

Directory as at 31 March 2016

Trustees

CHAIRMAN	Mr C T Sanders
DEPUTY CHAIRMAN	Mr A J Bateman
TRUSTEES	Mrs J M Bannon
	Mr R C Tremewan
	Mr C J Rist, JP
	Mrs B J Taranaki, QSM JP

Secretary/Treasurer

Mrs S J Davies
PO Box 34
Te Awamutu

Bankers

Westpac
Alexandra Street
Te Awamutu

Solicitors

Kevin Jaffe
Simpson Grierson
Auckland

Accountants

Peter Granville
180 Grey Street
Hamilton East

Auditors

FINNZ
486 Alexandra Street
Te Awamutu

Chairman's Report

To the Beneficiaries (Connected Consumers):

It is my privilege to report on the activities of the Waipa Networks Trust for the year ended 31 March 2016.

Waipa Networks Trust

The Trust holds on your behalf 7.2 million shares in Waipa Networks Limited.

Under this collective form of ownership only the Trust can sell the shares. However, the advantage to you is that the Company is directed and controlled to benefit Connected Consumers.

Any surplus profits can only be distributed to Connected Consumers or used for energy efficiency projects.

This contrasts with a private ownership structure (as occurs in several larger power companies in New Zealand) in which a company is managed so as to maximise profits to pay high dividends to often out-of-the-region or even overseas shareholders.

Trust ownership of our network company therefore ensures the economic benefits and potential can stay in the region.

Trust Functions

As the single shareholder, our Trust has some very important functions:

- 1 The Trust appoints the Directors and monitors their performance.
- 2 Each year the Trust determines with the Company a Statement of Corporate Intent that includes a three year projection of performance indicators.
- 3 At this time of the year the Trust reports, publicly, on the Company's previous year's performance, taking into account the Corporate Intent performance 'benchmarks' agreed to a year earlier.

Strategically, the Trustees have an important duty to act as a diligent shareholder.

That role includes being fully aware of the strategic, long term, likely value of the Company to its shareholders.

Taking that into account, the Trustees can exercise voting powers in respect of any matters proposed by the Company that affect either the level of the shareholding or that propose modifications of the rights of shareholders. For example, the Trustees are required, at intervals of no more than five years, to prepare a report considering proposals and available options for the future ownership of shares; make decisions on merger proposals; and decide upon any other Company recommendations to alter the capital structure.

Other than these powers and duties, the Trustees have no power, authority or discretion to participate in the day to day management or operation of the Company.

Trustees of the Waipa Networks Trust

The Trustees of Waipa Networks Trust at 31 March 2016 were Messrs Craig Sanders (Chairman), Andrew Bateman (Deputy Chairman), Carl Rist (JP), Mrs J M Bannon, Mrs Barbara Taranaki (JP), and Mrs R C Tremewan.

The triennial Election of Trustees took place in 2015. The next Election of Trustees is scheduled to take place in 2018.

Trust Performance 2015 - 16

Annual Plan 2015 - 2016

The Trust met all its objectives concerning accountability to its Beneficiaries and financial forecasts outlined in the Annual Plan for the 2015-2016 year.

Financial Review of the Trust (excluding the value of the shareholding in Waipa Networks Ltd)

The Financial Statements attached to this Report form part of, and should be read in conjunction with this Report.

The movement in cash flows over the year has been as follows:

Balance 1 April 2015	\$3,450,856
Plus:	
Interest Earned (net)	132,907
Less:	
Payments to suppliers and employees	151,593
Trustee Election	50,202

Balance 31 March 2016	\$3,381,968
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The book value of the 7.2 million shares held by the Trustees at 31 March 2016 based on the shareholders funds value in the Financial Statements of Waipa Networks Ltd was 2016 \$107,458,397 (2015 \$102,405,055)

The audited Financial Statements of Waipa Networks Trust for the year ended 31 March 2016 are available for your inspection on the Trust website www.waipanetworkstrust.co.nz and at the office of the Company (240 Harrison Drive, Te Awamutu).

Guidelines on Access for Beneficiaries to Meetings and Information

The Trust in the 2015/16 year formally updated the above mentioned Guidelines, copies of which are available on our website or upon request to the Trust Secretary.

The Guidelines promote accountability by the Trust to its Beneficiaries and ensure that clear and transparent procedures are in place to enable Beneficiaries to attend Trust meetings, have access to Trust information, and access to a complaints process if they are unhappy.

Dividend

The Trust's operation costs continue to be funded from investment earnings and reserves, with no dividend being sought from its wholly owned company Waipa Networks Ltd.

This policy allows the Company to use any excess funds for capital and lines maintenance works in order to give consumers a safe and secure supply of electricity.

Company Performance 2015/16

Directors of Waipa Networks Ltd

Mr Richard Kadziolka & Richard Francis were required to retire by rotation at the 2015 Annual General Meeting of the Company. The Trustees re-appointed them for a further term.

The Directors of Waipa Networks Limited at 31 March 2016 were Messrs Richard Kadziolka (Chairman), Richard Francis (Deputy Chairman), Keith Goodall, Bob Western, Jeff Williams and Ms Diane Reed.

Special Discounts

The Trust, through the Statement of Corporate Intent, agreed to the Company introducing a discount/rebate regime commencing on 1 April 2001.

In the financial year ended 31 March 2016 the Company granted special discounts amounting to \$4,008,712 to Connected Consumers. Special discounts for the fifteen year period 1 April 2001 to 31 March 2016 amount to \$62,164,905.

Performance Measures of Waipa Networks Limited

Under Section 44 of the Energy Companies Act 1992, the Company is required to report its performance against targets set out in the Statement of Corporate Intent for the year. The performance of the business for the year ended 31 March 2016 is as follows:

Financial performance indicators	Target	Actual (2016)	Actual (2015)
Profit before interest expenses and tax as a percentage of total assets	4.50%	4.62%	5.29%
Profit after tax as a percentage of equity	4.50%	4.82%	4.89%
Equity as a percentage of total assets	60.00%	67.55%	77.03%
Efficiency performance measures:			
Maintenance costs per electricity customer	\$160	\$155	\$138
Operational expenditure per electricity customer	\$75	\$80	\$84
Energy delivery efficiency performance measures			
Loss ratio	6.50%	5.45%	5.72%
Energy reliability performance measures			
Faults per 100km lines (11kV)	8.9	12.3	12.1
SAIDI (minutes per customer)	170	190	201
SAIFI (interruptions per customer)	2.43	2.25	2.20
Staff Safety			
Lost time work accidents per 100 employees	0.0	7.2	13.0
Total hours lost per annum	0	459	646
Percentage of hours lost per annum	0.00%	0.44%	0.66%

Waikato Networks Ltd (Formally Ultrafast Fibre Limited)

The Company is a 15% shareholder in Waikato Networks Limited (WNL) which completed the construction of a fibre optic network in the central North Island in February 2016. WNL in turn invests with Crown Fibre Holdings (CFH), on behalf of the Crown, in Ultrafast Fibre Limited (UFF) which owns and operates the fibre network.

Funding for WNL is by unsecured shareholder loans while WNL investment in UFF is recognised by the issuance of new shares (class B) for customer connections and the purchase of A shares (from CFH) for the community infrastructure. UFF has a June end to its financial year. WNL has a March end to its financial year.

At the end of the WNL financial year UFF had almost 42,000 connected customers or about 22% of premises passed. WNL owned approximately 50% of the shares in UFF, valued at \$160M.

Uptake of fibre began slowly but has accelerated rapidly with orders continually exceeding UFF's ability to connect. New connections have grown from 600 per month (2014), 2,000 (2015), 2,600 (2016). This rapid growth has increased the need for shareholder funding and the Company invested \$12.3M in the last year.

UFF is expected to become profitable in the 2018 financial year and return its first dividend in 2019/20.

Waipa Networks Ltd. 2016 Annual Report.

Second Supply Line to Te Awamutu

Excellent progress has been made on construction of the new Hangatiki – Te Awamutu 110kV line. The line is scheduled to be completed before the end of June and commissioned by Transpower over a period of days, entering service in early July. The project will be complete on time and within budget.

The completion of this project will allow Transpower to carry out substantial maintenance work on the Karapiro – Te Awamutu line requiring an eight-day outage. This work is being scheduled for the end of 2016.

Waipa Networks Ltd. 2016 Annual Report.

Acknowledgements

I would firstly like to acknowledge the difficult few months that the Trust and Company have had with the loss of our colleagues; Carl Rist (Trustee) and Richard Kadziolka (Company Chairman). Although this happened after the financial year that we are reporting on, we wanted to recognise the massive contributions that both Carl and Richard have made to the organisation in their respective roles. They will both be missed by all of us here at the Company and Trust.

The Company financial performance continues to be strong and I am pleased that they have, once again, managed to maintain their position amongst the lowest lines charges in the country. I am very lucky to be able to report this to our beneficiaries year after year. Once again, the Trust would like to recognise the ongoing effort of the Company Board and Staff.

A significant achievement of the Company this year has also been the astonishing progress which has been made on the second line. This is due to be completed in June 2016 on time and within budget.

Other achievements of the Company this year were the increase in their investment in Waikato Networks Ltd and the completion of an energy efficiency programme in schools.

The Trust has continued to use our website to improve the availability of information. If you have not already had a look, please do so at www.waipanetworkstrust.co.nz

On behalf of the Trustees, I would like to thank Crowe Horwath for the use of their magnificent amenities and Sarah for another year of dedication to the Secretary/Treasurer role. Thank you to my fellow trustees for the privilege of being their Chairman.

We look forward to continue to work positively on behalf of you, our beneficiaries.

**CRAIG SANDERS, CHAIRMAN
WAIPA NETWORKS TRUST**