



## Statement of Corporate Intent

**1 April 2016 – 31 March 2017**

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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 2017 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 2016 to 31 March 2017 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*
  - To ensure our activities cause no harm to staff, contractors, the public and property;
  - To operate health and safety systems that meet all of our regulatory requirements.
- *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.

### **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 2015.

### **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 2016-2017 financial year and the forecast for the following two financial years for the Network Waitaki Company 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.

<b>Network Waitaki Limited Income Statement</b>			
	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
Revenue	23,708,460	23,827,908	24,328,294
Total Direct Cost	9,721,533	9,770,512	9,875,693
<b>Gross Profit</b>	<b>13,986,927</b>	<b>14,057,396</b>	<b>14,452,601</b>
<b>Gross Profit Percentage</b>	59%	59%	59%
Operating costs	5,798,549	5,171,882	5,370,467
Depreciation	4,178,766	4,748,892	4,676,997
<b>NP before discount and tax</b>	<b>4,009,612</b>	<b>4,136,622</b>	<b>4,405,137</b>
Discount	1,500,000	1,500,000	1,750,000
Provision for Taxation	1,084,448	1,151,803	967,439
<b>Net Profit after Discount and Tax</b>	<b>1,425,164</b>	<b>1,484,819</b>	<b>1,687,699</b>
Capital Contributions	1,448,000	1,476,960	800,000
<b>Net Profit after Capital Contributions</b>	<b>2,873,164</b>	<b>2,961,779</b>	<b>2,487,699</b>

<b>Network Waitaki Limited Balance Sheet</b>			
	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
<b>TOTAL EQUITY</b>	85,661,283	88,623,062	91,110,761
<b>TOTAL CURRENT ASSETS</b>	10,520,783	10,930,682	8,406,817
<b>TOTAL CURRENT LIABILITIES</b>	4,067,479	4,038,705	2,329,143
<b>WORKING CAPITAL</b>	6,453,304	6,891,977	6,077,673
<b>TOTAL NON-CURRENT ASSETS</b>	90,977,579	93,500,685	96,802,688
<b>TOTAL NON-CURRENT LIABILITIES</b>	11,769,600	11,769,600	11,769,600
<b>NET ASSETS</b>	<b>85,661,283</b>	<b>88,623,062</b>	<b>91,110,761</b>

<b>Key Financial Performance Measures</b>			
	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
<b>NPBT to Shareholder Funds</b>	4.62%	4.64%	3.79%
<b>Net Assets Per Share</b>	\$6.12	\$6.33	\$6.51
<b>Earnings Per Share Before Tax</b>	28.27 cents	29.38 cents	24.68 cents
<b>Ratio of S/holders' Funds to Total Assets</b>	84.40%	84.86%	86.60%
<b>Network Operating Cost per ICP</b>	\$252.87	\$255.02	\$257.14
<b>Rate of Return After Tax on Shareholder Funds</b>	3.35%	3.34%	2.73%
<b>Direct Cost per Circuit km of Line</b>	\$1,688.68	\$1,703.85	\$1,705.23

<b>Network Non-Financial Performance Measures</b>			
	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
<b>System Average Interruption Duration Index</b>	116.50	116.50	116.50
<b>System Average Interruption Frequency Index</b>	1.54	1.54	1.54
<b>Customer Average Interruption Duration Index</b>	75.64	75.64	75.64
<b>Line Loss</b>	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 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 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 of investment in the Company's business. In setting the discretionary discount the directors believe that the discount 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.

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 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; 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 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 Party Transactions**

Network Waitaki Limited and Network Waitaki Contracting Limited amalgamated on 1 April 2015.

## **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 9.10.

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 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 2017 is \$10,229,200.

The three year capital budget excludes all potential research and development other than \$100,000 for innovative strategies.

<b>Network Capital Expenditure</b>			
	2016/17	2017/18	2018/19
Total - System Growth	5,520,000	1,490,000	4,200,000
Total - Reliability, Safety & Environment - Quality of Supply	1,209,000	2,517,000	969,000
Total - Reliability, Safety & Environment - Legislative & Regulatory	50,000	50,000	50,000
Total - Asset Replacement & Renewal	1,159,000	1,215,000	1,215,000
Total - Consumer Connection	505,000	505,000	505,000
<b>Total</b>	<b>8,443,000</b>	<b>5,777,000</b>	<b>6,939,000</b>
Labour to Capital	100,000	102,000	104,000
<b>Total Network Expenditure</b>	<b>8,543,000</b>	<b>5,879,000</b>	<b>7,043,000</b>
<b>Non-Network Investment</b>			
Non-network projects	1,686,200	1,495,000	1,040,000
<b>TOTAL</b>	<b>10,229,200</b>	<b>7,374,000</b>	<b>8,083,000</b>

<b>Network Waitaki Limited Capital Funding</b>			
	31 March 2017	31 March 2018	31 March 2019
Network Capital Investment	8,443,000	5,777,000	6,939,000
Non-Network Operating Capital Investment	1,686,200	1,495,000	1,040,000
Labour to Capital	100,000	102,000	104,000
<b>Total Capital Requirements</b>	<b>10,229,200</b>	<b>7,374,000</b>	<b>8,083,000</b>
<b>Funded From</b>			
Depreciation	4,178,766	4,748,892	4,676,997
Capital Contributions	1,448,000	1,476,960	800,000
Retained Earnings (from current year)	2,873,164	1,148,148	2,487,699
<b>Total Funding from current year's operations</b>	<b>8,499,930</b>	<b>7,374,000</b>	<b>7,964,696</b>
Retained Earnings (from previous years)	1,729,270	-	118,304
<b>Total Funding</b>	<b>10,229,200</b>	<b>7,374,000</b>	<b>8,083,000</b>