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## **Statement of Corporate Intent**

**1 April 2014 – 31 March 2015**

**Approved: 30 June 2014**

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## **1. Function of the Statement of Corporate Intent and Introduction**

This Statement of Corporate Intent for Network Waitaki Limited (The Parent and its Subsidiary, Network Waitaki Contracting 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 Group for the financial year ending 31 March 2015 and the two succeeding financial years.

This statement assumes that the Parent of the Group continues to operate primarily as an electricity network company while investigating business opportunities within the utilities sector. Financial performance measures include the Parent and Subsidiary Companies. 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 Group" throughout this Statement of Corporate Intent.

The Parent 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 Group for the period 1 April 2013 to 31 March 2014 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 Group

- **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**

- *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 Group.
- *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 Group.
- *Health and Safety*
  - To provide a safe and reliable network and a safe and healthy work environment for all employees, contractors, and visitors.
- *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 Group will be:**

- to operate, maintain, upgrade, expand the Group's electricity distribution network business and develop transmission connection assets to meet the demands of electricity consumers in the region supplied by the Group;
- 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 Group's shareholders;
- to own and operate a metering facility.

### **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 Group have the opportunity to invest in a major capital expenditure.

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

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

### **5. The Accounting Policies**

The Group'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 1993.

Details of the current accounting policies and their application are contained in the Network Waitaki Group Annual Report for the year ending 31 March 2013.

### **6. The Group's Performance Targets and Other Measures**

A summary of budgeted financial performance, financial position and other financial measures and performance statistics for the 2014-2015 financial year and the forecast for the following two financial years for the Network Waitaki Group are provided for in the following tables.

The Group accounts represent the consolidated financial performance of the Network Waitaki Group of companies, including Network Waitaki Limited and Network Waitaki Contracting Limited.

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

An investment in Smart Meters representing the replacement of all old technology electricity meters throughout the region has been provided for.

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

	Budget for Year Ended 31 March 2015	Projected for Year Ended 31 March 2016	Projected for Year Ended 31 March 2017
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<b>Group Income Statement</b>			
Operating Revenue	18,692,168	18,478,790	18,853,903
Discount	(1,500,000)	(1,500,000)	(1,500,000)
<b>Net Profit Before Tax and after Discount</b>	<b>3,634,640</b>	<b>3,827,765</b>	<b>3,984,281</b>
Taxation	(817,794)	(861,247)	(896,463)
<b>Net Profit After Tax</b>	<b>2,816,846</b>	<b>2,966,518</b>	<b>3,087,818</b>

<b>Group Balance Sheet</b>			
<b>Shareholders' Equity</b>	<b>74,211,221</b>	<b>77,177,739</b>	<b>80,265,557</b>
Current Assets	8,870,920	7,431,708	6,008,534
Current Liabilities	2,698,983	3,220,520	2,874,536
<b>Working Capital</b>	<b>6,171,937</b>	<b>4,211,188</b>	<b>3,133,998</b>
Non-Current Assets	80,631,373	85,589,533	89,761,543
Non-Current Liabilities	12,592,089	12,622,982	12,629,984
	<b>68,039,284</b>	<b>72,966,551</b>	<b>77,131,559</b>
<b>Net Assets</b>	<b>74,211,221</b>	<b>77,177,739</b>	<b>80,265,557</b>

<b>Group Key Financial Performance Measures</b>			
NPBT to Shareholder Funds	4.90%	4.96%	4.96%
Net Assets Per Share	\$5.30	\$5.51	\$5.73
Earnings Per Share Before Tax	25.96 cents	27.34 cents	28.46 cents
Ratio of S/holders' Funds to Total Assets	82.92%	82.97%	83.81%
Network Operating Cost per ICP	\$377.72	\$381.50	\$385.31
Rate of Return After Tax on Shareholder Funds	3.80%	3.84%	3.85%
Direct Cost per Circuit km of Line	\$1,944.45	\$1,963.89	\$1,983.53

	Budget for Year Ended 31 March 2015	Projected for Year Ended 31 March 2016	Projected for Year Ended 31 March 2017
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<b>Network Non-Financial Performance Measures</b>			
System Average Interruption Duration Index	116.50	116.50	116.50
System Average Interruption Frequency Index	1.54	1.54	1.54
Customer Average Interruption Duration Index	75.64	75.64	75.64
Line Loss	6.00%	6.00%	6.00%

## 7. Financial Distribution

### Dividend Policy

The policy on apportioning net profits distributed to shareholders 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 Group's business.

The directors will include within their report on the operations of the Group (prepared after the end of each financial year) a statement recommending the maximum amount of dividend (if any) payable by the Group 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, 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 discount line charges when Directors believe the yearly results and prevailing circumstances, will allow the discounting of charges while retaining sufficient funds to allow the appropriate level investment in the Group's business. In setting the discretionary discount the Directors' believe that the discount will:

- maintain the Parent'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.

The discount will be made up of discretionary and/or non-discretionary amounts. The non-discretionary amount is established when setting the Network Lines Tariff.

**8. Information to be provided to the Shareholders of the Group 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 1993, the Energy Companies Act 1992 and New Zealand International Financial Reporting Standards.

The group includes any relevant subsidiary of the Group.

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 Group, 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 Group, its subsidiaries (if any) and relevant subsidiaries (if any) during the financial year; and
- (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 Group 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 Group, its subsidiaries (if any), and relevant subsidiaries (if any) including a comparison of the performance criteria provided in the group'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 Group, its subsidiaries (if any) and relevant subsidiaries (if any).



**B. Quarterly Report**

Three quarterly reports will be submitted to shareholders within eight weeks after the end of each quarter. These reports will provide shareholders with timely information on the financial position and operations of the Group 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 from 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 1 month after the commencement of each financial year.

**9. The procedures to be followed before the Directors of the Group 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 Group.

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

- (a) to better manage risk in the best interest of the Group and its shareholders;
- (b) where, in the directors' opinion, the acquisition is in the best interests of the Group 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 Group.

The directors' will consult with the shareholders and consider their comments prior to acquiring shares in another company.

**10. Details of Related Party Transactions**

Network Waitaki Limited and Network Waitaki Contracting Limited are related parties and provide and receive services from one another.

## **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 Group 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 Group's shareholders.

### ***11.2 Community interest***

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

### ***11.3 Appointment of Directors to Subsidiary Companies***

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

### ***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, or any subsidiary of Network Waitaki Limited, without first consulting with the Group's shareholders.

## **Appendix A: Assumptions to the Financial Statements**

- a) Financial forecasts are based on the Group continuing in its projected business structure and scope.
- b) Revenue and expenditure projections assume no extraordinary breakdowns in the Group's lines network system.
- c) Transactions between members of the Group 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 financial performance of the Group.
- g) Expected, increased revenue resulting from higher utilisation of the network reflects the assumptions made in the AMP.

## ***Appendix B: Capital Expenditure***

### **Projected Capital Works Programme**

The Group 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 about capital expenditure associated with network activities.

The budgeted capital expenditure for the year ended 31 March 2015 is \$11,525,135.

The 3 year capital budget excludes all potential research and development other than for smart metering.

### **Advanced Meters**

Network Waitaki Limited aims to develop a solution for the drive towards advanced meters.

**Network Waitaki Statement of Corporate Intent from 1 April 2014 to 31 March 2015**

<b>Capital Investment</b>			
	Year ended 31 March 2015	Year ended 31 March 2016	Year ended 31 March 2017
<b>Network Investment</b>			
<b>System Growth</b>			
Install Distribution Transformers - Ld growth	80,000	80,000	80,000
Ducting - Kurow Bridges	93,000	-	-
Kurow third river crossing	60,000	-	-
3 Pot 150A 11kV Voltage Boosters & Automation	120,000	120,000	120,000
Reconductor McHenrys Road - Stn Pk Feeder - Stage 1	391,500	-	-
Reconductor McHenrys Road - Stn Pk Feeder - Stage 2	-	391,500	-
Kurow Upgrade Stage 2	-	-	770,000
WTK GXP - Stage 1 (PC Sum)	2,500,000	-	-
66kV line Kurow - Duntroon Stage 1	2,175,000	-	-
66kV line Kurow - Duntroon Stage 2	-	2,175,000	-
Reinsulate Ngapara - Duntroon for 66 kV Operation	-	-	350,000
Reconductor Kakanui Valley Road from ABS1140 to Tunnel Road - 7.5 km	-	-	245,000
Reconductor Paradise Gully Road and extend to Peaks Road - 4.8km	-	-	192,000
<b>Total</b>	<b>5,419,500</b>	<b>2,766,500</b>	<b>1,757,000</b>
<b>Reliability, Safety &amp; Environment</b>			
Rural switch gear, install fault indicators, and other minor rural protection changes	30,000	30,000	30,000
Purchase and Install Reclosers/Sectionalisers/Tie Switches	85,000	35,000	35,000
Duplicate 33kV DC-DC Power Supply	8,000	8,000	8,000
Differential Zone Transformer Protection	18,000	12,000	12,000
Urban Reinforcement/Replacement LV	50,000	75,000	75,000
Distribution Box Replacement (incl. J boxes - BF)	50,000	50,000	50,000
UG Ducting HV LV Fibre (General)	25,000	25,000	25,000
Replace 1 x rural 2 pole Transformer Structures	35,000	-	-
Pukeuri Feasibility Study, GeoTech Study, and Design	50,000	-	-
Upgrade Pukeuri to Dual Transformer config - Stage 1 (Subject to SFE)	425,000	-	-
Upgrade Pukeuri to Dual Transformer config - Stage 2	-	575,000	-
Develop 2 new feeders out of Pukeuri	-	150,000	-
Zone Substation Info. System & Protn. (Two Subs per year)	30,000	30,000	30,000
Omarama - Replace 11kV Oil switches with CBs	-	-	140,000
Omarama - Second 33 kV CB (1 for each Tx)	-	-	280,000
Arc Flash Protection (Weston 33, Chelmer, Redcastle)	60,000	40,000	40,000
Install 8 x ABS	48,000	24,000	24,000
Line differential Protection Weston - Chelmer	-	-	135,000
Otematata - Install new 11 kV switchboard and tx's	-	-	220,000
Two new 10/15 Transformers for Redcastle	750,000	-	-
Install Two 10/15 Tx at Recastle	80,000	-	-
Fibre roll out to Weston, Chelmer, Redcastle, Pukeuri, Papakaio, Hampden	110,000	110,000	-
Radio Link Upgrade	-	-	258,000
<b>Total</b>	<b>1,854,000</b>	<b>1,164,000</b>	<b>1,362,000</b>
<b>Asset Replacement &amp; Renewal</b>			
Install Distribution Transformers - Cond Repl	120,000	120,000	120,000
Urban Upgrade (General)	30,000	50,000	50,000
Tighten Stage 2 Herbert Feeder	11,956	-	-
Install 11kV Fuses/Links/LAs	120,000	75,000	75,000
Replace 2 x Oil RMUs	80,000	40,000	40,000
Replace 1 x Transformer enclosure conversions	30,000	60,000	60,000
Subtransmission Pole Replacements	50,000	50,000	50,000
Distribution Pole Replacements	450,000	450,000	500,000
Rebuilds Due to Line Condition	-	75,000	75,000
Rebuild Tapui/Fushia 11kV Feeder	-	-	450,000
Replace MDI meters with Smart meters	42,000	42,000	-
<b>Total</b>	<b>933,956</b>	<b>962,000</b>	<b>1,420,000</b>
<b>Customer Connection</b>			
Install Distribution Transformers - Customer	320,000	320,000	320,000
New 11kV Network Extensions	100,000	100,000	100,000
New LV Service Connections	85,000	85,000	85,000
<b>Total</b>	<b>505,000</b>	<b>505,000</b>	<b>505,000</b>
<b>Asset Relocations</b>			
NWL portion of Herbert Feeder for NZTA road realignment	50,000	-	-
<b>Total</b>	<b>50,000</b>	<b>-</b>	<b>-</b>
Labour to Capital	76,098	78,761	81,518
<b>Total Network Investment</b>	<b>8,838,553</b>	<b>5,476,261</b>	<b>5,125,518</b>
<b>Non-Network Investment</b>			
Metering and Relays	1,223,482	1,652,985	1,588,034
Non-network projects	1,463,100	963,500	568,500
<b>TOTAL</b>	<b>11,525,135</b>	<b>8,092,746</b>	<b>7,282,052</b>

<b>Funding of Group Capital Expenditure from 2015 to 2017 years</b>			
	Budget for Year Ended 31 March 2015	Projected for Year Ended 31 March 2016	Projected for Year Ended 31 March 2017
<b>Capital requirements for the 2015-2017 years</b>			
Network related capital investment	8,838,553	5,476,261	5,125,518
Meters and Relays	1,223,482	1,652,985	1,588,034
Non-network capital investment	1,463,100	963,500	568,500
<b>Capital requirements for the 2015-2017 years</b>	<b>11,525,135</b>	<b>8,092,746</b>	<b>7,282,052</b>
<b>Funded From Current Year's Operation</b>			
Depreciation	3,682,680	4,126,144	4,136,822
Retained Earnings (including Capital Contributions)	2,816,846	2,966,518	3,087,818
Total funding from current year's operation	6,499,526	7,092,662	7,224,640
Retained Earnings - from previous years	5,025,610	1,000,084	57,412
<b>Total funding</b>	<b>11,525,135</b>	<b>8,092,746</b>	<b>7,282,052</b>