



STATEMENT OF CORPORATE INTENT

For the Period: 1 April 2018 – 31 March 2019

Network Waitaki Limited
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1. Function of the Statement of Corporate Intent and Introduction

This Statement of Corporate Intent for Network Waitaki Limited is submitted to the Waitaki Power Trust by the Board of Directors of Network Waitaki Limited and sets out the Directors' overall intentions and objectives for the Company for the financial year ending 31 March 2019 and the two succeeding financial years.

This statement assumes that the Company continues to operate primarily as an electricity network company while investigating business opportunities within the utilities sector. Any changes that may result from further electricity reforms or regulatory requirements initiated by Government legislation have not been factored in.

The Statement of Corporate Intent is submitted in accordance with the provisions of sections 39 and 40 of the Energy Companies Act 1992 (the "Act").

Network Waitaki Limited, and any Subsidiary and Relevant Subsidiary Companies (if any) are referred to as "the Company" throughout this Statement of Corporate Intent.

Network Waitaki Limited is an energy company (as that term is defined in the Energy Companies Act 1992). This Statement of Corporate Intent sets out the overall intention and objectives for the Company for the period 1 April 2018 to 31 March 2019 and the two succeeding financial years and is prepared in accordance with Section 39 (2) of the Energy Companies Act 1992.

2. The Objectives of the Company

- **Mission statement**

- *To be a locally-owned and operated electricity distribution company that provides the benefits of local consumer trust ownership by:*
 - owning and operating a safe, reliable and efficient distribution system that meets the evolving needs of its consumers, in accordance with the Asset Management Plan;
 - supporting the economic growth and wellbeing of the community it serves.

- **Principal objectives**

- *Health and Safety*
 - So far as is reasonably practicable maintain the health and safety of workers, contractors and other persons by having systems of work which eliminate risk to those persons or, where it is not possible so far as is reasonably practicable to eliminate a risk it shall be minimized so far as is reasonably practicable.
- *Shareholders*
 - To pursue policies which will secure the Company's financial position as a consumer trust-owned business for present and future consumers.
- *Consumers*
 - To provide consumers with the delivery of a safe, efficient and reliable electricity distribution system.
- *Efficient Use of Resources*
 - To promote the efficient use of energy as required under the Energy Companies Act 1992 clause 36 (2);
 - To efficiently and effectively utilise the resources of the Company.
- *Public and Social Responsibility*
 - To be a good corporate citizen by being a law abiding company; and
 - Supportive of activities that provide economic growth in the area serviced by the network.
- *Employer*
 - To be an equal opportunity employer;
 - To recruit and retain competent, motivated, committed staff;
 - To provide training opportunities that will enable individual staff members to attain their fullest potential in the service of the Company.
- *Environmental*
 - To ensure compliance with the Resource Management Act;
 - To operate in a way that minimises the impact on the environment.
- *Compliance*
 - To continue with our comprehensive compliance programmes currently in place and aim to comply with all obligations under relevant legislation and regulators.

3. The Nature and Scope of Activities of the Company will be:

- to operate, maintain, upgrade and expand the Company's electricity distribution network business and develop transmission connection assets to meet the demands of electricity consumers in the region supplied by the Company;
- to investigate and evaluate profitable additional business opportunities within the utilities sectors and legislative frameworks. Such investments, other than investments in the safe, efficient, reliable and cost-effective delivery of energy including transmission connection asset, will be subject to consultation with the Company's shareholders;
- to own and operate a metering facility for those sites that have not converted to advanced metering.

4. The Ratio of Consolidated Shareholders' Funds to Total Assets & Definitions of those Terms.

The ratio of shareholders' funds to total assets shall be maintained at not less than 70 per cent. This ratio may be revised should the Company have the opportunity to invest in a major capital expenditure.

Total assets will comprise all the recorded tangible and intangible assets of the Company at their current book value as defined in the Company's Statement of Accounting Policies.

Consolidated shareholders' funds of the Company will comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves.

5. The Accounting Policies

The Company's accounting policies will comply with the legal requirements of the Companies Act 1993 and be consistent with generally accepted accounting principles. Financial Statements will conform to the Financial Reporting Standards as required by the Financial Reporting Act 2013.

Details of the current accounting policies and their application are contained in the Network Waitaki Company Annual Report for the year ending 31 March 2017.

6. The Company's Performance Targets and Other Measures

A summary of budgeted financial performance, financial position and other financial measures and performance statistics for the 2018-2019 financial year and the forecast for the following two financial years for Network Waitaki Limited are provided for in the following tables.

The Company accounts represent the financial performance of Network Waitaki Limited.

Network capital and maintenance expenditure are consistent with the estimates provided in the Asset Management Plan and include required sub-transmission development.

For readers' information, a summary capital expenditure and the funding of this expenditure is contained in Appendix B.

Network Waitaki Limited Income Statement			
	31 March 2019	31 March 2020	31 March 2021
Revenue Excluding Capital Contributions	27,309,841	28,037,801	28,506,199
Capital Contributions	1,267,000	1,005,646	1,081,048
Total Revenue	28,576,841	29,043,447	29,587,247
Expenses Excluding Depreciation	18,369,965	18,800,197	19,256,182
Depreciation	4,568,747	4,646,858	4,710,557
Net Profit Before Discount and Taxation	5,638,129	5,596,391	5,620,508
Discount	1,600,000	1,600,000	1,600,000
Net Profit Before Taxation	4,038,129	3,996,391	4,020,508
Provision for Taxation	1,130,676	1,118,990	1,125,742
Net Profit After Discount and Taxation	2,907,453	2,877,402	2,894,766

Network Waitaki Limited Balance Sheet			
	31 March 2019	31 March 2020	31 March 2021
TOTAL EQUITY	92,814,100	95,691,502	98,586,268
TOTAL CURRENT ASSETS	5,399,517	3,983,313	4,406,243
TOTAL CURRENT LIABILITIES	2,168,313	2,234,849	4,465,456
WORKING CAPITAL	3,231,204	1,748,464	(59,213)
TOTAL NON-CURRENT ASSETS	103,861,628	108,221,770	112,924,214
TOTAL NON-CURRENT LIABILITIES	14,278,732	14,278,732	14,278,733
NET ASSETS	92,814,100	95,691,502	98,586,268

Financial performance measures – energy companies are for-profit entities for accounting purposes and shareholders expect them to make a profit. The core objective of an energy company is to operate as a “successful business”. Financial measures are therefore necessary.

A mandated financial performance measure is the rate of return on shareholders' funds after payment of tax, as section 39(2)(e) of the Energy Companies Act 1992 requires it.

We will also include other financial performance measures as follows:

- NPBT to Shareholder Funds
- Net Assets Per Share
- Earnings Per Share Before Tax
- Ratio of Shareholders' Funds to Total Assets

Key Financial Performance Measures			
	31 March 2019	31 March 2020	31 March 2021
NPBT to Shareholder Funds	4.35%	4.18%	4.08%
Net Assets Per Share	\$6.63	\$6.84	\$7.04
Earnings Per Share Before Tax	28.84 cents	28.55 cents	28.72 cents
Ratio of S/holders' Funds to Total Assets	84.95%	85.28%	84.02%
Rate of Return After Tax on Shareholder Funds	3.13%	3.01%	2.94%

Health and safety measures – energy company boards and management understand that the most important matter they manage is health and safety of staff and the public. Therefore, we believe that our commitment to maintaining Health and Safety Management System Accreditation is fundamental to our company. One of the benefits of maintaining an accredited Health and Safety Management System is that it is subject to regular independent audits.

Reliability measures – the primary purpose of energy supply companies is to reliably distribute electricity to consumers. These are critical measures for the readers to assess network performance.

The main measures that give an indication of network reliability, used by the sector, are System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). We will use these measures on a normalised basis and will set targets annually which will be in the nature of bands in which we expect the measures should fall.

Please note that the systems used to collect fault data are manual in nature and as such have inherent limitations but we believe they remain the most cost-effective method available to us at present. Manual systems are widely used throughout our sector and even with their inherent limitations they are still considered suitable to give an indication of network reliability.

Network Non-Financial Performance Measures			
	31 March 2019	31 March 2020	31 March 2021
System Average Interruption Duration Index (SAIDI)	150 to 250	150 to 250	150 to 250
System Average Interruption Frequency Index (SAIFI)	1.0 to 2.0	1.0 to 2.0	1.0 to 2.0

7. Financial Distribution

Dividend Policy

The policy on apportioning net profits distributed to the shareholders, who are the Trustees of the Waitaki Power Trust, will be determined by the directors from time to time in accordance with the yearly results and prevailing circumstances, with the objective of ensuring that the Company retains an appropriate level of earnings and funds for profitable investment in the Company's business.

The directors will include within their report on the operations of the Company (prepared after the end of each financial year) a statement recommending the maximum amount of dividend (if any) payable by the Company in respect of its equity securities.

The directors may distribute to the shareholders any financial surpluses not needed for the operation and development of the business or to ensure the security of the network in case of a disaster and to take advantage of investment opportunities.

Discount Policy

Network Waitaki Limited will budget for a discount which has a fixed and a variable component. A Statement of Intention to Pay Discount will be published on the company website prior to the commencement of each financial year. In setting the discounts the directors believe that the discounts will:

- maintain the Company's line charges and associated profit level within the electricity industry requirements;
- promote consumer goodwill;
- encourage greater utilisation of Network Waitaki's electricity distribution network; and
- promote consumer perception of Network Waitaki as a corporate body which makes a positive contribution to the community.

8. Information to be provided to the Shareholders of the Company during the course of those financial years, including the information to be included in each Quarterly Report.

The directors will provide information to shareholders as required by The Companies Act 1993, the Financial Reporting Act 2013, the Energy Companies Act 1992 and New Zealand International Financial Reporting Standards.

The Company includes any relevant subsidiary of the Company.

A company is a Relevant Subsidiary of another company if:

- (a) That other company holds more than 20% of the issued shares of the company;
- OR
- (b) The company is a subsidiary of a company that is that other company's Relevant Subsidiary.

8.1 The following information will be made available:

A. Annual Report

The Annual Report for the Company, its subsidiaries and associated companies (if any) will be submitted to Shareholders within three months of the end of the financial year and will include:

- (a) a report by the directors of the operations of the Company, its subsidiaries (if any) and relevant subsidiaries (if any) during the financial year;
- (b) audited financial statements for the financial year in accordance with New Zealand International Financial Reporting Standards;
- (c) an Auditor's Report on the financial statements and the performance targets and other measures by which the performance of the Company has been judged in relation to the objectives.

The information to be contained in the above report shall be sufficiently detailed so as to enable an informed assessment to be made of the operations of the Company, its subsidiaries (if any), and relevant subsidiaries (if any) including a comparison of the performance criteria provided in the Company's Statement of Corporate Intent.

The audited consolidated financial statements will include:

1. Balance Sheet; and
2. Profit and Loss Statement; and
3. Statement of Cash Flows; and
4. Such other information as may be necessary to fairly reflect the financial position of the Company, its subsidiaries (if any) and relevant subsidiaries (if any).

B. Quarterly Report

Three quarterly reports will be submitted to shareholders within eight weeks of the end of each quarter. These reports will provide shareholders with timely information on the financial position and operations of the Company with a comparison of actual results and forecasts. They will be un-audited and in an abbreviated form.

Further information or reports will be supplied to shareholders by the directors, concerning issues of interest and where the information required relates to a decision to be made by the shareholders.

C. Statement of Corporate Intent

A draft Statement of Corporate Intent will be delivered to the trustees of the Waitaki Power Trust as shareholders of Network Waitaki Limited no later than two weeks before the commencement of each financial year.

9. The procedures to be followed before the Directors of the Company subscribe for, purchase, or otherwise acquire shares in any company or other organisation.

The directors will only consider the acquisition of shares in other companies or organisations where such acquisition is consistent with the long-term commercial objectives of the Company.

The directors of the Company will consider an acquisition of shares in the following circumstances:

- a) to better manage risk in the best interest of the Company and its shareholders;
- b) where, in the directors' opinion, the acquisition is in the best interests of the Company in terms of creating wealth or potential wealth for the shareholders; and
- c) under other circumstances which, in the opinion of the directors, are in the best interests of the Company.

The directors will not authorise the Company to acquire shares in any other company or organisation without the prior written consent of the majority of shareholders in the Company.

10. Details of Related Company Transactions

Network Waitaki Limited currently has no related companies.

11. Such other matters as are agreed by the Shareholders and the Directorate

11.1 Procedure for acquisition and disposal of assets

The directors of the Company will not make an acquisition or disposal of non-electricity distribution assets (by a transaction or series of related transactions) if the value of the assets is greater than \$2,500,000 without first consulting with the Company's shareholders.

11.2 Community interest

The Company is conscious that spending on sponsorships or charitable activities is an indirect cost on consumers. However, the Company may be involved in modest sponsorship activities where these activities are related to the commercial objectives of the Company and in line with the Company's sponsorship policy.

11.3 Appointment of Directors to Subsidiary Companies

The Company will not appoint any person as a director of any subsidiary of the Company (if any) or relevant subsidiary (if any) of the Company (or remove any person from office as a director) without first consulting with the shareholders of the Company.

11.4 Issue of shares

The directors will not authorise the issue of shares to any person or grant to any person options in respect of any share in Network Waitaki Limited, without first obtaining the approval of Trustees in accordance with the Waitaki Power Trust Deed Clause 9.11.

The directors will not authorise the issue of shares to any person or grant to any person options in respect of any share in any subsidiary of Network Waitaki Limited without first consulting with the Company shareholders.

Appendix A: Assumptions to the Financial Statements

- a) Financial forecasts are based on the Company continuing in its projected business structure and scope.
- b) Revenue and expenditure projections assume no extraordinary breakdowns in the Company's lines network system.
- c) Transactions between members of the Company will be at normal commercial terms.
- d) Network, Metering, Land and Building assets are valued at a deemed cost less any subsequent depreciation.
- e) No changes will occur from electricity reforms or regulatory requirements.
- f) In line with the Asset Management Plan (AMP) no allowance has been made for the effect of inflation on the financial performance of the Company.
- g) Forecast revenues are based on the average of the three previous years' units transported.

Appendix B: Capital Expenditure

Projected Capital Works Programme

The Company has a capital works programme to meet increasing system demand, reliability expectations and renewal of existing transmission lines and substation equipment. The Network Waitaki Asset Management Plan (AMP) details assumptions associated with capital expenditure and network activities.

The budgeted capital expenditure for the year ended 31 March 2019 is \$12,722,400.

Network Capital Expenditure			
	31 March 2019	31 March 2020	31 March 2021
System Growth	4,210,000	3,330,000	5,180,000
Reliability, Safety & Environment - Quality of Supply	782,000	454,000	204,000
Reliability, Safety & Environment - Legislative & Regulatory	286,000	230,000	230,000
Asset Replacement & Renewal	3,890,000	3,005,000	2,025,000
Consumer Connection	1,250,000	1,250,000	1,250,000
Total Network Expenditure	10,418,000	8,269,000	8,889,000
Non-Network Capital Expenditure			
Non-Network projects	2,304,400	738,000	524,000
Total	12,722,400	9,007,000	9,413,000

Network Waitaki Limited Capital Funding			
	31 March 2019	31 March 2020	31 March 2021
Network Capital Investment	10,418,000	8,269,000	8,889,000
Non-Network Operating Capital Investment	2,304,400	738,000	524,000
Total Capital Requirements	12,722,400	9,007,000	9,413,000
Funded From			
Depreciation	4,568,747	4,646,858	4,710,557
Capital Contributions	1,267,000	1,005,646	1,081,048
Retained Earnings (from current year)	2,907,453	2,877,402	2,894,766
Total Funding from current year's operations	8,743,200	8,529,906	8,686,370
Retained Earnings (from previous years)	3,979,200	477,094	726,630
Total Funding	12,722,400	9,007,000	9,413,000