financial Statements) – PWC | 9,850 | 7,325 |
| | Taxation Services – PWC | 15,942 | 9,425 |
| | Taxation Services - Other | 1,289 | - |
| | Other Services (Preparation of Submissions) – PWC | - | 12,550 |
| | Regulatory Audit Including Disbursements – PWC | 33,387 | 35,852 |
| | Other Regulatory Audits – Other | 16,236 | 20,310 |
| | Rent | 17,500 | 11,783 |
| | Bad Debts Written Off | - | 30 |
| | | 4,349,158 | 3,196,724 |
| | | | |
| | | | |
| 4 | **Depreciation, Amortisation and Impairment** | | |
| | *Depreciation Comprises:* | | |
| | Buildings | 55,993 | 50,910 |
| | Network Reticulation System | 2,738,532 | 2,605,684 |
| | Meters and Relays | 138,681 | 252,629 |
| | Plant and Equipment | 586,594 | 510,025 |
| | Fibre Network | 182,184 | 182,432 |
| | Intangibles | 189,712 | 228,203 |
| | Total Depreciation | 3,891,696 | 3,829,883 |
| | Loss on Disposal of Property, Plant and Equipment | 207,571 | 201,665 |
| | Total Depreciation, Amortisation and Impairment | 4,099,267 | 4,031,548 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 5 | **Taxation** | | |
| | *Tax Expenses For Period Made Up Of:* | | |
| | Current Taxation Expense | 572,062 | 1,164,353 |
| | Deferred Taxation Expense | 399,331 | 871,611 |
| | | 971,393 | 2,035,964 |
| | | | |
| | Operating Surplus Before Income Tax | 4,643,626 | 7,260,360 |
| | Prima Facie Taxation @28 cents | 1,300,216 | 2,032,901 |
| | *Movement in Income Tax Due to -* | | |
| | Non Deferred Tax Differences | - | - |
| | Non Assessable Income | - | - |
| | Non Deductible Expenses | 28,231 | 3,063 |
| | Prior Period Adjustment | (357,054) | - |
| | | (328,823) | 3,063 |
| | **Tax Expense** | 971,393 | 2,035,964 |
| | Deferred Tax Movements | | |
| | Capital Contributions | (259,172) | (441,099) |
| | Depreciation | (621,044) | (439,869) |
| | Prior Period Adjustment | 456,723 | - |
| | Other | 24,162 | 9,358 |
| | | (399,331) | (871,610) |
| | **Income Tax Expense** | 572,062 | 1,164,354 |
| | | | |
| | | | |
| | **Imputation Credit Account** | | |
| | Opening Balance | 9,480,215 | 8,272,084 |
| | Prior Period Adjustment | - | - |
| | Income Tax Payments During the Year | 1,379,508 | 1,208,131 |
| | Income Tax Refunds Received During the Year | - | - |
| | Imputation Credit Received | - | - |
| | Other Credits | - | - |
| | Imputation Credit Allocated to Dividends in the Year | - | - |
| | **Closing Balance** | 10,859,723 | 9,480,215 |
| | | | |

| | | Depreciation | Other | Total |
|---|---|---|---|---|
| 5 | **Taxation (Continued)** | | | |
| | | $ | $ | $ |
| | **Deferred Tax Liability/(Asset)** | | | |
| | Opening Balance as at 1 April 2015 | 10,521,414 | 1,336,380 | 11,857,794 |
| | Change in the Year | 439,869 | 431,741 | 871,610 |
| | Closing Balance as at 31 March 2016 | 10,961,283 | 1,768,121 | 12,729,404 |
| | | | | |
| | Opening Balance as at 1 April 2016 | 10,961,283 | 1,768,121 | 12,729,404 |
| | Change in the Year | 621,044 | (221,713) | 399,331 |
| | Closing Balance as at 31 March 2017 | 11,582,327 | 1,546,408 | 13,128,735 |
| | | | | |
| | | | | |
| | **Current and Non-Current Deferred Tax Liability/(Asset)** | | | |
| | **2016** | | | |
| | Current Deferred Tax | (672) | (163,720) | (164,392) |
| | Non-Current Deferred Tax | 10,961,955 | 1,931,841 | 12,893,796 |
| | Total Deferred tax | 10,961,283 | 1,768,121 | 12,729,404 |
| | **2017** | | | |
| | Current Deferred Tax | - | - | - |
| | Non-Current Deferred Tax | 11,582,327 | 1,546,408 | 13,128,735 |
| | Total Deferred tax | 11,582,327 | 1,546,408 | 13,128,735 |
| | | | | |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 6 | **Trade and Other Receivables** | | |
| | Trade Receivables | 2,484,851 | 2,207,196 |
| | Doubtful Debts | (39,042) | (57,678) |
| | Total Receivables | 2,445,809 | 2,149,518 |
| | Other Receivables | 326,526 | 661,371 |
| | Prepayments | 186,001 | 155,943 |
| | GST | 32,457 | - |
| | Balance at End of Year | 2,990,793 | 2,966,832 |
| | Less Non-Current Trade Receivables | 335,600 | 407,060 |
| | Current Trade and Other Receivables | 2,655,193 | 2,559,772 |
| | | | |
| | | | |
| | Trade and Other Receivables less than 90 days old | 2,927,252 | 2,911,418 |
| | Trade and Other Receivables greater than 90 days old | 63,541 | 55,414 |
| | Trade and Other Receivables greater than 90 days old and impaired | - | - |
| | | 2,990,793 | 2,966,832 |

| 7 | Property, Plant and Equipment | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Network Reticulation System | Land & Buildings | Meters And Relays | Fibre Network | Plant And Equipment | Total |
| | | $ | $ | $ | $ | $ | $ |
| | **Gross Carrying Amount** | | | | | | |
| | At 1 April 2015 | 92,037,053 | 2,068,158 | 2,575,173 | 2,604,400 | 4,167,965 | 103,452,749 |
| | Additions | 10,385,665 | 220,488 | 25,816 | - | 825,547 | 11,457,516 |
| | Disposals | (322,331) | - | - | - | (40,896) | (363,227) |
| | At 31 March 2016 | 102,100,387 | 2,288,646 | 2,600,989 | 2,604,400 | 4,952,616 | 114,547,038 |
| | | | | | | | |
| | Additions | 10,147,913 | 4,000 | - | - | 830,046 | 10,981,959 |
| | Disposals | (492,627) | (24,205) | (5,592) | - | (55,553) | (577,977) |
| | At 31 March 2017 | 111,755,673 | 2,268,441 | 2,595,397 | 2,604,400 | 5,727,109 | 124,951,020 |
| | | | | | | | |
| | | | | | | | |
| | **Accumulated Depreciation and Impairment** | | | | | | |
| | At 1 April 2015 | 23,978,971 | 380,546 | 2,113,293 | 819,598 | 1,669,866 | 28,962,274 |
| | Charge for the Year | 2,605,684 | 50,910 | 252,629 | 182,432 | 510,025 | 3,601,680 |
| | Disposals | (150,020) | - | - | - | (25,161) | (175,181) |
| | AT 31 March 2016 | 26,434,635 | 431,456 | 2,365,922 | 1,002,030 | 2,154,730 | 32,388,773 |
| | | | | | | | |
| | Charge for the Year | 2,738,532 | 55,993 | 138,681 | 182,184 | 586,594 | 3,701,984 |
| | Disposals | (236,652) | (17,478) | (651) | - | (53,589) | (308,370) |
| | At 31 March 2017 | 28,936,515 | 469,971 | 2,503,952 | 1,184,214 | 2,687,735 | 35,782,387 |
| | | | | | | | |
| | | | | | | | |
| | **Net Book Values** | | | | | | |
| | At 31 March 2016 | 75,665,752 | 1,857,190 | 235,067 | 1,602,370 | 2,797,886 | 82,158,265 |
| | Work in Progress | 2,218,599 | - | - | - | 3,324 | 2,221,923 |
| | | 77,884,351 | 1,857,190 | 235,067 | 1,602,370 | 2,801,210 | 84,380,188 |
| | | | | | | | |
| | At 31 March 2017 | 82,819,158 | 1,798,470 | 91,445 | 1,420,186 | 3,039,374 | 89,168,633 |
| | Work in Progress | 1,058,557 | 114,261 | - | - | 9,965 | 1,182,783 |
| | | 83,877,715 | 1,912,731 | 91,445 | 1,420,186 | 3,049,339 | 90,351,416 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 8 | **Intangible Assets** | | |
| | | | |
| | **Purchased Software** | | |
| | **Gross Carrying Amount** | | |
| | Opening Balance | 1,507,919 | 1,265,760 |
| | Additions | 112,061 | 242,159 |
| | Disposals | - | - |
| | **Closing Balance** | 1,619,980 | 1,507,919 |
| | | | |
| | **Accumulated Amortisation and Impairment** | | |
| | Opening Balance | 744,501 | 516,298 |
| | Charge for Year | 189,712 | 228,203 |
| | Disposals | - | - |
| | Closing Balance | 934,213 | 744,501 |
| | | | |
| | Net Book Value | 685,767 | 763,418 |
| | Work in Progress | 3,000 | - |
| | Carrying Amount | 688,767 | 763,418 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 9 | **Inventories** | 1,292,068 | 1,286,825 |
| | | | |
| | No inventory has been written down, or had write-down reversal. No inventory is pledged as security for liabilities. | | |
| | | | |
| 10 | **Trade and Other Payables** | | |
| | | | |
| | Trade Payables | 1,870,239 | 2,128,056 |
| | Accruals | 112,957 | 105,567 |
| | Capital Contributions | 226,587 | 527,045 |
| | GST | - | 7,074 |
| | Balance at End of Year | 2,209,783 | 2,767,742 |
| | | | |
| | All trade and other payables have a maturity within one year | | |
| | | | |
| | Note 18 provides analyses of the non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period from the date of the Statement of Financial Position to the contractual maturity date. | | |
| | | | |
| 11 | **Employee Entitlements** | | |
| | | | |
| | Leave Entitlements | 550,601 | 478,403 |
| | Other Entitlements | 112,663 | 109,525 |
| | Total | 663,264 | 587,928 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 12 | **Share Capital** | | |
| | | | |
| | Fully Paid-up Ordinary Shares | 14,000,000 | 14,000,000 |
| | Non-Issued Shares and Shares Held by the Company | - | - |
| | Total Number of Ordinary Shares Authorised | **14,000,000** | **14,000,000** |

The Company has one class of shares, which is "ordinary shares". Each ordinary share has a value of $1.00 and ranks equally for voting and distribution rights. All shares are held by Waitaki Power Trust.
A share premium of $571,119 was paid with the acquisition of shares.
As at the date of authorisation for issue of these financial statements, no dividends have been proposed or declared that are not recognised as a distribution in the 2017 year (2016 Nil).

| | | 2017 | 2016 |
|---|---|---|---|
| 13 | **Retained Earnings** | | |
| | Balance at beginning of year | 67,917,393 | 62,692,997 |
| | Net Surplus for Year | 3,672,233 | 5,224,396 |
| | **Balance at End of Year** | **71,589,626** | **67,917,393** |

| | | 2017 | 2016 |
|---|---|---|---|
| 14 | **Reconciliation of Net Profit with Cashflow from Operating Activities** | | |
| | Net Profit for the Year | 3,672,233 | 5,224,396 |
| | **Add/(Less) Non-Cash Items:** | | |
| | Depreciation and Amortisation | 4,099,267 | 4,031,548 |
| | Assets Scrapped | | - |
| | Deferred Taxation | 399,331 | 871,611 |
| | | **4,498,598** | **4,903,159** |
| | **Add/(Less) Movements in Working Capital Items:** | | |
| | (Increase) /Decrease in Trade and Other Receivables | (23,961) | (107,475) |
| | (Increase / Decrease in Inventories | (5,243) | (282,386) |
| | (Increase) / Decrease in Work in Progress | (409) | 5,374 |
| | Increase / (Decrease) in Tax Payable | (807,446) | (43,778) |
| | Increase / (Decrease) in Trade and Other Payables | (557,959) | (1,048,714) |
| | Increase / (Decrease) in Employee Entitlements | 75,336 | 6,987 |
| | | **(1,319,682)** | **(1,469,992)** |
| | **Net Cash Flows From Operating Activities:** | **6,851,149** | **8,657,562** |

| | | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| 15 | **Loan from Waitaki Power Trust** | | |
| | Opening Balance at 1 April 2016 | 1,150,000 | 1,150,000 |
| | Amount Drawn Down through to 31 March 2017 | | - |
| | Closing Balance | **1,150,000** | **1,150,000** |
| | | | |
| | The loan is unsecured and interest charged on the loan is at commercial rates | | |
| | | | |
| | | | |
| 16 | **Capital Commitments** | | |
| | Network Assets | 1,911,000 | - |
| | Website | 43,000 | - |
| | Total | **1,954,000** | **-** |
| | | | |
| 17 | **Related Party Transactions** | | |
| | *Payments from Network Waitaki Limited to Whitestone Contracting Limited* | | |
| | Whitestone Contracting Limited is related to Network Waitaki Limited through its director, John Walker, who held a directorship at Whitestone Contracting Limited up until 31/12/16. All contracting services between Whitestone Contracting Limited and Network Waitaki Limited are at commercial rates. | | |
| | | | |
| | Contracting Services | 530,675 | 570,488 |
| | Outstanding Balance at Balance Date | | |
| | Trade Payables | 56,406 | 31,025 |
| | | | |
| | *Payments from Whitestone Contracting Limited to Network Waitaki Limited* | | |
| | Whitestone Contracting Limited is related to Network Waitaki Limited through its director, John Walker, who also held a directorship at Whitestone Contracting Limited up until 31/12/16. All contracting services between Whitestone Contracting Limited and Network Waitaki Limited are at commercial rates. | | |
| | | | |
| | Contracting Services | - | 995 |
| | | | |
| | | | |
| | *Payments from Waitaki Power Trust to Network Waitaki Limited* | | |
| | | | |
| | Loan Outstanding at Balance Date | 1,150,000 | 1,150,000 |
| | | | |
| | *Payments from Network Waitaki Limited to Waitaki Power Trust* | | |
| | | | |
| | Interest | 66,355 | 70,951 |
| | Outstanding Balance at Balance Date | - | - |
| | | | |
| | | | |
| | *Payments from Network Waitaki Limited to A.J. Wood Chartered Accountants Limited* | | |
| | A.J. Wood Chartered Accountants Ltd is related to Network Waitaki Limited through its director, Mr. A.J. Wood, who is a shareholder and director of A. J. Wood Chartered Accountants Ltd. | | |
| | | | |
| | Directors Fees | 30,426 | 29,625 |
| | | | |
| | | | |
| | *Payments from Network Waitaki Limited to key management personnel* | | |
| | Payments to key management personnel are made in accordance with employment agreements. | | |
| | | | |
| | Salaries | 916,261 | 836,776 |
| | | | |

| | | | | | |
|---|---|---|---|---|---|
| **18** | **Analyses of Financial Liabilities** | | | | |
| | *At 31 March 2016* | | | | |
| | | Less than 1 Year | Between 1 and 2 Years | Between 2 and 5 Years | Over 5 Years |
| | Loan | $66,355 | $66,355 | $199,065 | $1,813,550 |
| | Trade and Other Payables | $2,767,742 | | | |
| | *At 31 March 2017* | | | | |
| | | Less than 1 Year | Between 1 and 2 Years | Between 2 and 5 Years | Over 5 Years |
| | Loan | $66,355 | $66,355 | $199,065 | $1,813,550 |
| | Trade and Other Payables | $2,209,783 | | | |

The loan is interest only, with no maturity date; however, the Waitaki Power Trust has given an undertaking to give a minimum of 12 months' notice of the requirement to make any repayment of the advance outstanding or part thereof. The current interest rate is 5.77% (2016 5.77%). The over 5 year amounts allow for payments up to 10 years.

| | | 2017 | 2016 |
|---|---|---|---|
| **19** | **Operating Leases** | | |
| | | $ | $ |
| | *Lessors – Operating Leases* | | |
| | No later than one year | 404,077 | 400,672 |
| | Later than one year and no later than five years | 1,572,212 | 1,562,780 |
| | Later than five years | 5,329,821 | 5,709,602 |
| | | **7,306,110** | **7,673,054** |

Network Waitaki leases out the fibre network it purchased in 2011. Its cost and accumulated depreciation values are shown in Note 7.

*Lessees – Operating Leases*

The future minimum lease payments under non-cancellable operating leases are as follows:

| | 2017 | 2016 |
|---|---|---|
| No later than one year | 530,240 | 526,732 |
| Later than one year and no later than five years | 1,965,315 | 1,997,741 |
| Later than five years | 1,908,078 | 2,395,014 |
| | **4,403,633** | **4,919,487** |

**20** Contingent Liabilities

The Company has no contingent liabilities as at 31 March 2017 (2016 Nil).

# STATEMENT OF SERVICE PERFORMANCE

Performance targets, as set out in the Statement of Corporate Intent (SCI) approved by Directors

| FINANCIAL PERFORMANCE MEASURES | | | |
|---|---|---|---|
| | | | |
| STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2017 | | | |
| | ACTUAL | SCI | VARIANCE |
| | $ | $ | $ |
| **Statement of Comprehensive Income** | | | |
| Operating Revenue | 20,747,440 | 23,708,460 | (2,961,020) |
| Operating Expenses | (12,298,254) | (15,520,082) | 3,221,828 |
| | | | |
| **Operating Profit** | 8,449,186 | 8,188,378 | 260,808 |
| Depreciation | (4,099,267) | (4,178,766) | 79,499 |
| | | | |
| **Net Profit before Discount and Tax** | 4,349,919 | 4,009,612 | 340,307 |
| Discount | (1,740,810) | (1,500,000) | (240,810) |
| Taxation | (971,393) | (1,084,448) | 113,055 |
| | | | |
| **Net Profit after Taxation and Before Capital Contributions** | 1,637,716 | 1,425,164 | 212,552 |
| Capital Contributions | 2,034,517 | 1,448,000 | 586,517 |
| | | | |
| **Net Profit After Taxation and Capital Contributions** | 3,672,233 | 2,873,164 | 799,069 |
| | | | |
| | | | |
| | | | |
| **Comment** | | | |
| The higher Net Profit after Taxation represents a higher operating profit as well as higher capital contributions and lower tax which has been offset by higher discount. | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| BALANCE SHEET AS AT 31 March 2017 | | | |
| | ACTUAL | SCI | VARIANCE |
| | $ | $ | $ |
| Shareholders' Equity | 86,160,745 | 85,661,283 | 499,462 |
| | | | |
| Current Assets | 11,936,744 | 11,864,664 | 72,080 |
| Current Liabilities | 2,873,047 | 4,067,479 | 1,194,432 |
| | | | |
| Working Capital | 9,063,697 | 7,797,185 | 1,266,512 |
| | | | |
| Non-Current Assets | 91,375,783 | 89,633,698 | 1,742,085 |
| Non-Current Liabilities | 14,278,735 | 11,769,600 | (2,509,135) |
| | | | |
| Net Non-Current Assets | 77,097,048 | 77,864,098 | (767,050) |
| | | | |
| Total Net Assets | 86,160,745 | 85,661,283 | 499,462 |
| | | | |
| **Comment** | | | |
| Please note that some of the figures in the SCI column differ from those published in the 2017 SCI due to inventory having been classified as a non-current asset ($1,343,881) when it should have been a current asset. The current assets and working capital figures are higher whilst the non-current assets and net non-current assets are lower. | | | |

| FINANCIAL PERFORMANCE MEASURES (CONTINUED) | | | |
|---|---|---|---|
| | | | |
| **Key Financial Reporting Measures** | | | |
| | ACTUAL | SCI | VARIANCE |
| NPBT to Shareholder Funds | 5.39% | 4.62% | 0.77% |
| Net Assets per Share | $6.15 | $6.12 | $0.03 |
| NPBT Earnings per Share in Cents | 33.17 | 28.27 | 4.90 |
| Ratio of Shareholders' Funds to Total Assets | 83.40% | 84.40% | -1.00% |
| Network Operating Cost per ICP | $238.50 | $252.87 | -$14.37 |
| Rate of Return After Tax on Shareholder Funds | 4.26% | 3.35% | 0.91% |
| Direct Line Cost per Circuit km of Line | $1,785.29 | $1,688.68 | $96.61 |
| | | | |
| **Comment** | | | |
| The higher than planned NPBT to Shareholder' Funds is mainly because of the higher Net Profit before taxation. | | | |
| | | | |
| **Non-Financial Performance Measures** | | | |
| | ACTUAL | SCI | VARIANCE |
| Average Interruption Duration (SAIDI) – normalised<br><br>Average number of minutes electricity supply was lost per customer, normalised by limiting the impact of a major event day | 124.16 | 116.50 | 7.66 |
| Average Interruption Frequency (SAIFI) – normalised<br><br>Average frequency of interruptions to electricity supply per customer during the year, normalised by limiting the impact of a major event day | 1.06 | 1.54 | (0.48) |
| Customer Average Interruption Duration (CAIDI) | 116.78 | 75.64 | 41.14 |
| Line Loss | 4.98% | 6.00% | -1.02% |
| | | | |
| **Comment** | | | |
| The performance of the network was affected by a change in policy restricting work on live equipment. Over half of the SAIDI minutes this year were due to work not being undertaken on live equipment. | | | |

**Health and safety measures** – energy company boards and management understand that the most important matter they manage is health and safety. Therefore, we believe that our commitment to maintaining Health and Safety Management System Accreditation is fundamental to our company. Network Waitaki Limited has met the Tertiary level requirements for ACC Workplace Safety Management Practices and is certified for the period 1 November 2016 to 31 October 2018.

## SOURCES OF INFORMATION

Network Waitaki's website, **www.networkwaitaki.co.nz**, contains information about our policies and operations. Paper copies are available from our office at 10 Chelmer Street Oamaru.

| Information available on the **Network Waitaki website includes:** | Other websites of interest include: |
|---|---|
| | www.comcom.govt.nz (Commerce Commission) |
| Network Disclosures | www.utilitiesdisputes.co.nz. (Utilities Disputes Ltd) |
| Pricing Methodology | www.ea.govt.nz (Electricity Authority) |
| Tariff | www.mbie.govt.nz (Ministry of Business, Innovation and Employment) |
| Use of System Agreement | www.transpower.co.nz (Transpower) |
| Price Path Threshold | www.contact.co.nz (Contact Energy) |
| Tree Management | www.genesisenergy.co.nz (Genesis Energy) |
| Network Assets Management Plan | www.meridianenergy.co.nz (Meridian Energy) |
| Working Around Overhead Lines | www.mercury.co.nz (Mercury Energy) |
| Statement of Corporate Intent | www.trustpower.co.nz (TrustPower)<br>www.whatsmynumber.org.nz (Consumer Powerswitch)<br>www.eeca.govt.nz (Energy Efficiency and Conservation Authority) |

Feedback: email service@networkwaitaki.co.nz with suggestions on how we can improve our reporting and consulting with consumers.

# *Independent Auditor's Report*

## *To the readers of Network Waitaki Limited's Financial Statements and Performance Information for the year ended 31 March 2017*

The Auditor-General is the auditor of Network Waitaki Limited (the company). The Auditor-General has appointed me, Nathan Wylie, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information of the company on his behalf.

We have audited:

- the financial statements of the company on pages 11 to 29, that comprise the statement of financial position as at 31 March 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the performance information of the company on pages 30 to 31.

### Opinion

#### *Unmodified opinion on the financial statements*

In our opinion the financial statements of the company:

- present fairly, in all material respects:
  - its financial position as at 31 March 2017; and
  - its financial performance and cash flows for the year then ended; and

- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

#### *Disclaimer of opinion on the SAIDI, SAIFI and CAIDI performance measures in the statement of service performance*

Our audit was limited because we could not confirm the completeness and accuracy of all the SAIDI, SAIFI and CAIDI outage data due to:

- no independent evidence being available to support the completeness and accuracy of the recorded faults used to measure the company's achievement against the SAIDI, SAIFI and CAIDI performance targets adopted; and

- limited control over the completeness and accuracy of interconnection point ('ICP') data representing individual customer connections to the network included in the SAIDI, SAIFI and CAIDI calculations throughout the period.

*PricewaterhouseCoopers, PwC Centre, Level 4, 60 Cashel Street, Christchurch Central, PO Box 13244, Christchurch 8141, New Zealand, T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz*

There are no practical audit procedures to determine the effect of these limitations in independent evidence and controls. As a result we are unable to form an opinion as to whether the amounts and details set out in the SAIDI, SAIFI and CAIDI performance information, of which the outage and ICP data are integral elements, present fairly, in all material respects, the company's achievements.

Therefore, we are unable to form an opinion as to whether the SAIDI, SAIFI and CAIDI performance measures adopted for the year ended 31 March 2017, which are reflected in the statement of service performance of the company on page 31, present fairly, in all material respects, the company's achievements measured against the SAIDI, SAIFI and CAIDI performance targets adopted for the year ended 31 March 2017.

Attention is drawn to the fact that we issued a disclaimer of opinion on the company's 31 March 2016 SAIDI, SAIFI and CAIDI outage data for the same reasons as noted above. As a consequence, no assurance can be provided in relation to this limitation on the comparative information presented in the 31 March 2016 statement of service performance.

***Unmodified opinion on the other performance measures in the statement of service performance***

In our opinion, the other performance measures, that is the measures other than the SAIDI, SAIFI and CAIDI performance measures, in the statement of service performance, present fairly, in all material respects the company's achievements measured against the performance targets adopted for the year ended 31 March 2017.

Our audit was completed on 29 May 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and explain our independence.

**Basis for our opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

**Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the company for preparing performance information that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

**Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and performance information, our procedures were limited to checking that the information agreed to the company's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance;

pwc

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 10, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

**Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012, and taxation services which are pwc

compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the company.

Nathan Wylie
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand

## Network Waitaki Limited Office

10 Chelmer Street

P O Box 147
Oamaru 9444

Phone: (03) 433 0065
Fax: (03) 434 8845
Freephone: 0800440 220

Email: service@networkwaitaki.co.nz

## Executive Team, Network Waitaki Limited

| | |
|---|---|
| **Chief Executive Officer** | Graham B. Clark |

**Managers**

| | |
|---|---|
| - **Health & Safety** | Neil McBride |
| - **Network** | David Paterson |
| - **Contracting** | Derek McGee |
| - **Finance** | Brett Dixon |
| - **Planning & Asset** | Tod Trotman |
| - **Regulatory Analyst** | Cornel van Basten |

***www.networkwaitaki.co.nz***