

networktasman

Your consumer-owned electricity distributor

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Performance Overview

A graphical summary of the year's highlights

Safety

Reliability

**PUBLIC SAFETY OR
PROPERTY DAMAGE**

0

**LOST TIME
INJURY**

0

**SAIDI
(MINUTES)**

232

**SAIFI
(OUTAGES)**

1.31

Financial

OPERATING REVENUE

\$50m

SURPLUS AFTER TAX

\$10.5m

EBITDA

\$22m

CAPEX SPEND

\$9m

DISCOUNTS (incl. GST)

\$12m

DIVIDENDS

\$2m

Network

**NETWORK
CONNECTIONS**

39,861

**ADVANCED METERS
INSTALLED**

32,163

**ENERGY VOLUMES
DELIVERED**

652GWh

Directors' Report

On behalf of the Directors of Network Tasman I have pleasure in presenting the annual report and audited financial statements for the financial year ended 31 March 2018.

Our Vision

Our vision at Network Tasman is to be a successful network services company for the benefit of our consumers. Our vision is supported by our values of Safety and Wellbeing, Reliability, Efficiency and Consumer Value. We strive to achieve our vision by delivering security of supply and cost efficiency to our consumers while ensuring the appropriate levels of investment in our network.

SCI Targets

We have exceeded our SCI financial targets for 2017/18, delivering an operating surplus of \$10.5 million, which is \$2.5 million above last year. Prudent financial management has seen the cost of our lines business stay within targets, with operating costs per connection expected to continue to lie below the national average for electricity distribution businesses (EDBs).

From a safety perspective we were also on target with zero Lost Time Injury's (LTIs) and zero Public Injury Events involving staff or contractors on the company's network.

Although we met the regulated reliability compliance limits set by the Commerce Commission, our more stringent internal targets were not achieved due to two ex-tropical cyclones Fehi and Gita in February 2018. The network suffered damage and access for service restoration proved to be a key issue due to slips and damaged roads. We worked closely with affected consumers while restoring supply.

Governance and Risk Management

We follow best practice governance principles as laid out by the Institute of Directors. This is supported by a strong policy framework and standing committees Audit and Risk, Health and Safety, and Remuneration. Policies on diversity and environmental sustainability have been implemented with focus on these areas increasing

in importance to our future success. The dual storms impacting our region in February 2018 reminded us of the need to consider and plan for the future impacts from climate change.

Our risk matrix is maintained across the company's activities and strategic risks are reviewed on a regular basis.

A key component of our risk management framework includes maintaining vigilance around cyber security. Our risk mitigation includes an annual cyber security review including penetration testing, maintaining a regime to regularly apply software patches, educating staff on the importance of reporting suspicious emails, collaboration with fellow South Island lines businesses and monitoring securities advisories on identified risks from the National Cyber Security Centre.

Asset Management

Management and the Board devotes considerable time to developing our Asset Management Plan (AMP) including annually reviewing the capital development, renewals and maintenance sections of the AMP. This includes a keen focus on network condition and implementation of the recommendations from the network condition report completed last year. During the year the engineering review on the life of concrete poles was completed with life expectancy of poles in inland areas exceeding 150 years.

The company is facing a significant increase in capital spend in the next 10 years, as is the general case with infrastructure in New Zealand but also reflecting ongoing regional growth. During the next five years we have identified significant increased demand in the industrial sector, driven by cold storage, shellfish processing/extraction, rest homes, hop processing and dairy irrigation. Land subdivision for residential growth is strong. In the later part of the ten-year planning period,

We are spending a considerable amount of time identifying, researching and preparing for the impact and opportunities of new technologies.

electric vehicle charging is expected to have an impact.

The growth in the region has brought forward a number of projects to ensure security of supply. The most significant of these is the development of the new Brightwater Grid Exit Point (GXP), which has been brought forward by two years to 2023.

Pricing and Discounts

Network Tasman has continued to hold its network prices well below Commerce Commission pricing limits and has held movements in our distribution network component of our price close to the rate of inflation for more than a decade. Our network prices for residential connections continue to be among the lowest in the country. This is achieved in spite of the large rural geographical footprint, resulting in high servicing costs, and the increasing costs of compliance and regulation.

The company continues to provide discounts in line with our SCI targets. In the context of regulatory developments and the IRD review of discounts, we have made the decision that from 1 April 2018 our discounts will be posted, rather than discretionary. It is considered that this approach is in the best interests of both the company and its consumers and will result in no change in the tax treatment of network discounts.

Changes in the way that customers use electricity, including through the adoption of emerging technology, means that it will be increasingly important that the structure of our prices reflect underlying costs. The company continues to engage closely with other lines companies in the co-ordinated assessment of pricing best-practice.

Network Tasman's Financial Capabilities

The company is in a strong financial position currently with a low debt ratio of 3% which provides us with significant financial leverage to meet the requirements of funding future capital expenditure and new innovation/technology requirements.

We will maintain the continuance of the current dividend policy in consultation with our shareholder Network Tasman Trust. We have a strong risk management and insurance programme in place and are confident in our

restoration capability to deal with a disaster occurrence impacting our network.

Emerging Technologies

We are now seeing new technologies becoming mainstream and economic viability closer to a reality. The Nelson Tasman region has the highest penetration of solar rooftop generation in New Zealand and, more generally, our region appears to have a relatively high number of early adopters of new technologies, including Electric Vehicles (EVs).

The company is spending a considerable amount of time identifying, researching and preparing for the impact and opportunities of these new technologies. As an example we have been using batteries, solar and electric vehicle charging at our 281 Queen St investment property and are looking at options to use battery storage to delay or avoid future capital investment on rural lines.

We firmly believe the key to the effective implementation of new technologies will be collaboration between lines companies to share knowledge and experience and fostering relationships with organisations at the forefront of the new technologies. An example is Canterbury's EPECentre who we have commissioned to assess the impact of EVs on our line network. Co-operation and knowledge sharing will drive efficiencies by assessing the appropriateness of adopting new technologies and thereby ensuring that our shareholders achieve the greatest returns from their investment.

Network Tasman Fibre

Our fibre network has continued to provide a solid return on investment in the face of a changing environment with UFB deployment occurring across New Zealand. In line with a refreshed strategy, Network Tasman Fibre introduced a new range of fibre products and pricing, expanding the addressable market, to retain existing customers and support new growth.

A key requirement to facilitating the strategy is the refresh of our core electronics. We are partnering with Enable Networks and Huawei to undertake this work

Directors' Report

during the year ahead.

Growth of fibre connections continues in new subdivisions. We continue to examine opportunities for innovation and the supply of value-added services. Our CCTV services are an example of a successful service offering of this type.

Property

We are continuing to see solid returns from our portfolio of legacy properties which are tenanted with quality tenants at market returns. Development of the portfolio will continue as the need and opportunities arise and when commercial returns can be achieved. Our portfolio is ideally located to benefit from the on-going growth in the region.

Advanced Meters

Our deployment of advanced meters via SmartCo is progressing well. The deployment in our region is now at 80% with the deployment phase near completion. Contracts with all of the major retailers that are actively engaged in advanced meter deployment programmes provide certainty of future income flows.

SmartCo have contracted with WEL Networks to deliver a SmartHub solution for members including Network Tasman. This enables Network Tasman to maximise the network and consumer benefits available from our investment in the advanced meter infrastructure.

Future Challenges

In considering our future, we can and will meet our key capabilities of maintaining security of supply, increasing capital expenditure on the network for replacement and growth, maintain effective pricing and meeting our consumer targets. We will also need to meet the impact of new technologies – both behind and before the meter. Our focus is on electricity distribution and related activities only.

Network Tasman, like all electricity distribution businesses, faces a range of challenges in the future. For example:

- There is uncertainty as to the likely political and regulatory response to issues raised around the number of regional lines companies in New Zealand and their operating and governance structures. We are seeing an increasing cost of meeting the current regulatory framework. The Electricity Pricing Review panel will report in April 2019.
- From a capital asset planning perspective there is the requirement to renew old assets and ensure provision for strong regional growth while considering and taking advantage of disruptive new technologies.

- The recent storms Fehi and Gita reminded us all of the risk from natural disasters such as earthquakes and severe storms and the need for robust disaster recovery plans and preparedness for the impact of climate change.
- To promote an open network platform for all forms of generation and distribution with a neutral position on retail/generation while providing a core network providing support for new technologies.

Noting the political desire is for increased co-operation between EDBs, we are very supportive of collaboration initiatives such as shared services, as long as the initiatives are value enhancing for our consumers.

We are confident our highly skilled and experienced board and management team has the ability to develop the necessary strategies to manage these challenges. Our strong financial position, including low debt, places us in a good position to take up new opportunities.

Dividend

Network Tasman again paid a fully imputed dividend of \$2 million to our shareholder, the Network Tasman Trust. Since Network Tasman Limited was established in 1993 more than \$210 million has been paid to consumers by way of discounts and dividends.

Acknowledgments

The Directors and staff were saddened by the passing of Mr. Peter Hulme in April. Mr. Hulme, a popular and valued team member, had worked for the company and predecessor companies for 37 years. Over that time, he had held a number of positions including as our Easements Officer for the last 22 years.

We also note the retirement of Ms. Annette Milligan, following her nine years of service as a director of the company. I would like to thank Ms. Milligan for her wise counsel over those years and wish her well for the future.

During the year we welcomed the appointment of Sarah Smith as a director of the company, who has extensive business and governance experience in both the private and public sectors.

We also extend our thanks to the many contractors that work on our network including our key contractors Delta, Treescape and ElectroNet.

Finally, I would like to offer my thanks to staff and to my fellow board members.



John McCliskie
Chairman

Board of Directors



Michael J McCliskie (John)
Dip. Horticulture, CFIInstD

Chairman

(since February 2008)

John has a background in international fruit marketing and is a director of a number of local and national companies involved in primary production. John is an experienced company director with past involvement in a range of SMEs, corporates, co-operatives and government entities. He is a director of Nelson Electricity and a number of private companies.



Tony Reilly
B.Agr.Com, CFIInstD

Director

(since July 2008)

Tony has been involved in agricultural governance since 1995 at a local and national level, particularly in the dairy sector. Tony is also a director of Ravensdown, Landcorp Farming and a number of private companies.



Sarah Smith
BCom, CFIInstD

Director

(since August 2017)

Sarah has extensive business and governance experience in both the private and public sectors. She has held key financial and business development roles in New York and New Zealand. As an independent director, Sarah has more than 20 years of experience and is currently chairman of Ngai Tahu Tourism. Sarah is also a director of WhereScape Software, EcoCentral, SLI Systems, The Lion Foundation and a trustee for several charitable organisations. She is a Chartered Fellow of the Institute of Directors.



Roger Sutton
BE Mechanical, FIPENZ

Director

(since August 2015)

Roger has an extensive background in the energy industry as an executive but also as a director. He was Chief Executive of Orion NZ from 2003 until 2011. His directorships have been of private, listed and government organisations. He was Chief Executive of the Canterbury Earthquake Recovery Authority from 2011 until 2015. He is currently General Manager of the Christchurch District Energy Company.



Sarah-Jane Weir
*LLB, Master of Intellectual Property Law
CMIInstD*

Director

(since September 2013)

Sarah-Jane practised as a commercial lawyer for more than 20 years and now combines this with her governance work. She has provided legal advice to clients active in many sectors including the electricity industry, and to entities in both public and private ownership. Sarah-Jane is a director of Nelmac Limited and has involvement with a number of trusts and other community organisations.



James O Williamson (Jim)
*BE (Hons) Electrical, NZCE
(Telecommunications), Dip
Management, MInstD*

Director

(since July 2007)

Jim is an experienced company director with a track record of governance and executive management over several different industries. His employment career has principally been in the operation and development of large-scale public infrastructural assets. He is the past Chief Executive of Port Nelson Ltd.

Chief Executive's Report



A sound financial performance and investing for growth.

Operational and Financial Performance

It is pleasing to report that the company has delivered improved results across all of our activities. The operating surplus after tax of \$10.5 million is \$2.5 million above last year's performance. Earnings before interest, tax, line discounts and non-cash customer contributions were \$21.8 million for the year, \$4 million above target.

The company's balanced portfolio of regulated and non-regulated activities continue to deliver positive returns to our shareholders.

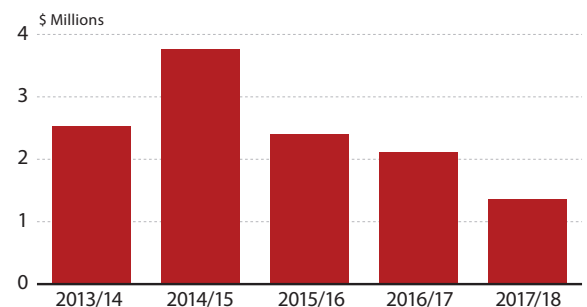
In the line business, our line charges to residential customers remain the lowest in the country. This year our customers benefited from the payment of a record \$12 million in line discounts against their power accounts (including GST) while our shareholder received a fully imputed dividend of \$2 million for the year.

Retail competition in the region continues to intensify with four new retailers entering our market over the last year. There are currently 23 electricity retailers operating

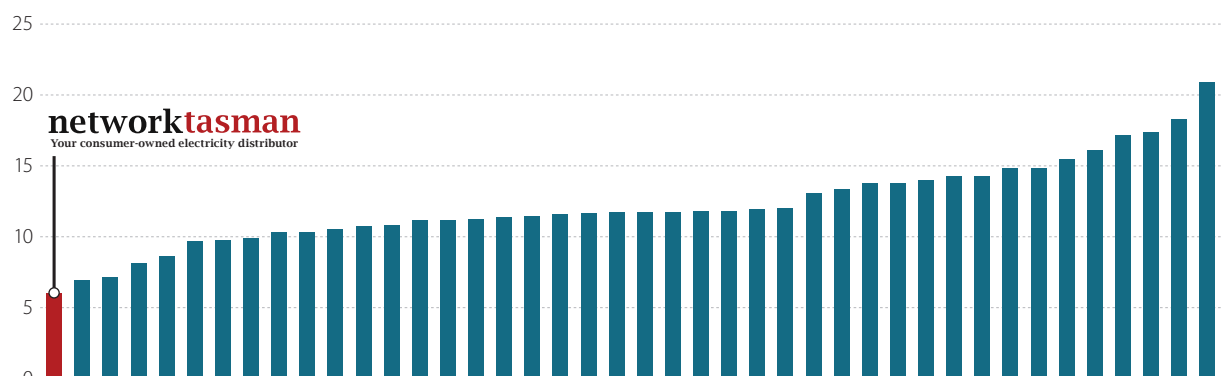
on our network offering an increasing number of innovative products and services to our consumers.

The strong financial performance enabled the company to pay down \$7 million in term debt and continues to maintain a strong balance sheet with shareholders' funds of \$195 million and term debt of \$6.1 million. This conservative financial position is desirable given the planned capital expenditure programme going forward.

Revenue forgone by Network Tasman under the regulatory cap



Residential lines prices, after discount 2017/18



Note: Prices exclude GST. Compares line prices in 42 New Zealand towns and cities across 29 distribution networks.



Five Year Trend

	2018	2017	2016	2015	2014
Revenue (\$m)	50.5	46.2	43.9	44.4	43.7
Earnings before interest, tax, depreciation & customer contributions (\$m)	20.0	17.9	16.4	14.2	14.7
Net operating cash flow (\$m)	17.7	13.8	14.1	11.0	12.1
Total cash dividends paid (\$m)	2.0	2.0	2.0	2.0	2.0
Total electricity into network (GWh)	747	737	733	718	772*
Electricity maximum demand (MW)	138	137	146	139	148*

* Nelson Electricity Limited (NEL) has constructed a new separate off-take grid exit point at Transpower's Stoke substation. This now takes about 1/3 of NEL's total supply, so Network Tasman's Total Electricity Supplied (GWh) and Maximum demand has reduced accordingly.

Electricity Pricing Review

The company welcomes the Government's review of electricity pricing. The review will look at all aspects of the electricity sector, with a key consideration being whether consumers are paying fair prices.

Network Tasman is proud of our record of delivering a safe and reliable network service to our customers at the lowest cost possible. We believe that the benefits of local ownership to our customers and to the communities in which we operate, is a model that delivers a good outcome to all.

We look forward to engaging with the panel that is conducting the review.

Investing for Growth

The company welcomed 562 new customers during the year which is an increase of 1.4% for the year. Going forward, it seems likely growth will continue for the foreseeable future. Consented residential developments, new aged care facilities and load enquiries for commercial and industrial indicate that load growth will remain strong.

To accommodate this growth, Network Tasman continues to invest in its core electrical network. During the year Network Tasman spent \$5.4 million on new capital investment on its electrical network as well as \$3.6 million to complete investments in advanced metering infrastructure.

Going forward Network Tasman faces a period of higher than usual capital investment to ensure that we have the capacity to meet customer demand.

Electric vehicles

The company continues to monitor developments in the electric vehicle sector and the likely impact uptake rates will have on our lower voltage networks.

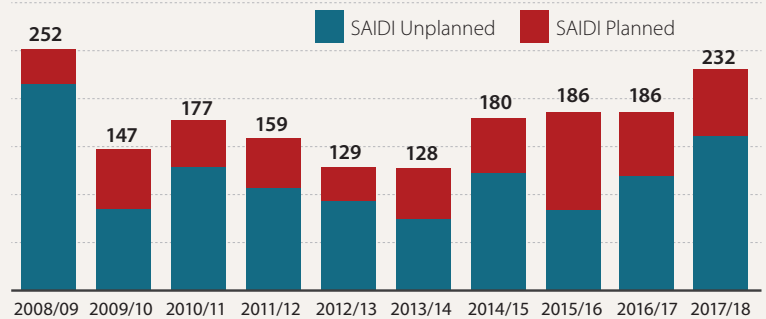
While still in the initial stages of uptake, electricity vehicle (EV) ownership is high in Nelson-Tasman relative to other regional areas.

The company has installed electric vehicle fast charging stations in Richmond, Nelson and Takaka and it is pleasing to note that usage on these sites has steadily increased.

Chief Executive's Report

Reliability targets – measuring our performance

All consumers want and need a reliable electricity supply. Our Asset Management Plan takes maintenance of a reliable electricity supply into account through our planned maintenance activities including our vegetation management. A further consideration is the way we monitor and manage our network assets as they approach the end of their life. SAIDI (System Average Interruption Duration Index– see graph to the right) is one of the ways we measure our network reliability. During the last three years our network achieved a 99.96% reliability measure.



* In 2014/15 Network Tasman ceased light copper live line work and purchased the Golden Bay 66KV line assets.

SAIDI (minutes)

232

SAIFI (outages)

1.31

Public safety or property damage

0

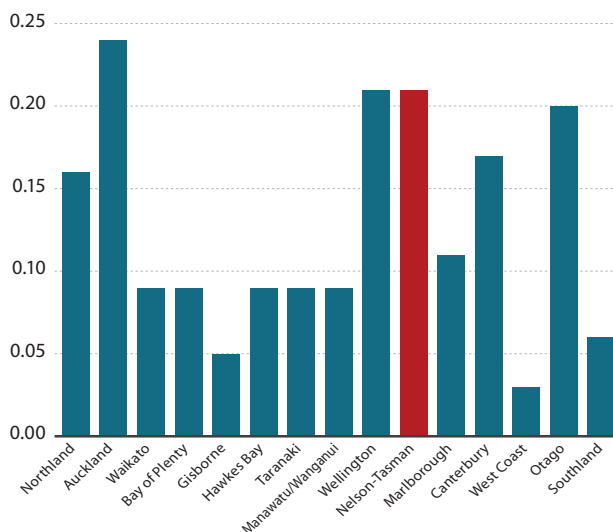
Lost Time Injury

0

Following a free-trial period, Network Tasman will be implementing a charging regime utilising the Charge.Net charging network from 1 August 2018.

Electric vehicles present a significant growth opportunity for the New Zealand electricity sector. Network Tasman is looking to ensure that our network and asset management plans accommodate growth when it occurs.

Percent of EVs per head of population



Reliability

Network SAIDI minutes (average duration of supply interruptions per connected consumer, excluding Transpower planned and unplanned faults) was affected by two significant weather events, ex-tropical cyclones Fehi and Gita, in February 2018. SAIDI was 232 minutes for the year (186 minutes in 2016/17), against a target of 150 minutes.

Health and Safety

Workplace health and safety remains a key priority across all activities of the company. During the year we have made further progress embedding a safety focused culture within the company and our contractors.

The Health and Safety Committee of the board, is tasked with ensuring that health and safety is a key consideration in every operational decision made within the company for the protection of staff and the public.

Going forward, we will continue to work with our staff and contractors to ensure that health and safety is a key consideration in all our activities. This will include strengthening our contractor monitoring and audit programme as well as ensuring that the safety first culture is instilled across all of our activities.

Finally, we continue to focus on the development of the company's health and safety systems including change management, data collection and reporting systems

Chief Executive's Report

Investments

The company's investments in fibre, Nelson Electricity Limited and our legacy investment properties all contributed to the overall profitability of the company.

network tasman fibre

Fibre

The company has implemented a strategy to retain market share in the face of increasingly ubiquitous fibre coverage and lower wholesale pricing.

Capital expenditure on the fibre network is being targeted at growing customer connections around our existing fibre network and providing value added services. Niche services such as the CCTV network continue to grow in terms of utilisation and returns from our investment.



Nelson Electricity Limited (50%)

The company has held a long term investment. Nelson Electricity Limited that provides electricity distribution services for Nelson City.

The company has continued to repay debt incurred in the redevelopment of the Haven Road substation. Network Tasman received a fully imputed dividend of \$1.05 million from Nelson Electricity during the year.



On Metering Limited (50%)

On Metering (OML), our joint venture with Alpine Energy, continues to deploy advanced meters in the North Canterbury region as part of the SmartCo consortium.

As at 31 March 2018, On Metering had deployed a total of 24,928 meters. Returns from this investment are supported by long-term fixed price contracts with major electricity retailers.

within Network Tasman and our contractors.

Health and safety is a process of continual refinement and we remain committed to delivering a safe workplace for all.

Investment Properties

After a period of significant development, the company's investment property portfolio continues to provide good returns. The property at 281 Queen Street continues to be fully let on long term leases to the Nelson Marlborough DHB, Primary Health and Stantec. The property at 24 Main Road Hope has a high level of land available for development as suitable tenants are secured. The weighted average lease term for the portfolio was 7 years at balance date.

Responding to change

The electricity distribution sector is facing a number of challenges in the year ahead. Declining consumption, increased compliance and regulatory costs, and increasing distributed generation options present both a threat and an opportunity for traditional utilities.

Customers will increasingly have options over the source and management of their energy needs. It seems likely that prices for distributed generation and residential scale battery storage systems will decline significantly. When these technologies become economic and are adopted by consumers, there will be an impact upon

the variable component of the company's revenue base under the current pricing structure.

The company's key priority is to ensure that our core network business remains competitive and responsive to the opportunities that become available.

Conclusion

Network Tasman is proud to be a locally owned company that provides safe and reliable infrastructure to our customers. We remain focused on our core electricity distribution network supported by a limited number of other non-regulated activities.

The company is well positioned to respond to the challenges ahead. Our strong balance sheet, robust cash flows and a balanced portfolio of businesses position us well for the future.

The company is fortunate to have a highly skilled management team and I would like to thank them for their efforts over the last year.

Oliver Kearney
Chief Executive Officer

Financial Performance

Strong contributions were produced across the business with key highlights from the core electricity, fibre and investment property business units.

The year produced a solid operating surplus of \$10.5 million against \$8.0 million last year.

Customer contributions of \$2.5 million reflect the buoyant nature of the residential property market with a number of large sub-divisions being developed across the region.

Consumers continue to receive significant discounts off their power accounts. During the year Network

Tasman paid two line discounts to consumers in August and December. This year line discounts credited to consumers' power accounts reached a record \$12.0 million including GST (\$11.9 million in 2017).

The financial targets as set down in Network Tasman's Statement of Corporate Intent are compared below with the actual results for the year ended 31 March 2018.

Cash flow from operations was \$17.7 million for the year. This cash flow enables Network Tasman to fund both maintenance and growth capital expenditure on the electricity network and fund additional investments in the fibre optic communications network as required.

Network Tasman spent \$9.0 million on capital expenditure during the year. Our capital investment in the electricity network has been concentrated on providing for growth and improving network safety and reliability.

In the non-regulated business units, additions to the company's investment properties and investments in advanced meters by Network Tasman and On Metering

Highlights

- ▶ Operating surplus of \$10.5 million against \$8.0 million last year
- ▶ Term debt reduced by \$7 million
- ▶ Record line charge discounts credited to consumers of \$12.0 million including GST
- ▶ Cash flow from operations of \$17.7 million
- ▶ \$9.0 million in capital expenditure while maintaining a conservatively funded balance sheet
- ▶ A fully imputed dividend of \$2 million paid to the Network Tasman Trust

are realising increasing returns which will continue in the ensuing years. Capital expenditure on the fibre network has been focused on organic growth around the existing network including reticulating several rural sub-divisions in the Tasman area.

Cash operating costs per customer were below target at \$289 per annum.

The company again paid a fully imputed dividend of \$2 million to the Network Tasman Trust.

At the end of the financial year the group had total cash of \$1.6 million and term loans of \$6.1 million.

Financial performance targets		Actual Result 2018	SCI Target 2018	Actual Result 2017
Total company:				
Surplus before interest, tax, line discount and customer contributions	\$mil	21.8	17.8	19.7
Operating surplus after tax and customer contributions	\$mil	10.5	6.3	8.0
Operating surplus to shareholders' funds	%	5.40%	3.30%	4.27%
Line business only:				
Total network costs per consumer	\$	443	454	436
Cash operating costs per consumer	\$	289	295	277
Line Charge Discounts (Excluding GST)	\$mil	10.5	10.5	10.3

Operational Performance



Health and Safety

Network Tasman is committed to ensuring the health and safety of every employee, contractor and visitor to our workplace by providing healthy and safe working conditions, and ensuring the safe operation of all equipment in the workplace.

Health and Safety continues to be a high priority for Network Tasman with the board and management reviewing all aspects of our operations. Focus is being maintained through a philosophy of continuous improvement by the annual Health and Safety Improvement Plan.

Management continues to work closely with contractors and staff to ensure that safety is a key consideration in all activities.

The safety performance targets as set down in Network Tasman’s Statement of Corporate Intent are compared in the table below with the actual results for the year.

We believe the following workplace key values, beliefs and guiding principles form the basis of good Health and Safety practice:

- Achieve our Goal: To maintain a “Zero Harm” status at all times and continuously improve our Health and Safety systems
- Safety goes hand in hand, not in competition
- All injuries are preventable, none are acceptable
- Unsafe acts and conditions are never acceptable
- All our people are empowered to prevent and correct unsafe acts and conditions
- No one will be directed to do anything that they genuinely believe is unsafe

Highlights

- ▶ Implemented Health and Safety Management system centralising management and oversight of data and performance
- ▶ Completed new switchroom and switchboard Hope Substation
- ▶ Network Tasman Fibre business implemented revised product and pricing
- ▶ Line Network independent review shows network in good overall condition

- Contractors are part of our business when used and their Health and Safety is our concern
- Everyone is responsible for ensuring no other person comes to harm
- All workers will be fit for work and unaffected by drugs or alcohol

Our Key Health and Safety activities during the year included:

- The Health and Safety Committee (comprising staff and management) has been constructive in ensuring worker participation and consultation are more effective within the business
- The Crisis Management Plan has been reviewed and regular exercises planned
- An enhanced Health and Wellness programme has been introduced including a contribution to annual health checks to encourage staff to maintain regular contact with their health professionals
- Implemented Health and Safety Management system centralising management and oversight of

Safety of electricity supply		Actual Result 2018	SCI Target 2018	Actual Result 2017
Lost time injuries not to exceed -	number	0	0	1
Public Safety and Damage Events				
Public Injury Events	number	0	0	0
Public Property Damage Events	number	0	0	0

There were no lost time injuries and no public safety injuries or property damage recorded during the year.



CASE STUDY **COMMUNITY**

School Electrical Safety Programme

Over the last six months Network Tasman has been working with Brightwater Primary School to help develop an educational teaching resource about electrical safety for children. The aim of this safety resource is to promote a better understanding of how electricity works and educate children from ages 8 to 12 about how to keep themselves and others safe.

The initial idea for this programme was driven by the need to satisfy Network Tasman's compliance commitments within the company's public safety obligations. Network Tasman saw this is an ideal opportunity to highlight the fundamental role electricity plays in our daily lives and a platform to educate the youngest members of our network community.

A working group within Network Tasman was established, and from this draft artwork and flashcards were developed and presented to the deputy principal of Brightwater Primary School.

With the help of Brightwater Primary School's teachers and children, the safety resource material was tested in a classroom environment. The feedback provided from the focus groups, lead Network Tasman to also draft a power point presentation to work in conjunction with the new resource materials.

Once all of the feedback has been incorporated from the Brightwater Primary School teaching staff, Network Tasman will develop the resources into an information/educational pack that will be sent to all primary schools in our network area. We aim to continue to develop the material and send updated packs to schools on a regular basis as part of our ongoing commitment to public safety.

data and performance, and incorporating company-wide risk registers

- A programme of regular training sessions is being held for management on Health and Safety issues
- Defensive driving course attended by staff who drive company vehicles
- Network Tasman Health and Safety Management System Standards conducted with key contractors
- Implemented series of independent random operational audits against a criteria aligned to the Network Tasman Health and Safety System requirements and standard operational practice
- Fatigue Management and Working Alone Policies are in the final consultation stages prior to implementation

Just Culture

The Network Tasman safety culture is based on the principles of "good faith" and "reasonable care" and it recognises that we are all "human" and an honest mistake may occur in the performance of our everyday duties. What is important is that we all have a responsibility to learn from this.

As such, Network Tasman has a "no blame" approach towards those who have made an honest error and encourages all workers to report their own mistake or unsafe act as a means of implementing preventative measures to ensure that others don't make the same mistake.

Network Maintenance

Network Tasman spent \$6.2 million on network maintenance during the 2017/18 financial year. Maintenance contractor Delta Utility Services and vegetation services provider Treescap continue to deliver a high level of service to our consumers.

Maintenance activities are divided into routine maintenance and renewals. Network Tasman operates a comprehensive network maintenance programme based on condition-based assessment and planned replacement of system components.

Continual surveys of the network are performed to determine the condition and serviceability of the network components, with a comprehensive database recording all components that make up the network and the likely replacement requirements.

This includes the careful monitoring of network components such as poles and spars to anticipate when they might require replacement. The Nelson Tasman region's climate means that our network components have a long life. Our effective maintenance schedule is a major contributing factor to our low network outage rates.

Operational Performance

CASE STUDY **TEAM****Vegetation Team**

The Vegetation Team plays a significant role in enabling resilience on the Network Tasman line network. They provide administrative and technical expertise in both the management and mitigation of the risk of damage to our network. The team's performance is reflected in the diminishing number of incidents where trees and vegetation have interfered with the network resulting in a loss of supply.

Network Tasman take a proactive approach, using an established vegetation notification process.

Tree Notices (CT Notices) are sent to owners by post or email where trees are growing in close proximity to power lines - as required by The Electricity (Hazard from Trees) Regulations. We issue over 1500 CT Notices a year.

We also look for high risk issues when surveying, such as trees that are diseased, damaged and that have branches splitting out. All of these factors have the potential to cause outages or damage to the network. To help mitigate this risk, we negotiate felling or reducing these trees with the tree owner.

Surveying and notifying tree owners in this way has dramatically reduced the number of power outages through line damage caused by trees. Network Tasman and their contract team's knowledge of the region's network of power lines also means that we can target and assess specific areas following extreme weather events, greatly assisting the prompt restoration of supply outages.

As information is stored in a dynamic database - Tree Manager, we have a full record of which trees have had free trims along with a history of sites.

Once CT Notices for an area have been returned, the resulting tree cutting work is assigned to our vegetation contractor Treescap. In the last financial year Treescap have trimmed over 1500 trees and felled more than 2000 trees that were notified under the regulations. Tree

work is scoped ahead of the cutting crew in order to programme the work efficiently and ensure the correct equipment and crew is on hand for each job.

Accordingly, a large part of the vegetation surveyor's role is effective communication. An increasing number of landowners are contacted for permission to access their land. By having open communication, they can speak clearly with tree owners and educate them about clearances required, the safe cutting and disposal of trees and issues with vegetation close to power lines.

Effectively they are an important face of Network Tasman and their relationships with our customers are so established many of the tree owners often greet our surveyors by name.

Network Tasman's overhead distribution lines are regularly surveyed in remote rural areas, with lone staff often operating in challenging environments.

A key responsibility for Network Tasman is ensuring our staff are safe and accounted for when working in these remote areas. This is done through a number of processes including individual spot trackers, CRV radios and a get home safe plan. This will be improved with the planned implementation of Smartrak in the company's vehicle fleet.

Smartrak is a New Zealand developed and manufactured cell phone and satellite based tracking system that provides real-time locations of vehicles via a web based interface. This is primarily a health and safety resource to ensure we accurately know vehicle and driver locations - particularly given the remote nature of much of our supply area. Vehicles will be fitted with duress, impact and roll-over alarms, which if activated, will send out an automatically generated distress signal to management via email and text message.

An ongoing programme of safety training at Network Tasman has also allowed members of the Vegetation Team to gain valuable new skills, including first aid training, off road 4x4 driving, defensive driving and traffic management.



CASE STUDY RESILIENCE

Ex-Tropical Cyclone Fehi and Gita

During February 2018 the Nelson/Tasman region faced two ex-tropical cyclones, Fehi on 1 February and Gita on 21 February 2018. Fehi with its high winds and storm surge, arrived in conjunction with a very high tide. This resulted in coastal inundation in localised areas damaging network assets in those areas. Transformers in Monaco and Richmond were swamped and a number of poles undermined at Glenduan all requiring replacement.

Gita however was one of the worst recorded storms to hit the Nelson/Tasman region causing substantial wind and flood related damage. Wind damage to the region included fallen trees across power lines and windblown debris. The localised flooding also caused significant damage to a number of houses, businesses and roads. Severe flood damage was caused to the eastern side of the Takaka Hill. Many slips washed out sections of the network and restricted access made it difficult to make repairs quickly.

During the peak of the storm approximately 7500 customers lost supply in various parts of the network.

The response from our staff and contractors was immediate and after confirming the integrity of the substations and lines supply, we were able to restore most customers supply relatively quickly as the storm abated. Damage to some access roads prevented us from getting the power back to a small number of customers until some days after the event. In these situations, we kept in close touch with the affected property owners and provided assistance, such as arranging a visit from support providers or helping with access to an emergency power supply.

Staff also provided assistance to our most vulnerable customers, including those medically dependant on electricity to ensure their safety throughout the power outage.

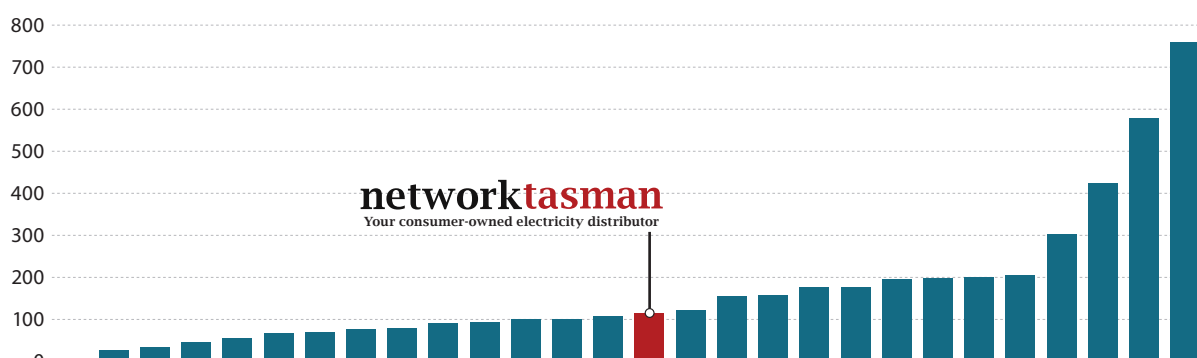
Unquestionably this was a superb effort and was only achieved as a consequence of the exceptional individual and collective efforts of Network Tasman staff and contractors.

Every person associated with the restoration, whether they were in the field, the Control Room or within the Company's Administration Team worked with an absolute commitment to assist in the reinstatement of electricity to affected customers.





All New Zealand line companies 2016–2017 unplanned SAIDI minutes comparison



Source: Ministry of Business, Employment and Innovation – Quarterly Survey of Domestic Electricity Prices

Reliability of the Network

All our customers require and need a reliable electricity supply. One of the key ways we measure our network reliability is the average duration of supply interruptions per connected consumer, measured by the SAIDI index (System Average Interruption Duration Index). The SAIDI index was 232 minutes for the year (186 minutes for 2016/17).

The reliability performance targets as set down in Network Tasman’s Statement of Corporate Intent are compared in the table below with the actual results for the year.

Directors continue to review capital expenditure plans, network design and management options to improve feeder reliability. The reliability of the electricity distribution network is a key company objective, with

ongoing capital enhancement projects undertaken to improve reliability.

Load factor on the network was 63% for the year (62% in 2016/17). Network losses were 6.6% for the year compared with 6.0% in the previous financial year.

A Disaster Recovery and Response Plan and Crisis Plan are in place giving us confidence in our restoration capability to respond to any disaster occurrence impacting our network. We are currently reviewing these plans to ensure they meet the latest best practice.

Our resilience was proven during the twin ex-tropical cyclones in February 2018 and successful recovery response restoring supply following damage to the network assets.

Our resilience was proven during twin ex-tropical cyclones in February 2018 and successful recovery response restoring supply.

Reliability performance targets (excludes Transpower planned and unplanned outages)		Actual Result 2018	SCI Target 2018	Actual Result 2017
Average duration of supply interruptions per connected consumer (SAIDI) not to exceed -	minutes	232	150	186
Average number of supply interruptions per connected consumer (SAIFI) not to exceed -	number	1.31	1.61	1.58
Average duration of supply interruptions (CAIDI) not to exceed -	minutes	177	93	118
Faults per 100 km of line not to exceed -	number	5.1	6.0	6.8
% faults not restored within three hours not to exceed -	%	33%	20%	26%

Operational Performance

The network development plan review identifies the steps Network Tasman is taking to ensure our network is well-placed to support changes in electricity usage, the increased demand for electricity supply and meet future new technology needs.

Capital Expenditure

As a long-term infrastructure owner, Network Tasman produces an annual Asset Management Plan (AMP) that documents the company's asset management practices and management strategy for its network distribution assets. Every year we review the capital development, renewals and maintenance sections of our AMP. In the review we consult directly with consumer groups and major electricity users on the network and consider feedback received. In addition, we also use data about outages, faults and load flow, and follow best practice when preparing our plan.

The review identifies the steps Network Tasman is taking to ensure our network is well-placed to support changes in electricity usage, the increased demand for electricity supply and meet future new technology needs.

The key drivers for the network development plan are maintaining security of supply and reliability of the network. In the Nelson/Tasman region distributed generation – such as people generating their own electricity using solar photo-voltaics – is high compared with other areas in New Zealand.

In order to assist us to manage the load on our network at times of peak electricity demand, solar photo-voltaic generation requires consumer-grid-connected battery storage. To date cost is a significant limiting factor with

battery storage though this is expected to become economic in the near future.

In addition to the impact of increased distributed generation we are planning for the expected increased demand on our network caused by electric vehicles and the shift from wood burners to heat pump installations. With our strongly growing community, we also factor network line extensions to new customers, in both urban subdivisions and rural areas, into our planning.

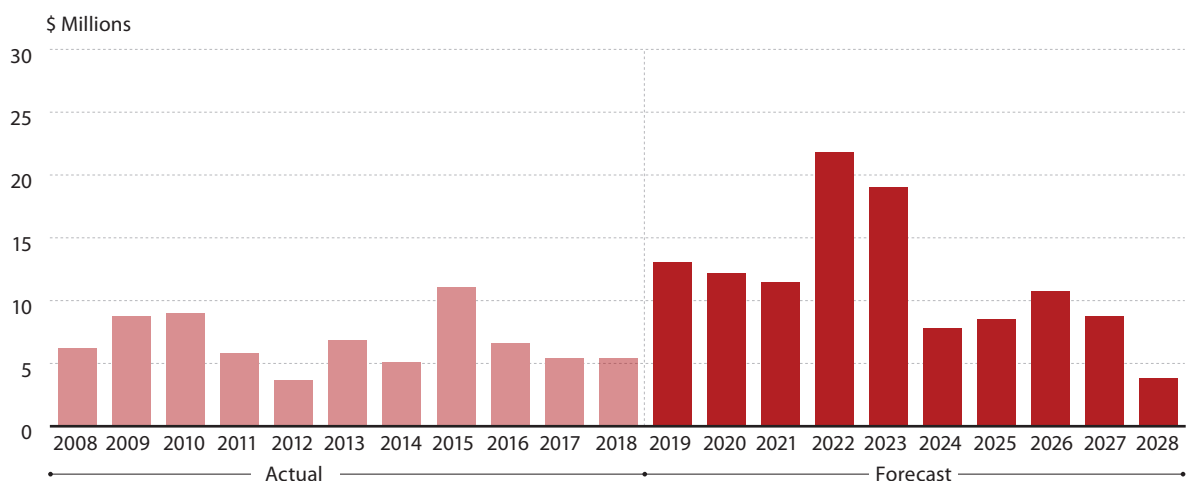
In the past year an independent network condition assessment confirmed the network was in good overall condition. We have incorporated the review recommendations into our AMP, in the medium to long term, to further mitigate risks from the network pressure from strong regional growth.

The company spent \$5.4 million on the distribution network with \$1.2 million in system growth and \$0.6 million on reliability and safety. During the year 562 consumer connections were added to the network, a growth rate of 1.4%. Network Tasman is budgeting to spend \$117 million in the next ten years.

Key planned projects for 2018/19 include the Motueka substation transformer upgrade, new Annesbrook 11kV feeder and new Wakapuaka substation.

A copy of the AMP is available on the company's website at: www.networktasman.co.nz

Projected network capital expenditure



Operational Performance

Regulation

As a non-exempt electricity distribution company, Network Tasman continues to be subject to price and quality control by the Commerce Commission. The company's audited annual compliance statement shows that it was fully compliant with both the price and quality controls for 2017/18. The company's total line revenue (including distribution and transmission revenue) was significantly below the maximum permitted by regulation and has been for the past 5 years.

The allowable revenue that each regulated lines company can earn is reset every 5 years by the Commerce Commission. The next reset will take effect from 1 April 2020. The Commission has commenced the process of the reset review.

Network Tasman is also subject to regulations administered by the Electricity Authority. The Authority is in the process of reviewing the distribution pricing principles. It has asked distributors to develop plans

for transitioning to distribution prices which better reflect services provided and the underlying costs of providing those services. Network Tasman is working in coordination with the Electricity Networks Association and with other lines companies to identify more cost-reflective pricing options and transition paths towards them.

A significant input to Network Tasman's costs and prices is the transmission charges payable to Transpower for access to and use of the national grid. The Electricity Authority oversees the methodology used to determine transmission prices. The Authority has identified difficulties with the existing methodology and conducted consultations on possible changes but the matter remains unresolved. As such there is uncertainty around the future of transmission charges.

A significant development in the electricity sector is the Retail Pricing Review. It is a wide-ranging review



CASE STUDY INNOVATION

Static Var Generator (SVG)

Network Tasman's latest technical innovation comes in the form of Sinexcel Static Var Generators (SVG). SVG is a revolutionary approach to reactive power management utilising a three level inverter to inject reactive power to compensate for power quality issues such as poor power factor - low voltage, increased voltage and voltage imbalance. SVG is very effective at stabilising the voltage on Network Tasman's long thin rural feeders.

Network Tasman is one of the first lines companies in New Zealand to utilise this sophisticated all-electronic 3 phase technology.

Working closely with supplier Power Electronics and maintenance contractor Delta, Network Tasman have developed a network based SVG solution providing fast and effective voltage re-balancing and control. The three organisations teamed up to design, model, plan, test, trial, construct and commission the SVG system on the Network Tasman's rural network.

The SVG can correct high and low voltage. It operates at high speed producing a stable output voltage even when large loads are being switched on and off.

The inverter technology used in the SVG is very compact and typically requires less mounting area than a conventional system and the modular design enables it to be easily extended if more capacity is needed. Delta technicians also designed and built enclosures to provide secure, safe housing that still allowed adequate airflow and cooling to the electronic modules.

The SVG is connected by digital radio to our SCADA, which allows network controllers to monitor operating parameters, performance and remotely monitor any alarms.

To achieve this Delta and Network Tasman worked together to build the communications and SCADA interface that allows remote monitoring of the SVG by SCADA. This is the first time this has been done in New Zealand.

The SVG is a new technology that provides a cost effective means of enhancing our network and improving service to our customers.

STATIC VAR GENERATOR BENEFITS

- Deferred line upgrade costs and significant savings in the Upper Moutere area
- Allows connection of additional consumers or increased load on weak rural lines.
- Correction of low voltage problems in rural areas.
- Voltage stability for consumers.
- Facilitates greater accommodation of solar generation in the rural network.
- Resilient to harmonic content on the supply.

to investigate whether the electricity market is delivering a fair and equitable price to end-consumers. The review is being undertaken in the context of evolving technologies and a transition to lower carbon emissions. While the review covers the entire sector, particular focus on the distribution component of the supply chain is likely to be on whether efficient and fair outcomes are being delivered.

Advanced Meters

Deployment of advanced meters is now scheduled for completion in 2018 for contracted retailers on the Network Tasman network and is well underway on the On Metering (MainPower) network.

Associate company SmartCo is negotiating contracts with several additional retailers that will extend the penetration of Network Tasman and On Metering controlled advanced meters on those networks.

SmartCo is also reviewing options for member networks to achieve the network benefits identified at the time the investments were made. Ultimately advanced meters will allow distribution companies to pro-actively manage the service provided by their networks and allow consumers to ultimately control their energy use and therefore their power costs.

Once mass deployment for contracted retailers is

completed the advanced meters and RF mesh networks will provide retailers and network companies the ability to improve the overall service provided to consumers.

The company has utilised its investment in the radio frequency mesh network to automate the management of our electricity network. This is the first stage of using our investment to achieve significant network benefits from our investment in the mesh network and advanced meters.

Nelson Electricity Limited

Nelson Electricity has again delivered a credible return on funds employed despite a 3% price decrease together with declining electricity volumes.

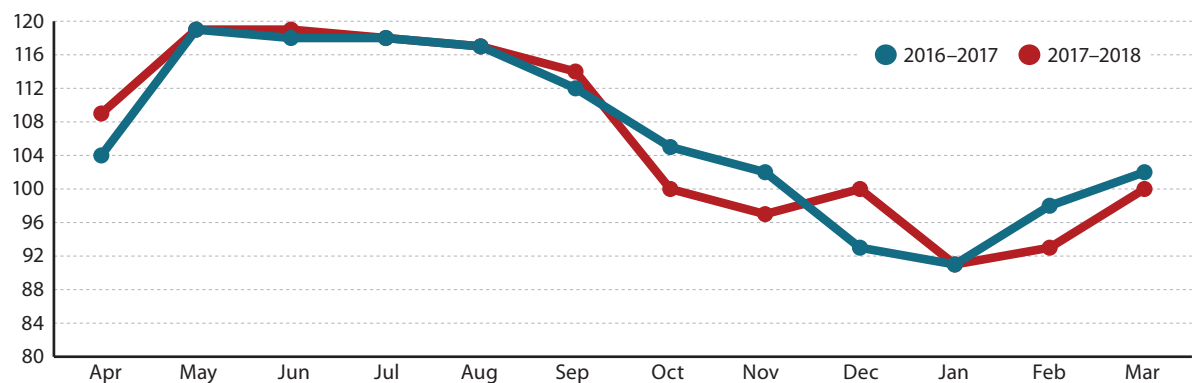
Property Portfolio

The company's investment property at 281 Queen Street, Richmond is fully leased with Nelson Marlborough DHB and Primary Health as anchor tenants.

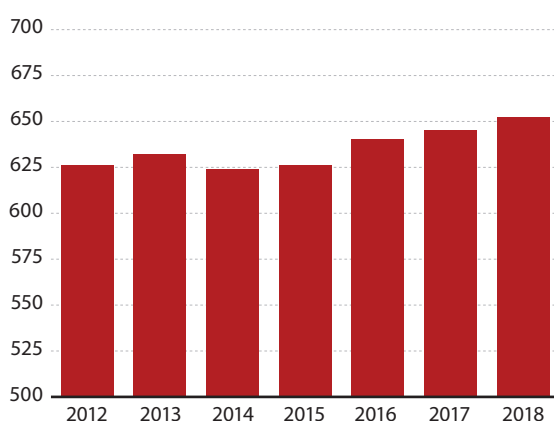
The remaining industrial properties continue to be fully tenanted. While demand for well-located industrial properties in the Tasman region remains strong, Network Tasman will continue to cautiously develop its remaining land holdings when suitable long-term, quality tenants can be secured on favourable commercial terms.

Network supply and demand profile

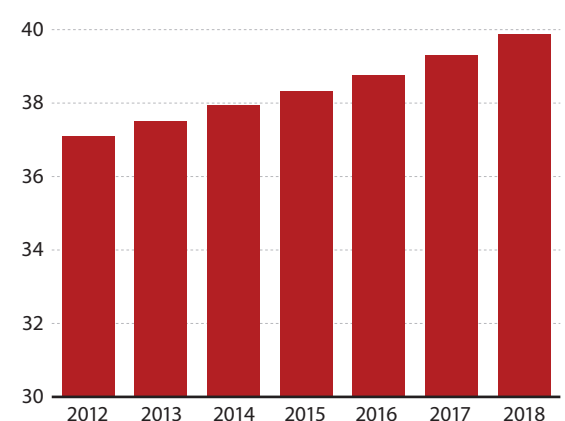
Total Monthly Max System Demand



Energy delivered to NTL's network (GWh)



Consumer connections (000's)





Financial Statements

The directors of Network Tasman Limited are responsible for preparing the company and Group’s financial statements and ensuring that they give a true and fair view of the Group’s financial position as at 31 March 2018 and the results of their operations and cash flows for the year ended 31 March 2018.

The directors consider that the financial statements of Network Tasman Limited and Group have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

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

The directors are pleased to present the financial statements of Network Tasman Limited & Group for the year ended 31 March 2018.

For and on behalf of the board of directors:

MJ McCliskie
Chairman
 29 June 2018

AP Reilly
Director
 29 June 2018



Financial Statements

Network Tasman Limited & Group

Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
Total operating revenue	2	50,465	46,160
Total operating expenses	3	(38,262)	(36,796)
Operating surplus		12,203	9,364
Share of surplus of associate	16	1,147	1,209
Operating surplus before income tax		13,350	10,573
Income tax (expense) / income	4	(2,816)	(2,606)
Operating surplus for the period		10,534	7,967
Other comprehensive income		-	-
Total comprehensive income		10,534	7,967
TOTAL COMPREHENSIVE INCOME			
Comprehensive income from continuing activities		10,534	7,967
Comprehensive income from discontinued activities		-	-
		10,534	7,967

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Network Tasman Limited & Group

Statement of Changes in Equity

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
TOTAL EQUITY AT BEGINNING OF PERIOD	7	186,688	180,721
Total comprehensive income		10,534	7,967
OTHER MOVEMENTS			
Distributions to owners during the period	6	(2,000)	(2,000)
Total equity at end of period	7	195,222	186,688

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Financial Statements

Network Tasman Limited & Group

Balance Sheet

As at 31 March 2018

	Note	As at 31 March 2018 \$000	As at 31 March 2017 \$000
CURRENT ASSETS			
Cash and cash equivalents	9	1,611	2,758
Other financial assets	10	259	259
Debtors and receivables	11	5,846	5,569
Advances to associates	12	6,475	5,625
Total current assets		14,191	14,211
NON-CURRENT ASSETS			
Property, plant and equipment	13	184,648	183,715
Investment properties	14	27,157	25,279
Intangible assets	15	254	208
Investment in associate	16	11,601	11,504
Total non-current assets		223,660	220,706
Total assets		237,851	234,917
CURRENT LIABILITIES			
Payables and accruals	17	6,273	4,942
Tax payable	18	737	635
Provisions	19	273	360
Loans and borrowings	20	3,111	174
Total current liabilities		10,394	6,111
NON-CURRENT LIABILITIES			
Provisions	19	211	276
Loans and borrowings	20	3,129	13,241
Deferred taxation	21	28,895	28,601
Total non-current liabilities		32,235	42,118
EQUITY			
Attributable to shareholders of the company	7	195,222	186,688
Total equity		195,222	186,688
Total liabilities and equity		237,851	234,917

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Network Tasman Limited & Group

Statement of Cash Flows

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers		45,636	43,516
Dividend income received		1,050	900
Interest income received		70	36
		46,756	44,452
<i>Cash was applied to:</i>			
Payments to suppliers and employees		26,198	28,000
Income tax paid		2,420	2,167
Interest expense paid		440	501
		29,058	30,668
Net cash flows from operating activities	23	17,698	13,784
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from sale of property, plant and equipment		13	8
Insurance proceeds		1,055	-
		1,068	8
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment and investment properties		9,889	11,235
Investment in associates		850	1,150
		10,739	12,385
Net cash flows from investing activities		(9,671)	(12,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was applied to:</i>			
Term Loans		7,000	(1,500)
Dividends Paid		2,000	2,000
Finance Lease Repayments		174	264
		9,174	764
Net cash flows from financing activities	24	(9,174)	(764)
NET INCREASE (DECREASE) IN CASH HELD			
Cash balances at beginning of period		2,758	2,115
Cash balances at end of period		1,611	2,758
COMPOSITION OF CASH BALANCES AT END OF YEAR			
Cash on hand and at bank		142	84
Cash equivalents - term deposits		1,469	2,674
Total	9	1,611	2,758

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

1. Statement of Accounting Policies

Statement of Compliance

The reporting entity is Network Tasman Limited and Group. Network Tasman Limited is a profit-oriented company registered under the Companies Act 1993 and its financial statements comply with section 44 of the Energy Companies Act 1992. The financial statements are for Network Tasman Limited and its interest in associate entities (Nelson Electricity Limited and On Metering Limited) and wholly-owned non-trading subsidiary company Tasman Energy Limited, are referred to as "The Group".

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for for-profit entities. Network Tasman Limited and Group is a tier 1 entity.

Basis of preparation

These financial statements are presented in New Zealand dollars, which is the Groups functional and presentation currency, rounded to the nearest thousand dollars (\$'000) unless otherwise stated. The financial statements have been prepared on the basis of historical cost with the exception of some distribution system assets and investment properties, which have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that 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 was determined. Exchange differences are recognised in the operating surplus in the period in which they arise.

The Statement of Comprehensive Income and Cash Flow Statement have been prepared so that all components are stated exclusive of GST. All components in the Balance Sheet are stated net of GST except for receivables and payables which are stated inclusive of GST.

The financial statements comprise a Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and notes to these statements.

New standards issued but not yet effective

A number of new standards and interpretations have been issued but are not yet effective for the current year-end. The reported results and financial position of the Group is not expected to change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption will however result in changes to information currently disclosed in the financial statements.

The following are new standards that may impact Network Tasman Limited. The Group does not intend to adopt any of the new pronouncements before their effective dates.

NZ IFRS 15 Revenue from Contracts with Customers - Effective from 1 April 2018

NZ IFRS 16 Leases – Effective 1 April 2019

2. SUMMARY OF KEY ACCOUNTING POLICIES

Key accounting policies have been adopted in preparation and presentation of the financial statements and can be found in the specific note to which the policy applies.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

These accounting policies have been applied consistently to all years presented unless otherwise stated.

Other than the above, there have been no changes in accounting policies and disclosures.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
2 OPERATING REVENUE		
CONTINUING ACTIVITIES		
TRADING REVENUE		
Line revenue (net of discounts)	36,064	35,763
Customer contributions	2,639	1,818
Insurance proceeds	1,019	-
Other revenue	7,131	6,131
INVESTMENT REVENUE		
Interest income	70	36
Rental income from investment properties	1,859	1,768
Increase in fair value of investment properties	1,683	644
Total operating revenue from continuing activities	50,465	46,160

ACCOUNTING POLICY**REVENUE****Line revenue**

Retailer-owned electricity meters are read on the basis of constant cycles each year. Line revenues include an estimated amount for accrued sales as at 31 March 2018.

Lease income

The income from leases is recognised in the statement of comprehensive income as it accrues.

Customer contributions

Cash contributions from customers, including government agencies, relating to assets are credited directly to income when the asset is connected to the network. The Group acquires certain distribution assets for less than their replacement cost. Such assets are recognised at fair value and the difference between the cash cost and the fair value is recognised as revenue in the year of acquisition.

Investment income

Interest and rental income is recognised in the statement of comprehensive income as it accrues. Dividend income is recognised in the statement of comprehensive income on the date that the dividend is declared.

Change in fair value of investment properties

The increase or decrease arising from the investment property valuation is recognised in the statement of comprehensive income.

KEY JUDGEMENT

Network Tasman invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of metered usage figures provided by those retailers. Network Tasman is entirely reliant upon the accuracy of the monthly metered data supplied by the retailers. With the majority of customers on advanced meters, the reliance on estimates has reduced. Estimates are inherent in this data, however any inaccuracies in the estimates are corrected in subsequent months when read data becomes available. All meters are read at least once a year.

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
3 OPERATING EXPENSES			
Operating expenses include:			
Gross transmission costs		14,588	15,180
Operation & Maintenance		6,394	5,636
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND AMORTISATION OF INTANGIBLE ASSETS			
Primary distribution assets		415	379
Secondary distribution assets		4,943	4,793
Substation assets		506	529
Load control plant		80	109
Streetlights		10	14
Consumer connections		1,892	1,645
Freehold buildings		82	53
Plant and equipment		85	100
Computer equipment		152	157
Motor vehicles		31	36
Assets leased from Transpower		153	230
Intangible assets		131	140
Total depreciation of property, plant and equipment and amortisation of intangible assets		8,480	8,185
AUDITORS' FEES			
Audit fee - Network Tasman Ltd		57	56
Audit fee - non-trading subsidiaries		2	2
Other assurance services - Audit New Zealand		28	28
Other assurance services comprise an independent assurance report on the company's regulatory disclosure in accordance with the Electricity (Information Disclosure) Requirements 2008 and the default price - quality path compliance statement.			
COSTS OF OFFERING CREDIT			
Bad debts written off		64	6
INTEREST EXPENSE			
Interest expense on Transpower new investment agreements		29	67
Other Interest Paid		413	436
OTHER EXPENSES			
Directors' fees		234	234
Donations		10	8
Employment costs		3,402	3,468
Loss on disposal of assets		1,320	272
Other expenses		3,241	3,218
Total expenses from continuing activities		38,262	36,796

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
4 INCOME TAX			
Operating surplus before income tax		13,350	10,573
Prima facie taxation at 28%		3,738	2,960
PLUS / (LESS) TAXATION EFFECT OF:			
Non-taxable customer contributions		(690)	(465)
Depreciation		329	306
Equity accounted earnings from associate		(321)	(339)
Change in fair value of investment properties		(471)	(180)
Movement in deferred tax		294	511
Other adjustments		(63)	(180)
		(922)	(347)
Under/(Over) provision from prior years		-	(7)
Income tax expense recognised in statement of financial performance		2,816	2,606
Comprising:			
Current tax liability		2,522	2,095
Deferred tax on temporary differences	21	294	511
		2,816	2,606

ACCOUNTING POLICY**TAXATION**

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year and any adjustments to income tax payable in respect of prior years.

Current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except where they relate to items that are recognised outside Statement of Comprehensive Income (whether in other comprehensive income or directly in equity) in which case the tax is also recognised outside Statement of Comprehensive Income.

Deferred tax is the amount of income tax payable or recoverable 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 calculation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is recognised, using tax rates that have been enacted or substantially enacted by balance date.

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
5 IMPUTATION CREDIT ACCOUNT			
Imputation credits available for use in subsequent reporting periods		19,993	17,841
6 DIVIDENDS			
Dividends during the period:			
Dividends paid		2,000	2,000
Total dividends paid		2,000	2,000
7 EQUITY			
Issued and paid up capital		57,185	57,185
Share premium reserve		1,938	1,938
Retained earnings	8	136,099	127,565
Total equity		195,222	186,688
ISSUED AND PAID UP CAPITAL			
Balance at beginning of period		57,185	57,185
Balance at end of period		57,185	57,185
All shares are \$1 shares and are fully paid. There is no uncalled capital. All shares carry equal voting rights. None of the shares carry fixed dividend rights.			
SHARE PREMIUM RESERVE			
Balance at beginning of period		1,938	1,938
Premium paid during year		-	-
Balance at end of period		1,938	1,938
8 RETAINED EARNINGS			
Balance at beginning of period		127,565	121,598
Operating surplus for the period		10,534	7,967
Total available for appropriation		138,099	129,565
Dividends paid	6	(2,000)	(2,000)
Balance at end of period		136,099	127,565

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
9 CASH AND EQUIVALENTS			
Cash on hand and at bank		142	84
Cash equivalents		1,469	2,674
Total cash and equivalents		1,611	2,758

The carrying value of short-term deposits with original maturity dates of three months or less approximates their fair value. The short term deposits are with the Bank of New Zealand and their Standard & Poors ratings is AA-. The interest rates on these investments range from 1% to 1% (31 March 2017: 1% to 1%).

ACCOUNTING POLICY**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash on hand, deposits held at call with banks and investments in money market instruments with maturities of three months or less at their inception.

10 OTHER FINANCIAL ASSETS			
Loan to SmartCo Ltd		259	259
Total other financial assets		259	259

The carrying value of short-term deposits with original maturity dates of three months or more approximates their fair value. The interest rates on these investments range from 0% to 0% (31 March 2017: 0% to 0%).

SMARTCO LIMITED

Opening balance		259	259
Plus advances		-	-
Less repayments		-	-
Closing balance at end of period		259	259

No interest is charged on the loan to SmartCo Limited.

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Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
11 DEBTORS AND RECEIVABLES			
Current			
Trade receivables		5,006	4,851
Sundry receivables		475	385
Prepayments		365	333
Total current receivables		5,846	5,569

TOTAL CURRENT RECEIVABLES

The carrying value of receivables approximates their fair value. As at 31 March 2018 and 31 March 2017 the receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

TRADE RECEIVABLES

	31 March 2018 \$'000			31 March 2017 \$'000		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	4,498	-	4,498	4,522	-	4,522
Past due 1 - 30 days	227	-	227	196	-	196
Past due 31 - 60 days	178	-	178	25	-	25
Past due 61 - 90 days	16	-	16	4	-	4
Past due > 90 days	96	(9)	87	104	-	104
	5,015	(9)	5,006	4,851	-	4,851

	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
Movement in provision for impairment of receivables are as follows:		
MOVEMENT IN PROVISION FOR IMPAIRMENT		
Opening balance	-	6
Additional provisions made during the year	9	-
Receivables written off during period	-	(6)
Closing balance	9	-

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

11 DEBTORS AND RECEIVABLES (cont')**ACCOUNTING POLICY****RECEIVABLES**

Receivables are initially measured at fair value and subsequently measured at amortised cost using effective interest method, less any provision for impairment.

IMPAIRMENT

Where an indicator of impairment exists either at an individual asset or at the cash generating unit level, the fair value of the asset will be determined by assessing the recoverable amount of the individual asset or the cash generating unit.

A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss for a non-revalued asset is recognised in the operating surplus for the year.

The carrying amounts of the Group's assets, other than inventory, investment property and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of

the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the operating surplus.

KEY JUDGEMENT

Judgement is exercised in choosing the levels of provision for doubtful receivables and assessing the factors impacting recoverability.

Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
12 ADVANCES TO ASSOCIATES		
On Metering Limited		
Opening balance	5,625	4,475
Plus advances	850	1,150
Less repayments	-	-
Closing balance at end of period	6,475	5,625
Total advances to associates	6,475	5,625

ACCOUNTING POLICY

Advances to associates are recognised at amortised cost. There are no indicators of impairment on these advances.

The balance is classified as a current asset as the advances are repayable on demand.

No interest is charged on advances to associates.

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Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

13 PROPERTY, PLANT AND EQUIPMENT

	Primary distribution assets	Secondary distribution assets	Substation land	Substation assets	Load control plant	Streetlights	Consumer connections
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
COST OR VALUATION							
Balance at 31 March 2016	19,689	173,660	4,096	17,701	1,746	623	14,835
Additions / adjustments	(99)	6,246	4	245	471	(4)	5,809
Disposals	-	(562)	-	-	-	-	-
Balance at 31 March 2017	19,590	179,344	4,100	17,946	2,217	619	20,644
Balance at 1 April 2017	19,590	179,344	4,100	17,946	2,217	619	20,644
Additions / adjustments	55	7,076	114	1,304	-	-	2,449
Disposals	(2)	(213)	-	-	-	(277)	(209)
Balance at 31 March 2018	19,643	186,207	4,214	19,250	2,217	342	22,884
ACCUMULATED DEPRECIATION							
Balance at 31 March 2016	3,144	51,257	1	3,972	1,309	296	3,610
Depreciation expense	379	4,794	1	527	109	14	1,645
Elimination on disposal	-	(289)	-	-	-	-	-
Balance at 31 March 2017	3,523	55,762	2	4,499	1,418	310	5,255
Balance at 1 April 2017	3,523	55,762	2	4,499	1,418	310	5,255
Depreciation expense	415	4,944	32	474	80	10	1,892
Elimination on disposal	-	(91)	-	-	-	(174)	(29)
Balance at 31 March 2018	3,938	60,615	34	4,973	1,498	146	7,118
CARRYING AMOUNTS							
As at 31 March 2017	16,067	123,582	4,098	13,447	799	309	15,389
As at 31 March 2018	15,705	125,592	4,180	14,277	719	196	15,766

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

13 PROPERTY, PLANT AND EQUIPMENT (cont')

	Buildings	Land	Plant and equipment	Computer equipment	Motor vehicles	Assets leased from Transpower	Assets under construction	Total assets
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
COST OR VALUATION								
Balance at 31 March 2017	2,256	415	883	1,306	390	3,056	6,745	247,401
Additions / adjustments	38	-	288	48	(17)	(233)	(485)	12,311
Disposals	-	-	(3)	(110)	-	-	-	(675)
Balance at 31 March 2017	2,294	415	1,168	1,244	373	2,823	6,260	259,037
Balance at 1 April 2017	2,294	415	1,168	1,244	373	2,823	6,260	259,037
Additions / adjustments	22	241	(25)	304	101	-	(1,185)	10,179
Disposals	(4)	-	(81)	(18)	(45)	-	(762)	(1,334)
Balance at 31 March 2018	2,312	656	1,062	1,530	429	2,823	4,313	267,882

ACCUMULATED DEPRECIATION

Balance at 31 March 2016	473	-	500	680	185	2,247	-	67,674
Depreciation expense	53	-	100	157	36	230	-	8,045
Elimination on disposal	-	-	(2)	(105)	-	-	-	(396)
Balance at 31 March 2017	526	-	598	732	221	2,477	-	75,323
Balance at 1 April 2017	526	-	598	732	221	2,477	-	75,323
Depreciation expense	(3)	79	85	152	31	153	-	8,344
Elimination on disposal	(4)	-	(77)	(18)	(40)	-	-	(433)
Balance at 31 March 2018	519	79	606	866	212	2,630	-	83,234

CARRYING AMOUNTS

As at 31 March 2017	1,768	415	570	512	152	346	6,260	183,714
As at 31 March 2018	1,793	577	456	664	217	193	4,313	184,648

VALUATION INFORMATION

The company elected to use the deemed cost approach on adoption of NZ IFRS, in accordance with NZ IFRS1. This approach has used the fair value determined for each asset category at its most recent valuation and then adjusted for subsequent additions at cost. Distribution assets are valued at deemed cost based upon an independent valuation completed by PricewaterhouseCoopers as at 31 March 2004

There are no restrictions over the title of the property, plant and equipment, except for the assets leased from Transpower, nor are any items of property, plant and equipment pledged as security for liabilities.

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Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

13 PROPERTY, PLANT AND EQUIPMENT (cont')

ACCOUNTING POLICY

PROPERTY, PLANT AND EQUIPMENT

Initial recording

All owned items of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price plus any other costs directly attributable to bringing the item to working condition for its intended use. Donated assets are recorded at fair value.

Distribution system assets are stated at deemed cost based upon an independent valuation completed by PricewaterhouseCoopers as at 31 March 2004, except for vested assets that are recognised at fair value. Other property, plant and equipment, computer equipment and motor vehicles are recorded at cost.

Asset components

When the components of an item of property, plant and equipment have different useful lives, the cost of the item is allocated to its components and each component is accounted for separately in accordance with the company's Asset Management Plan (AMP).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale will be capitalised to the cost of that asset. Once an asset is put into productive use capitalisation of borrowing costs will cease.

All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that the expenditure increases the economic benefits over the total life of the item beyond those most recently assessed in determining the basis of the item's carrying amount.

Disposal of property, plant and equipment

Where an item of property, plant and equipment is disposed of any gains or losses are reported in the operating surplus. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the operating surplus in the year the item is de-recognised.

Depreciation

Depreciation of property, plant and equipment is calculated so as to expense the cost of the assets, less any residual value, over the assets' useful lives. The depreciation methods and depreciation rates used are as follows:

Asset class	Depreciation	Depreciation rates
Primary distribution assets	Straight line	1.59% - 6.67%
Secondary distribution assets	Straight line	1.33% - 6.63%
Sub-station assets	Straight line	1.33% - 5.88%
Load control plant	Straight line	2.5% - 17.33%
Streetlights	Straight line	1.67% - 3.09%

Consumer connection assets	Straight line	2.22% - 33.33%
Communication assets	Straight line	4% - 33%
Buildings	Straight line / Diminishing value	2% - 20%
Meters	Diminishing value	13% - 25%
Plant and equipment	Diminishing value	20%
Motor vehicles	Diminishing value	20%
Computer equipment	Diminishing value	48%

These rates may vary from those allowed for taxation purposes.

The depreciation rates on distribution system assets in existence at the time of the previous revaluation (31 March 2004) are based on the assessed residual lives as determined in the calculation of the Optimised Depreciated Replacement Cost (ODRC).

New distribution assets (as from 1 April 2004) were assessed based on the standard useful lives as contained in the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Line Businesses as issued by the Commerce Commission and dated 30 August 2004. Pole structures, which have a physical life well in excess of the standard useful lives, were assessed by the company's qualified engineers.

Assets under construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

13 PROPERTY, PLANT AND EQUIPMENT (cont')**ACCOUNTING POLICY**

hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements

on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

KEY JUDGEMENT

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
14 INVESTMENT PROPERTIES			
Movement in investment properties			
Opening balance		25,279	24,270
Plus Additions		197	387
Plus fair value gain on valuation		1,683	644
Plus increase / (decrease) in assets under construction		-	(22)
Less disposals		(2)	-
Closing balance		27,157	25,279
Investment properties are represented by:			
Land		9,737	9,011
Buildings		17,420	16,268
Assets under construction		-	-
Total investment properties		27,157	25,279

VALUATION INFORMATION

The Group's investment properties primarily consist of two commercial properties in the Richmond area. 281 Queen Street is a mixed commercial and office development that has been substantially strengthened and refurbished. The other property is an industrial sub-division at 24 Main Road Hope. The Hope properties main tenants are Farmlands Limited, Delta Utilities Limited (the company's main network contractor) and vacant land scheduled for development. The Group has no restrictions on the realisability of its investment properties.

Investment properties were last valued by M W Lauchlan FNZIV, FPINZ, AREINZ, an independent registered valuer of Duke & Cooke Limited as at 31 March 2018. The valuation was based on fair value. Assets under construction have been valued at cost. In determining fair value, using the capitalisation of net income method, Mr Lauchlan used significant unobservable inputs (level 3 as defined by NZIFRS 13). This method is based upon assumptions including future rental income and appropriate discount rates.

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For the year ended 31 March 2018

14 INVESTMENT PROPERTIES (cont')

Reconciliation of Fair Value	Office / commercial \$000	Industrial \$000	Other \$000	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
Opening Balance	13,601	10,270	1,408	25,279	24,270
Additions	15	179	3	197	387
Plus increase / (decrease) in assets under construction	-	-	-	-	(22)
Change in Fair Value	693	847	143	1,683	644
Disposals	-	-	(2)	(2)	-
Closing Balance (excluding work in progress)	14,309	11,296	1,552	27,157	25,279

The following discount rates were used

	Valuation Technique	Capitalisation Rate	Weighted Average Lease Term
281 Queen Street	Income Capitalisation	6.75%	4.4 years
24 Main Road Hope	Income Capitalisation	8%	2.4 years

The valuation of commercial or industrial property is generally from two main approaches. First, the cost approach being a summation of the land value and depreciated value of all buildings and site improvements, and the second, the income capitalisation approach which involves establishing the net maintainable income which the property can produce and then capitalising this at an appropriate rate of return.

In many cases, there can be a significant difference between the two methods for the same property. With properties traded for investment reasons the ultimate market value adopted is generally arrived at by the income capitalisation approach. The cost approach provides a guide to value and is most appropriately used when dealing with properties which are so specialised in their design that there is little or no comparable open market sales evidence.

Adequate market evidence exists for the assessment of the fair value of this property by the income capitalisation approach.

Residential property is valued using a statistical analysis of recent sales and comparison with Rating Valuation data.

Bare land is valued using a direct sales comparison approach, reflecting the future development potential of the land.

ACCOUNTING POLICY**INVESTMENT PROPERTIES**

Investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are recognised in the operating surplus in the year in which they arise. Valuations are determined on an annual basis by independent registered valuers, Duke & Cooke Limited.

KEY JUDGEMENT

The valuation of investment properties is undertaken by an independent registered valuer. This valuation involves the use of judgement, estimations and assumptions.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
15 INTANGIBLE ASSETS			
Movement in intangible assets			
Opening balance		208	208
Plus additions		177	141
Less amortisation		(131)	(140)
Less disposals		(3)	(10)
Plus accumulated provision write back on disposal		3	9
Closing balance		254	208

Intangible assets are represented by:

	At cost \$000	Accum. amortisation \$000	Carrying amount \$000
Intangible assets - 31 March 2018			
Computer software	1,962	1,708	254
Total Intangible assets	1,962	1,708	254
Intangible assets - 31 March 2017			
Computer software	1,788	1,580	208
Total Intangible assets	1,788	1,580	208

There are no restrictions over the title of the intangible assets, nor are any intangible assets pledged as security for liabilities.

ACCOUNTING POLICY**INTANGIBLE ASSETS****Computer Software**

Computer software is separately acquired and capitalised at its cost as at the date of acquisition. After initial recognition, separately acquired intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Where the computer software has a defined life, it is amortised on a straight line basis over its life. Where the computer software does not have a defined life the associated amortisation rate has been estimated as 48% diminishing value.

Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each year is recognised in the operating surplus.

KEY JUDGEMENT

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

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Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
16 INVESTMENT IN ASSOCIATE			
Name of entity	Activity		
Nelson Electricity Limited	Distribution network owner & operator	11,601	11,504
<i>Ownership interest</i>		50%	50%
Nelson Electricity Limited is incorporated in New Zealand, and has a balance date of 31 March.			
Results of associate			
Share of surplus before income tax		1,648	1,696
Movement in NEL deferred tax		15	(47)
Income tax		(516)	(440)
Share of comprehensive income		1,147	1,209
Total recognised revenues and expenses		1,147	1,209
Carrying value of associate			
Opening balance at beginning of period		11,504	11,195
Share of comprehensive income		1,147	1,209
Dividends received		(1,050)	(900)
Closing balance at end of period		11,601	11,504

Summarised financial information of associate

Nelson Electricity Limited applied NZ IFRS's reduced disclosure regime from 1 April 2015. It has a different accounting policy for property, plant and equipment, continuing to revalue rather than adopting deemed cost.

The following is a summary of Network Tasman Limited's share of Nelson Electricity Limited's financial information adjusted to be prepared on the same basis as Network Tasman Limited's financial statements.

Assets	18,029	18,286
Liabilities	6,422	6,776
Revenues	5,258	5,396
Surplus / (deficit)	1,147	1,209

Name of entity	Activity		
On Metering Limited	Meter deployment company		
<i>Ownership interest</i>		50%	50%

On Metering Limited is incorporated in New Zealand, and has a balance date of 31 March. On Metering Limited applied NZ IFRS's reduced disclosure regime.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
16 INVESTMENT IN ASSOCIATE (cont')			
Summarised financial information of associate			
The following is a summary of Network Tasman Limited's share of On Metering Limited's financial information.			
Assets		6,355	5,652
Liabilities		6,791	5,813
Unrecognised losses		(437)	(161)
Revenues		824	469
Surplus / (deficit)		(276)	(157)
Total carrying value of associates			
Nelson Electricity Limited		11,601	11,504
On Metering Limited		-	-
Total		11,601	11,504

ACCOUNTING POLICY**INVESTMENT IN ASSOCIATES**

Associate companies are accounted for using the equity method.

On initial recognition the investment in an associate is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

17 PAYABLES AND ACCRUALS**Current**

Trade payables and accruals	6,273	4,942
Total current payables and accruals	6,273	4,942

Trade payables are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of trade payables approximate their fair value.

ACCOUNTING POLICY**CREDITORS AND OTHER PAYABLES**

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

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Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
18 TAX PAYABLE			
Current			
Tax Payable		737	635
Total tax payable		737	635
19 PROVISIONS			
Current			
Employee entitlements		273	260
Sundry provisions		-	100
Total current provisions		273	360
Non-current			
Employee entitlements		211	276
Total non-current provisions		211	276
Total Provisions		484	636
Provision for employee entitlements			
Balance at beginning of period		536	554
Additional provisions made		320	417
Amount utilised		(372)	(313)
Provision reversed		-	(122)
Balance at end of period		484	536
The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave and sick leave.			
Sundry provisions			
Balance at beginning of period		100	500
Additional provisions made		-	100
Amount utilised		(40)	(172)
Provision reversed		(60)	(328)
Balance at end of period		-	100
Total Provisions		484	636

Network Tasman Limited & Group

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For the year ended 31 March 2018

ACCOUNTING POLICY**EMPLOYEE ENTITLEMENTS**

Employee entitlements include annual leave, a provision for sick leave entitlement and long service leave. 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 to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured at the full

value of the estimated future cash outflows to be made by the Group taking into account the years of service, years of entitlement and the likelihood staff will reach the point of entitlement.

KEY JUDGEMENT

Judgement is exercised in using consumer price index long run usage index and discount rates to determine the Group's liability for non-vested long service and retiring leave entitlements.

20 LOANS AND BORROWINGS	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
Current			
Secured bank loans		3,000	-
Finance lease liabilities		111	174
Total current loans and borrowings		3,111	174
Non-current			
Secured bank loans		3,000	13,000
Finance lease liabilities		129	241
Total non-current loans and borrowings		3,129	13,241
Total loans and borrowings		6,240	13,415

All financial liabilities are classified as financial liabilities measured at amortised cost.

All loans and borrowings are held on market terms; therefore their carrying amount approximates their fair value.

(a) TERMS AND DEBT REPAYMENT SCHEDULE

The terms and conditions of outstanding loans were as follows:

	Facility Expiry	Interest Rate	Year of Maturity	March 2018 \$000	March 2017 \$000
Bank of New Zealand Limited - Secured	20 August 2018	3.33%	2018	3,000	10,000
Bank of New Zealand Limited - Secured	29 September 2020	3.76%	2020	3,000	3,000
				6,000	13,000

(b) SECURITY

Bank of New Zealand Limited

The bank loans are secured over a Negative Pledge Agreement where Network Tasman Limited undertakes not to dispose of, encumber or grant a security interest in any asset of the company without written permission from the Bank.

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Network Tasman Limited & Group

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For the year ended 31 March 2018

(c) FINANCE LEASE LIABILITY

	Total Liability		Principal	
	March 2018 \$000	March 2017 \$000	March 2018 \$000	March 2017 \$000
No later than one year	127	203	111	174
Later than one year and not later than five years	136	264	129	241
Later than five years	-	-	-	-
Minimum lease payments	263	467	240	415
Less future finance charges	23	52		
Present Value of Minimum Lease Payments	240	415	240	415
Included in the financial statements as:				
Current borrowings			111	174
Non-current borrowings			129	241
			240	415

The finance lease liability relates to agreements with Transpower New Zealand Limited (Transpower) for Transpower to construct assets at Transpower grid exit points. The agreements are for a term of 5 or 15 years. The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for these arrangements. The monthly payment amount may be reviewed annually by Transpower and the risk free portion of the interest rate may be adjusted.

ACCOUNTING POLICY**LEASED ASSETS**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The amount recognised as an asset is depreciated over its useful life or the shorter of the lease term and useful life. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
(d) LOAN FACILITIES			
The Company has the following undrawn borrowing facilities			
Bank of New Zealand Limited		9,000	2,000
Total		9,000	2,000

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
21 DEFERRED TAXATION			
Balance at beginning of period		28,601	28,090
Deferred tax on temporary differences		294	511
Balance at end of period		28,895	28,601

Analysis of temporary deferred tax differences

	Fixed assets \$000	Provisions \$000	Finance leases \$000	Total \$000
For the year ended 31 March 2018				
Opening balance	28,888	(171)	(116)	28,601
Charge to income	204	41	49	294
Charge to equity	-	-	-	-
Closing balance	29,092	(130)	(67)	28,895

	Fixed assets \$000	Provisions \$000	Finance leases \$000	Total \$000
For the year ended 31 March 2017				
Opening balance	28,633	(288)	(255)	28,090
Charge to income	255	117	139	511
Charge to equity	-	-	-	-
Closing balance	28,888	(171)	(116)	28,601

Under current accounting standards, Network Tasman is required to recognise a deferred tax liability equal to the tax effect of the difference between the Company's accounting value of fixed assets and the equivalent tax carrying values for the same assets.

Adjustments for provisions and finance leases result in the reducing the deferred tax liability.

22 OPERATING LEASE ARRANGEMENTS

Network Tasman has 20 non-cancellable operating leases as lessor of land and buildings that comprise the investment property portfolio.

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
No later than one year		1,489	1,594
Later than one year and not later than five years		3,882	4,690
Later than five years		818	1,469
		6,189	7,753

The lease arrangements are renewed on a periodic basis as disclosed in the lessors' individual contracts; no agreement exceeds 8 years. In 2018 rental income received from leases with non-cancellable operating lease arrangements amounted to \$1,859,000 (2017: \$1,768,000)

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
23 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating surplus after tax		10,534	7,967
Items not involving cash flows:			
Depreciation & amortisation		8,480	8,185
Movement in deferred taxation		294	511
Non cash customer contributions		(2,007)	(1,427)
Charge in fair value of investment properties		(1,683)	(644)
Equity accounted earnings from associate		(98)	(311)
Bad debts written off		64	6
(Gain) / loss on sale assets		1,317	272
		6,367	6,592
Movement in working capital:			
Increase (decrease) in non capital payables		1,161	(495)
Increase (decrease) in provisions		(152)	(418)
(Increase) decrease in non capital receivables		(212)	138
		797	(775)
Net cash flows from operating activities		17,698	13,784

24 CASH FLOWS FROM FINANCING ACTIVITIES

There are no significant non-cash movements arising in relation to the carrying amount of Network Tasman's liabilities arising from financing activities. The movement in these liabilities is therefore reflected by cash flows as presented above in the financing section of the statement of cash flows.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

25 RELATED PARTY INFORMATION**Parent entity**

The holding entity of the company is the Network Tasman Trust which holds 100% of the company's shares (100% 31 March 2017). Refer to Note 6 for dividends paid to the holding entity.

Associate & related companies		Percentage owned by Network Tasman Limited	
		31 March 2018	31 March 2017
Nelson Electricity Limited	Associate company	50%	50%
On Metering Limited	Associate company	50%	50%
SmartCo Limited	Related company	14%	14%

Network Tasman Limited provided the following services to Nelson Electricity Limited:

- Management and operational services
- Oncharge at cost of charges from Transpower NZ Limited for connection by Nelson Electricity Limited to the national grid.
- Fibre services

Network Tasman Limited leases a room from Nelson Electricity Limited for fibre equipment.

Network Tasman Limited provided operational and management services to On Metering Limited.

Network Tasman Limited provided management services and charges meter rental to SmartCo Limited.

Transactions during the year	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
<i>Charges from Network Tasman Limited to Nelson Electricity Limited</i>	1887	2,153
<i>Charges from Nelson Electricity Limited to Network Tasman Limited</i>	7	11
<i>Charges from Network Tasman Limited to On Metering Limited</i>	188	108
<i>Advances from Network Tasman Limited to On Metering Limited</i>	79	1,150
<i>Charges from Network Tasman Limited to SmartCo Limited</i>	2,367	1,733
<i>Charges from SmartCo Limited to Network Tasman Limited</i>	1,466	2,061
Outstanding balances at year end		
<i>Balance due from Nelson Electricity Limited as at period end</i>	181	209
<i>Balance due to Nelson Electricity Limited as at period end</i>	1	1
<i>Balance due from On Metering Limited as at period end</i>	157	81
<i>Balance due to On Metering Limited as at period end</i>	-	-
<i>Balance due from SmartCo Limited as at period end</i>	449	377
<i>Balance due to SmartCo Limited as at period end</i>	90	189

No related party debts have been written off or forgiven during the period (31 March 2017 : nil)

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
25 RELATED PARTY INFORMATION (CONT')			
Key Management personnel compensation			
Salaries and other short-term benefits		1,483	1,639
Other long term benefits		20	20
Termination benefits		-	113
Total key management personnel compensation		1,503	1,772

Other related party transactions

Directors were only paid directors' fees and reimbursement of company related expenses.

26 FINANCIAL INSTRUMENTS

The company estimates that in respect of the reported financial instruments, being cash, short-term investments, debtors creditors and other payables, fair value is equivalent to the carrying amount as stated in the balance sheet.

Credit risk

The company places short-term investments with registered banks only. The company has a treasury management policy which is used to manage this exposure to credit risk. As part of this policy, limits on the amount of surplus funds placed with any one banking institution have been set and approved by the Board of Directors.

Concentrations of credit risk

The company's significant customers are electricity retailers of which Contact Energy Ltd was 22% (2017 : 25%) at balance date. The credit risk is not considered to be high. Apart from the advances of \$6.5 million to On Metering Limited, the company does not have any other significant concentrations of credit risk.

The maximum credit exposure for each class of financial instrument is the same as the carrying values stated in note 27.

Interest rate risk

Short-term investments mature within the range of on-call to 90 days. The interest rates on these investments range from 1% to 1% (31 March 2017: 1% to 1%)

Interest rate sensitivity analysis

As at 31 March 2018 the weighted average term deposit interest rate was 1% (31 March 2017: 1%) If this rate changed by 1%, with all other things held constant, the surplus / deficit for the year would have been \$15,000 (2017: \$27,000) higher or lower.

Foreign currency risk

The company occasionally imports products denominated in foreign currencies. For specific one-off transactions undertaken in foreign currency, it is the company's policy to enter into foreign exchange forward contracts to manage the exposure to fluctuations in currency rates.

Foreign exchange rate sensitivity analysis

There is no foreign currency accounts at balance date.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty raising liquid funds to meet commitments as they fall due Network Tasman Ltd currently holds \$1.6 million (31 March 2017: \$2.8 million) of cash and short term deposits and holds \$10.4 million (31 March 2017: \$6.1 million) of current liabilities. The current ratio is 1.4:1 (31 March 2017 2.3:1). All creditors and other payables are settled within a 30 day term.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

	Note	12 months 31 March 2018 \$000	12 months 31 March 2017 \$000
27 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES			
The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:			
Loans and receivables			
Cash and cash equivalent	9	1,611	2,758
Other financial assets	10	259	259
Debtors and other receivables	11	5,481	5,236
Total loans and receivables		7,351	8,253
Financial liabilities measured at amortised cost			
Trade payables and accruals	17	6,273	4,942
Finance Leases	20	240	415
Total financial liabilities measured at amortised cost		6,513	5,357

28 COMMITMENTS

The following amounts have been committed to by the company, but not recognised in the financial statements:

Capital commitments

Capital commitments as at 31 March 2018 \$5,422,000 (31 March 2017: \$1,151,000).
All capital commitments fall due in the next twelve months.

29 CONTINGENCIES

As at 31 March 2018 there were no material contingent assets or liabilities (31 March 2017: nil).

Financial Statements

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

30 PERFORMANCE TARGETS

The following financial and reliability performance targets for the 12 months ending 31 March 2018 are specified in the company's Statement of Corporate Intent (SCI). Forecast results are compared to the performance targets below:

		Actual Result 2018	SCI Target 2018	Actual Result 2017
Financial performance targets				
Total company:				
Surplus before interest, tax, line discount and customer contributions	\$mil	21.8	17.8	19.7
Operating surplus after tax and customer contributions	\$mil	10.5	6.3	8.0
Operating surplus to shareholders' funds	%	5.40%	3.3%	4.27%
Line business only:				
Total network costs per consumer	\$	443	454	436
Cash operating costs per consumer	\$	289	295	277
Line Charge Discounts (Excluding GST)	\$mil	10.5	10.5	10.3
Reliability performance targets (excludes Transpower planned and unplanned outages)				
Average duration of supply interruptions per connected consumer (SAIDI) not to exceed -	minutes	232	150	186
Average number of supply interruptions per connected consumer (SAIFI) not to exceed -	number	1.31	1.61	1.58
Average duration of supply interruptions (CAIDI) not to exceed -	minutes	177	93	118
Faults per 100 km of line not to exceed -	number	5.1	6.0	6.8
% faults not restored within three hours not to exceed -	%	33%	20%	26%

The SAIDI, SAIFI and CAIDI measures are industry standards, which enable assessment and comparison of network performance. Industry statistics include rural and urban networks. The Network Tasman network includes a significant rural component.

$$\text{SAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Number of Consumers}}$$

$$\text{SAIFI} = \frac{\text{Total Annual Consumer Supply Interruptions}}{\text{Total Number of Consumers}}$$

$$\text{CAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Annual Consumer Supply Interruptions}}$$

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2018

30 PERFORMANCE TARGETS (cont')

Unplanned SAIDI was over target for the 2017/18 year (161/75).

The total was impacted by ex-cyclones Fehi and Gita, which occurred on 1st and 20th February 2018. These events contributed 18 and 85 SAIDI points respectively. Underlying reliability was therefore well under target at approx 58 SAIDI points.

Unplanned SAIFI was slightly below target (1.03/1.07).

Planned SAIDI and SAIFI were below target (71/75 and 0.28/0.54) for the year ending 31 March 2018.

		Actual Result 2018	SCI Target 2018	Actual Result 2017
Safety of electricity supply				
Lost time injuries not to exceed -	number	0	0	1
Public Safety and Damage Events				
Public Injury Events	number	0	0	0
Public Property Damage Events	number	0	0	0
Public Safety Management System (PSMS) certified & audited by Telarc		Yes	Yes	Yes

31 EVENTS OCCURRING AFTER BALANCE DATE

The directors of Network Tasman Limited are not aware of any significant event occurring subsequent to balance date which, if known at balance date, would have resulted in a different assessment within the financial statements.

32 CAPITAL MANAGEMENT

Network Tasman's capital is its issued and paid up capital, share premium reserve and retained earnings. Equity is represented by net assets as disclosed in the balance sheet. The company manages its revenue, expenses, assets and liabilities and day to day financial transactions prudently. The purpose of managing Network Tasman's equity is to ensure the company achieves its goals and objectives, whilst remaining a going concern.

Audit Report



Independent Auditor's Report

To the readers of Network Tasman Limited's group financial statements and performance information for the year ended 31 March 2018

The Auditor-General is the auditor of the Network Tasman Limited Group (the group). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the company on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 22 to 49 and 51, that comprise the Balance Sheet as at 31 March 2018, 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 50 to 51.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 31 March 2018; 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 the New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 31 March 2018.

Our audit was completed on 29 June 2018. This is the date at which our opinion is expressed.

The basis for 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, and we 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

Audit Report

aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

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.
- 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 1 to 21 and 56 to 60, 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 two assurance engagements for the group. These engagements were in respect of the group's disclosure information prepared under the Commerce Commission's requirements in the Electricity Distribution Information Disclosure Determination 2012 and the Annual Compliance Statement prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2015. These assignments are compatible with the independence requirements.

Other than the audit and these engagements, we have no relationship with or interests in the group.



Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Statutory Information

The Group's principal activity is to own and operate the electricity distribution network in the wider Nelson and Tasman areas, excluding Nelson Electricity's supply area in Nelson city.

Principal activities

In addition to its principal activity, the Group has interests in complementary businesses including Network Tasman Fibre (a fibre optic communications network), commercial and industrial property, 50% shareholdings in Nelson Electricity Limited and On Metering Limited and advanced metering on the Network Tasman network.

Auditors

As required by statute the Auditor-General will appoint the auditors and directors will negotiate their fee and terms of audit. The fees paid to the auditors for audit work and other services are disclosed in the financial statements.

Directors holding office during the year were:

- MJ McCliskie (Chair)
- AM Milligan - Retired 28 July 2018
- AP Reilly
- SL Smith - Appointed 1 August 2017
- RA Sutton
- SJ Weir
- JO Williamson

Remuneration of directors

Directors received the following fees:

Director	2018
MJ McCliskie (Chair)	63,278
AM Milligan	12,135
AP Reilly	36,452
SL Smith	23,895
RA Sutton	36,031
SJ Weir	36,031
JO Williamson	36,452

Remuneration of employees

The number of employees whose remuneration and benefits exceeded \$100,000 in the financial year was:

Remuneration band	2018
\$100,000 - \$109,999	4
\$120,000 - \$129,999	2
\$150,000 - \$159,999	1
\$160,000 - \$169,999	1
\$170,000 - \$179,999	1
\$180,000 - \$189,999	1
\$190,000 - \$199,999	1
\$220,000 - \$229,999	1
\$300,000 - \$309,999	1

Directors' insurance

The Group has Directors' and Officers' liability insurance cover to a value of \$10 million which covers Directors of Network Tasman Limited and Directors representing Network Tasman Limited on associated company boards. The insurance does not cover liabilities arising from criminal actions.

Directors' benefits

No director of the Group has received or become entitled to receive benefits other than benefits included in the total remuneration listed above. However, directors may receive benefits as consumers of Network Tasman and beneficiaries of the Network Tasman Trust. Any benefits received will be on the same terms and conditions as all other consumers and beneficiaries.

There were no loans made by the Group to any director nor has the Group guaranteed any debts incurred by a director.

Statutory Information

Entries recorded in the interests register

The following represents the particulars of the entries made in the Network Tasman's interests register for the year ended 31 March 2018:

MJ McCliskie	Alandale Orchards Limited	Chair
	Nelson Electricity Limited	Director
	Tribunal to consider protection for the Ngaruroro and Clive rivers	Member
AM Milligan	(Retired 28 July 2017)	
	Health Click Limited	Director
	Independent Nursing Practice Limited	Director
	London Plane Limited (Property)	Director
	The Quit Group	Trustee
	Nelson-Marlborough District Health Board	Clinical Director, Woman, Child and Youth Services
AP Reilly	AP & KM Reilly Limited	Chair
	Ravensdown Limited	Director
	Dos Rios Dairy Limited	Director
	Landcorp Farming Limited	Director
	Queens Farms Limited	Supervisor
SL Smith	(Appointed 1 August 2017)	
	Ngai Tahu Tourism Limited	Chair
	EcoCentral Limited	Director
	SLI Systems Limited	Director
	WhereScape Software Limited	Director
	The Lion Foundation	Trustee
	Ohinetahi Charitable Trust	Trustee
Warren Architects Education Trust	Trustee	
RA Sutton	Big Brothers Big Sisters	Board Member
	Roger Sutton Consulting	Principal
	Anglican Church Property Trust	Trustee
	Independent Line Services	Director
	The Lines Company Limited	Consultant/Director
	Christchurch Youth Hub	Trustee
	Christchurch District Energy Company Limited	General Manager
	Wells Group Advisory Board	Member
	EA Networks Limited	Director
SJ Weir	Nelmac Limited	Director
	Marriott Orthodontics Limited	Director
	Anderson Lloyd Lawyers	Consultant to & Former Partner
	Copyright Tribunal	Trustee
	Rata Foundation	Trustee
	Nelson Law Society Standards Committee	Member (ceased July 2017)
	Institute of Directors - Nelson/Marlborough Branch	Chair
	Institute of Directors - National Council	Councillor
	Nelson City Council Arts Festival Transition Board	Member (ceased July 2017)
	Nelson Marlborough Tasman Community Services Forum	Consultant
Cawthron Institute Trust Board	Trustee	
JO Williamson	Nelson Tasman Region Hospice Trust Board	Trustee

Corporate Governance

The Board of Directors of Network Tasman Limited and Group (the “Board”) recognises the requirement to adopt best practice in relation to its corporate governance policies and procedures.

The Board is committed to a high standard of corporate governance and is guided by the “Code of Proper Practice for Directors” as recommended by the Institute of Directors in New Zealand.

Role of the Board of Directors

The Board is appointed by the shareholders to supervise the management of the company. The Board establishes the company’s objectives, strategies for achieving objectives, the overall policy framework within which the Network Tasman’s business is conducted and monitors management’s performance. The Board has delegated the day-to-day management of the company to the Chief Executive.

The Board also ensures that appropriate procedures are in place to provide for effective internal control and that the business complies fully with legislation including health and safety requirements.

Board operations and membership

Network Tasman’s constitution allows for a maximum of eight directors of the company.

The Board currently comprises six directors: a non-executive Chair and five non-executive directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources.

Network Tasman’s constitution sets out policies and procedures for the operation of the Board, including the appointment and removal of directors.

The full Board met 11 times during the financial year ended 31 March 2018.

Board Committees

Health and Safety Committee

The Board has a Health and Safety Committee, comprising the full Board, to maintain an effective governance framework in accordance with relevant legislation and achieve the safety vision of “everyone safe, all of the time”. The committee is tasked with ensuring that health and safety are key considerations in every operational decision made within the company.

Management and the Board are focused on ensuring a thorough health and safety management system (HSMS) oversight process is operating across all business units of the company. Activities include reviews with contractors and site visits. The committee met three times during the year.

Remuneration Sub-committee

The Board has a Remuneration Sub-committee comprising three non-executive directors. The Remuneration Sub-committee is responsible for assisting the Board in overseeing the appointment, performance and remuneration of the chief executive and members of the executive team (including succession planning) and reviewing the Remuneration Policy with the objective of being a good employer. The committee met three times during the year.

Audit and Risk Sub-committee

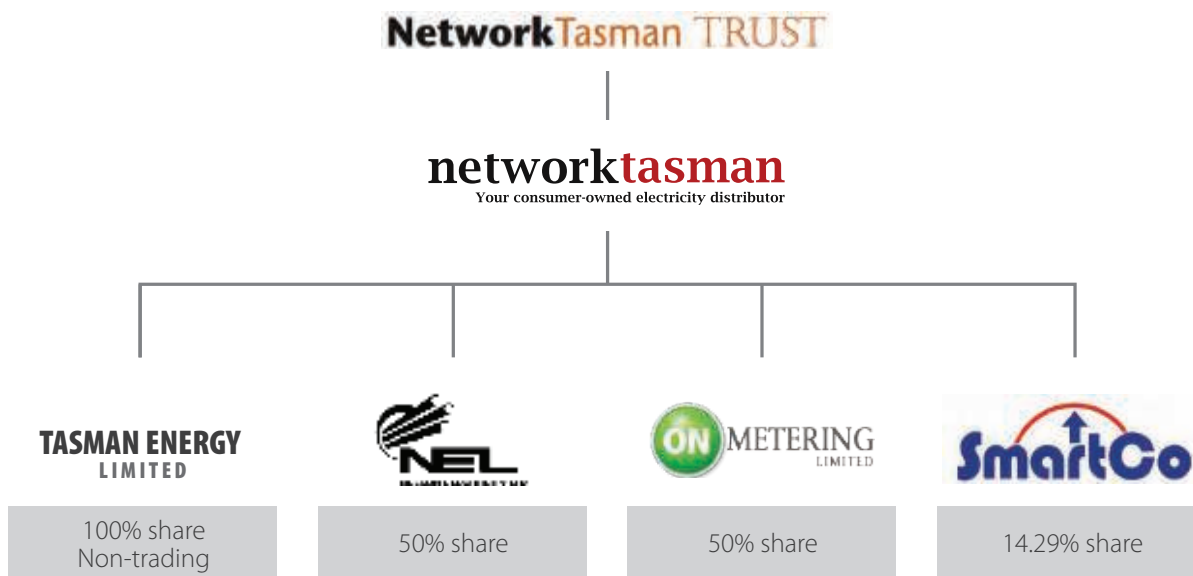
The Board has an Audit and Risk Sub-committee comprising two non-executive directors. The Audit and Risk Sub-committee is responsible for overseeing the financial, accounting and internal and external audit activities of the company, including reviewing the adequacy and effectiveness of internal controls and monitoring of corporate risk assessment, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations on financial and accounting policies. The committee met three times during the year. Specific areas overseen by the Audit Sub-committee include the following:

- **Risk Management**

The Board has overall responsibility for the company’s risk management and internal control systems. The Board has established policies and procedures that are designed to provide effective internal control. Annual budgets, asset management plans, business plans and longer-term strategic plans are prepared and agreed by the Board, as well as a delegated authority policy. Financial statements and operational reports are prepared on a monthly basis and reviewed by the board throughout the year to monitor performance against budget targets and objectives.

In addition, the Board monitors the risk management framework and reviews ways to enhance existing risk

Network Tasman Ownership Structure as at 30 June 2018



management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff and the implementation, where considered necessary and effective, the recommendations made by the internal and external auditors.

• Internal Audit

The Board conducted an internal audit programme during 2017/18, utilising an experienced independent internal auditor. Three audits were completed during the year.

• Treasury Policy

Exposure to interest rate risk is managed in accordance with the company's treasury policy that sets limits of management authority and levels of exposure to banking institutions.

Pricing Sub-committee

The Board has a Pricing Sub-committee comprising two non-executive directors. The Pricing Sub-committee is responsible for assisting management and the Board to monitor and implement the current pricing strategy and in developing future pricing strategy based on key principles including "no surprises"/predictability, economic efficiency and equity. Activities include benchmarking with other electricity lines businesses, maintaining common standards, sending consumers signals on future price changes ahead of time and overseeing the five yearly price resets. The committee met twice during the year.

Telecommunications and AMI Sub-committee

The Board has a Telecommunications and AMI Sub-committee comprising two non-executive directors. The committee is responsible for overseeing the company's fibre network and advanced metering activities including the development of new business opportunities. The committee did not meet during the year. All activities were overseen by the full Board.

Statement of Corporate Intent

In accordance with section 39 of the Energy Companies Act 1992, the Board submits to the shareholder trust a draft Statement of Corporate Intent (SCI) for the coming financial year. The SCI sets out the company's overall objectives, intentions and financial and performance targets for shareholder review.

A copy of the Statement of Corporate Intent is available on the company's website www.networktasman.co.nz

The Role of the Shareholder Trust

The Network Tasman Trust ("the Trust") holds all the shares in Network Tasman Limited. The Board aims to ensure that the trust is informed of all major developments impacting on the company's affairs.

Board members meet frequently with trustees to communicate matters of importance. Information is also provided by way of the Interim Report, Annual Report, Asset Management Plan and Statement of Corporate Intent.

Corporate Directory

networktasman

Your consumer-owned electricity distributor

Directors

John McCliskie – Chair
Tony Reilly
Roger Sutton
Sarah Smith
Sarah-Jane Weir
James Williamson

Executive

Oliver Kearney
Chief Executive Officer
Robert Derks
Operations Manager
Kerry Haycock
Corporate Services Manager
Murray Hendrickson
Network Manager
Emma Lanigan
Commercial Manager
Andrew Stanton
*Advanced Metering &
Telecommunications Manager*

Network Tasman Trust

Gweny Davis – Chair
Trevor Tuffnell – Deputy Chair
Ian Barker
Peter Barr
Ian Kearney
Terry Kreft

Head Office

52 Main Road Hope, 7020
PO Box 3005, Richmond 7050
Nelson
Telephone: 64 3 989 3600 or 0800 508 098
Facsimile: 64 3 989 3631
E-mail: info@networktasman.co.nz
Website: www.networktasman.co.nz

Auditor

Audit New Zealand

Bankers

Bank of New Zealand

Solicitors

Pitt & Moore

Trust Secretary

Patrick Adamson
C/- Craig Anderson Limited
270A Queen Street, Richmond
PO Box 3115, Richmond 7050
Telephone: 64 3 544 6179
Facsimile: 64 3 544 5979
E-mail: patrick@caca.co.nz

