

Directory as at 31 March 2017

Trustees

CHAIRMAN	Mr C T Sanders
DEPUTY CHAIRMAN	Mr A J Bateman
TRUSTEES	Mrs J M Bannon
	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

Gyde Wansbone
195 Mahoe Street
Te Awamutu

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 2017.

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 Trust funds can only be reinvested in the Company, 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.

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

Taking this 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 2017 were Craig Sanders (Chairman), Andrew Bateman (Deputy Chairman), Judy Bannon, and Barbara Taranaki (QSM JP).

A by-election was scheduled to fill the two vacant Trustee positions in April 2017.

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

Trust Performance 2016 - 17

Annual Plan 2016 - 2017

The Trust met all its objectives concerning accountability to its Beneficiaries and financial forecasts outlined in the Annual Plan for the 2016-2017 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:

Cash & cash equivalents 1 April 2016	\$3,382,023
Plus:	
Interest received	112,721
Less:	
Payments to suppliers and employees	185,972
Purchase of property, plant and equipment	1,699

Balance 31 March 2017	\$3,307,073
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The book value of the 7.2 million shares held by the Trustees at 31 March 2017 based on the shareholders funds value in the Financial Statements of Waipa Networks Ltd was \$122,360,743 (2016 \$107,458,397).

The audited Financial Statements of Waipa Networks Trust for the year ended 31 March 2017 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.

Company Performance 2016/17

Directors of Waipa Networks Ltd

During the year we experienced the sad loss of the Company Chairman Richard Kadziolka. Diane Reed was appointed interim Chair and subsequently permanent Chair in July 2016.

Diane Reed & Keith Goodall were required to retire by rotation at the 2016 Annual General Meeting of the Company. The Trustees re-appointed them for a further term.

The Directors of Waipa Networks Limited at 31 March 2017 were Diane Reed (Chair), Richard Francis (Deputy Chairman), Keith Goodall, Bob Western, and Jeff Williams.

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 2017 the Company granted special discounts amounting to \$4,354,669 to Connected Consumers. Special discounts for the sixteen year period 1 April 2001 to 31 March 2017 amount to \$66,519,574.

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 2017 is as follows:

Financial performance indicators	Target	Actual (2017)	Actual (2016)
Profit before interest expenses and tax as a percentage of total assets	5.20%	9.12%	4.62%
Profit after tax as a percentage of equity	4.60%	12.97%	4.82%
Equity as a percentage of total assets	60.00%	59.83%	67.55%
Efficiency performance measures:			
Maintenance costs per electricity customer	\$160	\$165	\$155
Operational expenditure per electricity customer	\$90	\$85	\$80
Energy delivery efficiency performance measures			
Loss ratio	6.50%	5.45%	5.45%
Network reliability performance measures			
Faults per 100km lines (11kV)	10.8	11.5	12.3
SAIDI (average minutes per customer)	215	204	190
SAIFI (average interruptions per customer)	2.29	1.86	2.25
Staff Safety			
Lost time work accidents per 100 employees	0.0	8.8	7.2
Total hours lost per annum	0	1,206	459
Percentage of hours lost per annum	0.00%	1.15%	0.44%

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.

The initial establishment of Waikato Networks Ltd was as a Joint Venture with Crown Fibre Holdings (CFH), the governments funding vehicle for establishing broadband services to a larger proportion of New Zealand homes and businesses. During 2016 the shareholders of Waikato Networks Ltd negotiated an early buyout of CFH vesting full ownership in the two partners, Waipa Networks Ltd with 15% and WEL Networks Ltd with 85%.

Subsequent to the buyout of CFH, a revaluation of the business was undertaken. The outcome, after consolidation through the entities, has translated into an \$8.8M lift in Waipa Networks year end profit.

Uptake of fibre began slowly, accelerated rapidly and has tapered-off in later months of 2016. The Company, with support of the Trust, supported continued investment as the need for shareholder funds grew, including the funds required for exiting CFH. Subsequently, WNL successfully bid for further township roll-outs under UFB2 which extended the shareholders' funding requirements marginally.

At the end of the WNL financial year, UFF had almost 72,000 connected customers or about 37% of premises passed.

Even with the above transactions included in a revised UFF business plan, profitability is still expected to be achieved in the 2018 financial year with potential for return of its first dividend in 2018/19, a year ahead of the original plan.

Waipa Networks Ltd. 2017 Annual Report.

The Second Line

The new Hangatiki – Te Awamutu 110kV line was completed on time and within budget.

As anticipated Transpower immediately scheduled substantial maintenance work on the Karapiro – Te Awamutu line requiring an 8 day outage.

Waipa Networks Ltd. 2017 Annual Report.

Acknowledgements

This year the Trust had two vacant Trustee positions due to the sad passing of Trustee Carl Rist in June 2016 and the resignation of Rachel Tremewan in December 2016. The Trust held a by-election in April 2017 and we welcomed the successful candidates to the Trust. We wish to provide a warm welcome to Joe Scaramuzza and welcome back to Ashley Reid who both have a wealth of experience that they are bringing to the Trust.

The Company financial performance continues to be strong and once again, we have managed to maintain our position amongst the lowest lines charges in the country. Once again, the Trust would like to recognise the ongoing effort of the Company Board and Staff.

Significant achievements of the Company this year included the completion of the second line into Te Awamutu, the increase of their investment in Waikato Networks Ltd and installation of the regions first electric car charging stations in Te Awamutu and Cambridge.

Rapid advancements in technology, such as, Solar Panels, battery storage and electric vehicles are bringing new challenges to the industry. We are very lucky to be living in such a prosperous region with high growth continuing now and in the future, however both the Company and Trust are not being complacent and have been strategically planning for the technology changes and embracing changes to our business model.

The Trust has continued to use our website www.waipanetworkstrust.co.nz to improve the availability of information.

On behalf of the Trustees, I would like to thank Crowe Horwath for the use of their meeting rooms 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**