

Statement of Corporate Intent

For the year ending 31 March 2016 and the following two years



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1.0 Introduction

This Statement of Corporate Intent sets out the overall intentions and objectives of Counties Power Limited (the Company) for the year ending 31 March 2016 and the two succeeding financial years.

It contains the particular information required by Section 39 of the Energy Companies Act 1992 and includes or refers to other matters as agreed by the Directors of the Company and its Shareholders.

This Statement of Corporate Intent overviews and complements a number of other documents provided to Shareholders throughout the year including the Company's:

- Strategic Plan;
- Business Plan;
- Budgets;
- Asset Management Plan;
- Annual Report;
- Half Yearly Report;
- Quarterly Reports.

2.0 Nature and scope of activities

The nature and scope of the activities of the Company are as follows:

- a. The provision and maintenance of a safe, efficient, reliable and cost-effective electricity distribution network;
- b. Ancillary businesses associated with the electricity industry including network construction and electrical services;
- c. Mechanical fabrication and engineering services for both internal and external customers;
- d. The provision and maintenance of a fast, efficient, reliable and cost-effective fibre optic network; and
- e. Future investment to be in profitable and complementary business opportunities, which align with Counties Power's core strengths and business activities.

3.0 Objectives of the Company

The Directors will operate Counties Power Limited as a successful business in the ownership and management of its electricity network, ensuring that the necessary strategies are implemented to maintain an environment of zero harm for its staff, consumers and the communities in which it operates, to maximise shareholder returns, meet customer needs and achieve long term growth.

In pursuing this objective the Company is focused on the following key areas and related objectives.

3.1 Customer/community

- a. The Company believes in providing a high level of customer service and embraces the concepts of quality, safety and environmental responsibility in all elements of its business. The Company is committed to continually providing a quality service at competitive prices for the benefit of its customers and consumers.
- b. The Company will endeavour to provide its consumers with an annual discount subject to its performance and will consult with the Shareholder as to its distribution.
- c. The Company will maintain and develop commercially sound relationships with business partners and suppliers and will conduct all its dealings in an ethical and commercially fair manner.
- d. The Company will at all times operate in a professional, prudent and responsive manner.

3.2 Team

- a. The Company will foster a shared commitment towards customer service within its staff and suppliers and will seek to maintain safe, productive, reliable, responsive and effective capability.
- b. The Company will promote a culture of safety, of delivering on promises and of continuous development and improvement in capability and talent.

3.3 Performance

The Company seeks to maximise productivity and performance from all its resources. This means the Company will continue to invest prudently in developing its assets, focus upon excellence in its core business, deliver its targets and enhancing its planning, systems and processes in accordance with a continuous improvement philosophy.

3.4 Growth

- a. The Company will strive to investigate and invest in sustainable growth opportunities that are complementary to its core strengths and business activities.

- b. The Company will seek to have influence in relation to the statutory and regulatory environment to ensure shareholder value is maintained wherever possible.

4.0 Commercial performance - targets and measures

Counties Power operates in a regulated environment in respect of its core business. The Company will comply with all applicable regulatory requirements while seeking to meet its objectives. The Company and Counties Power Consumer Trust (the Trust) will work together to comply with the regulatory framework for electricity lines businesses, established and /or monitored by the Electricity Authority, the Ministry of Business, Innovation and Employment and the Commerce Commission.

The Company is required to comply with the requirements and regulations of the Auckland Council, the Waikato District Council and the Hauraki District Council when constructing and maintaining its network. Safety and environmental imperatives relate to both statutory compliance and good corporate citizenship.

The Company has set the following performance targets for the three years ending 31 March 2018. These targets, which apply to the Company’s total operations, have been set based upon the Company’s current understanding of the business and regulatory environment.

4.1 Earnings before customer discounts, interest and tax on total capital employed (excluding debt)

The rate of earnings before customer discounts, interest and tax, expressed as a percentage of average total capital employed, is expected to be:

2015/16	2016/17	2017/18
11.5%	10.9%	10.9%

4.2 Net profit before customer discounts and after tax on consolidated shareholders’ equity

The rate of net profit before customer discounts and after tax, expressed as a percentage of average consolidated shareholders’ equity, is expected to be:

2015/16	2016/17	2017/18
8.9%	8.4%	8.3%

4.3 New investment

The Company has the objective of achieving a real post tax rate of return on new investment exceeding the estimated Weighted Average Cost of Capital of the new investment.

4.4 System reliability

Average minutes without electricity per customer	2015/16	2016/17	2017/18
SAIDI			
Unplanned*	70	70	70
Planned	25	25	25
Total	95	95	95
Average frequency of outages per customer	2015/16	2016/17	2017/18
SAIFI	2.55	2.55	2.55

Note: Transpower planned and unplanned outages are excluded.

Note: *This makes no allowance for exceptional weather conditions that may be classified as having a severity of greater than a one in five year event.

4.5 Debt to equity

- a. Debt will be maintained at a level no greater than 20 per cent of equity and may be increased only with the approval of the shareholders.
- b. Debt will comprise those liabilities of the Company as described in the definition of “Debt” in paragraph 1.1.11 of the Company’s Constitution.
- c. Equity will be as described in the definition of “Shareholders’ Funds” in paragraph 1.1.27 of the Company’s Constitution.

4.6 Financial performance indicators

A schedule of financial performance indicators is shown in Appendix 1.

5.0 Accounting policies

The Company’s accounting policies will comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and be consistent with generally accepted accounting principles. Financial Statements comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. Compliance with NZ IFRS ensures compliance with International Financial Reporting Standards.

6.0 Other information and policies

6.1 Health and Safety

Counties Power is committed to providing and maintaining a safe and healthy environment for all its employees and to protect the public against risk to their safety.

The prime component of the health and safety policy is to be proactive and take all practical steps to promote an accident and incident-free workplace to support a corporate goal of achieving zero harm in the workplace.

6.2 Distributions to shareholders

The Company may pay dividends to the shareholders after consultation with them prior to each dividend payment. The Company will take into account its profitability, cash position and future funding requirements. The Directors will determine distributions to shareholders in accordance with the requirements of the Companies Act 1993, the Company's Constitution and any other applicable regulatory requirements.

6.3 Information to be provided to shareholders

The Company will provide information which meets the requirements of the Companies Act 1993, Section 44 of the Energy Companies Act 1992, and the Financial Reporting Act 2013. The following information will be made available:

The Directors will provide to the Trust **unaudited quarterly management reports** on the results of the Company within six weeks of the end of the quarter. These reports will include comment on:

- any material changes in electricity network capital and maintenance intentions;
- other business activities undertaken. The Counties Power Chairman will make a statement on strategic progress and advise on any significant performance variations including operational performance;
- operational and customer service performance.

The **half-yearly report** will be provided within two months of the end of the first half of each financial year and will include:

- Chairman's Report;
- unaudited statements of financial performance;
- movements in equity;
- financial position;
- any other information necessary to permit an informed assessment of the Company's performance.

Annual reports will be delivered to the Company's shareholders not less than 20 working days before the annual meeting of shareholders, but in any event before 30 June and will comprise:

- To the extent the Board believes it material for the shareholders and is not harmful to the business of the Company or its subsidiaries, a description of changes in the nature of the business of the Company or any of its subsidiaries, and any changes in the classes of business in which the Company has an interest by way of shareholding or otherwise;

- the financial statements completed and signed as required by the Financial Reporting Act 2013;
- the auditors' report(s);
- a description of any changes in accounting policies;
- particulars of any entries in the interest register;
- the total of the remuneration and other benefits received by directors and former directors;
- the number of non-director employees and former employees who receive remuneration and other benefits from the Company exceeding \$100,000 per annum (to be set out in brackets of \$10,000 and in total);
- the total amount of donations made by the Company and any subsidiary;
- the names of directors and those who retired as directors during the year;
- audit fees paid to auditors plus as a separate item, the fees paid by the Company to auditors for other services.

The Company's **audited financial statements** will comply with the Financial Reporting Act 2013 and include the following:

- Statement of financial position;
- Statement of comprehensive income;
- Statement of changes in equity;
- Operating statement in respect of each significant activity;
- Statement of cash flows;
- Details of transactions entered into during the financial year by the Company or any of its subsidiaries and other entities specified in Section 44(2)(f) of the Energy Companies Act 1992;
- Such other statements as may be necessary to fairly reflect the financial position of the Company and its subsidiaries, the resources available to them, and the financial results of the operations.

A draft **Statement of Corporate Intent** (excluding financial and commercial performance targets) will be delivered to the Company shareholders at least four calendar months prior to the end of the financial year. Commercial performance targets will be delivered at least one month prior to the end of each financial year. The final statement will be delivered no later than the last day of the financial year.

6.4 Acquisition and disposal of assets

It is intended that the Company shall not enter into any transaction or series of linked or related transactions to acquire, sell, lease, let, exchange, or otherwise dispose of (otherwise than by way of charge) assets of the Company or assets to be held by the Company:

1. Which would change the essential nature of the business of the Company, unless required by legislation; or
2. In respect of which the gross value is of an amount in excess of 20% of the amount of shareholders' funds of the Company immediately before the transaction; without first convening a special general meeting of the Company and obtaining approval by way of a special resolution at such meeting of such transaction or transactions.

Note: The constitution of the Company requires major transactions for the disposal or acquisition of assets to be approved by a special resolution at a special general meeting of the Company.

Major transaction means any dealing involving 20% or more of consolidated net assets of the Company or a major transaction as defined in section 129(2) of the Companies Act 1993.

6.5 New business proposals

The constitution of the Company requires that the Board convenes a special general meeting of the Company for the purpose of approving, by way of a special resolution, a new business proposal, (as defined in the Company's Constitution), prior to the Company undertaking the new business proposal.

6.6 Transaction details

Normal operational transactions may be entered into from time to time between the Company and its wholly owned subsidiaries, or between wholly owned subsidiaries. No other transactions are intended to be entered into which require disclosure under section 39(2) (i) of the Energy Companies Act 1992.

6.7 Acquisition of shares in companies or other organisations

The Company and its subsidiaries will not subscribe for, purchase or otherwise acquire shares or other ownership interests in any company or other organisation without the prior approval of the Board of the Company.

The Board will also approve the appointment of any representatives of the Company and its subsidiaries to the board or other governing body of such company or other organisation.

The Company will notify the Chairman or Secretary of the Trust of each proposed acquisition, and its purpose.

6.8 Consumer discount

The Company will return loss and constraint rentals received by it to end users of its line services through the issue of a rebate to traders or discount to large consumers. The Company may choose to issue additional rebates and discounts dependent upon the financial position of the Company.

Energy traders distribute line discounts based upon consumer consumption levels, (grouped into bands), and utilisation of Company-owned meters. Rebates and discounts are intended to achieve a number of commercial objectives, including ensuring net line prices remain competitive and as a promotional tool.

Issue of rebates and discounts is anticipated to occur in November or December each year, at which time precise bands and allocations will be determined.

6.9 Line pricing

Line prices and tariff structure will be determined in a manner that:

- Provides a fair and reasonable rate of return on shareholders' equity;
- Endeavours to maintain a reasonable level of uniformity amongst like consumers;
- Recovers, where appropriate, line business costs, including capital costs, reasonably allocated to each group or class of consumer;
- Recovers the transmission costs in a manner that reflects how these costs are incurred by each group or class of consumer;
- Reflects costs associated with peak demand periods;
- Provides stability and certainty for consumers and energy traders;
- Meets regulatory and public policy requirements imposed by Government and/or the Commerce Commission and/or the Electricity Authority;
- Is simple to understand, implement and administer;
- Ensures that the distribution pricing component is only changed once in any 12-month period;
- Promotes, where practical, sustainable use of resources and energy conservation such as demand side management and options for controllable load;
- Is consistent with Counties Power's Use of System agreements with energy traders.

6.10 Asset management

The Asset Management Plan (AMP) shows how Counties Power will ensure long-lived network assets are managed in a sustainable way for the benefit of the Shareholder.

The primary objectives of the AMP are to meet regulatory compliance requirements, demonstrate responsible asset stewardship and communicate and justify network management expenditure and practice to stakeholders.

The AMP has been developed taking into account the higher corporate goals of:

- Zero harm for staff, consumers and the communities in which the Company operates;
- Customer service and value (matching the performance of assets with the performance customers expect and are willing to pay for);
- Statutory and regulatory compliance;
- Operational and cost effectiveness;
- Shareholder returns

6.11 Counties Power area of supply/electrical network

Counties Power's current distribution network supplies part of Auckland City and parts of the Waikato and Hauraki Districts. The network area is bordered by Vector to the north and WEL Networks to the south. Total area amounts to approximately 2,250 square km.

Urban areas include Waiuku, Tuakau, Pukekohe, West and South Papakura. Smaller settlements include Clark's Beach, Karaka, Patumahoe, Buckland, Drury, Mercer, Pokeno, Port Waikato and Kaiaua.

6.12 A good corporate citizen

Counties Power strives always to be a good citizen and to act responsibly and cooperatively in its community.

The Company will comply with all legislation, paying particular attention to people's safety and protection of the environment. It will act honestly in all dealings and services, and will provide value for money to consumers.

Counties Power operates within the principles of environmentally sustainable development including sound energy management and waste minimisation at its offices, substations and worksites through efficient use of resources.

6.13 Customer and consumer engagement

Counties Power strives to provide the highest standards of consumer and customer engagement and service. Key components of its service goals are:

- To be readily available to customers;
- To respond as soon as possible;
- At all times act with integrity and respect the requirements of our customers and consumers;
- Communicate clearly with customers and consumers;
- Have an effective complaints resolution service that meets the needs of customers, consumers and regulators.

6.14 Undergrounding

The Company's undergrounding policy is summarised below:

- a. Counties Power will generally underground lines only when, in Counties Power's opinion, there are sound technical, safety or financial reasons to do so and where it is not possible or practicable to relocate or reconstruct an existing overhead line.

When any of the local authorities approaches Counties Power with a request to underground a section of line, as part of their development programme, the Company would consider all relevant operational, technical and financial issues.

Generally a financial contribution from the local authority would be required, the level of which would reflect the cost of the project and the financial benefits that Counties Power would expect to earn from the project.

When a network line is undergrounded, consumers connected to the line may elect to underground the service line connected to their residence or other building on their property, at the same time.

Counties Power will generally subsidise the cost of this work. This subsidy would be based upon the amount it would have cost the Company to install a new pole on the consumer's boundary to connect up the new underground network line with an overhead service line, should the consumer have decided to stay with their existing overhead service line.

- b. The provision of ducts for future use will be undertaken where:
 - i. Any local authority is undertaking major road or kerb and channel or footpath reconstruction, and
 - ii. An opportunity exists for the Company to install ducts for future use at minimal cost, and
 - iii. The utilisation of the ducts is likely in the short to medium term as assessed by the Company.

6.15 Construction and Workshop

Counties Power undertakes much of its own network design, construction and maintenance activities through its Construction and Workshop divisions. Both units also provide services to external customers.

The primary purpose of the Company is to ensure the consumers of Counties Power have price competitive and reliable electricity supply, and while the performance of these operations continues to support that goal they will compete not only for work with Counties Power but also for commercial work for other customers.

The Construction function offers comprehensive network construction and electrical services to the electricity supply and telecommunications industries. In addition to its core role of supporting the electrical network, 'the Workshop' provides mechanical fabrication and engineering services.

6.16 Other Business Activities

The Company owns and operates a fibre optic network which provides fast broadband and other high speed communications links.

Appendix 1 - Financial performance

Earnings	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
EBITDA	19,349	20,650	23,557	27,153	27,207	28,292
EBIT	11,281	11,881	13,521	15,883	15,364	15,867
Profit after tax	8,099	8,619	9,664	10,884	10,496	10,940
Return – NPBT on average net assets	6.3%	6.3%	6.6%	6.8%	6.3%	6.4%
Return – NPBT on average equity	6.3%	6.4%	7.0%	7.6%	7.0%	7.0%

Balance sheet	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Cash	221	209	209	209	209	209
Other Current Assets	6,404	6,574	7,058	7,401	7,763	8,143
Fixed Assets	214,032	228,413	255,821	269,041	278,094	286,864
Other Non-Current Assets	400	571	1,003	1,105	1,105	1,105
Total Assets	221,057	235,767	264,091	277,756	287,171	296,321
Current liabilities	7,977	8,535	11,560	11,559	12,138	12,748
Deferred tax	33,276	34,247	35,833	37,796	39,761	41,618
Borrowings	800	5,400	21,335	24,024	22,267	19,772
Shareholder Funds	179,004	187,585	195,363	204,377	213,005	222,183
	221,057	235,767	264,091	277,756	287,171	296,321

Cash flows	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Operating Cash Flows	17,785	18,468	22,812	22,202	22,951	23,990
Capital Expenditure	(15,310)	(22,780)	(38,447)	(24,591)	(20,894)	(21,195)
Debt Repayments	(2,100)	4,600	15,935	2,689	(1,757)	(2,495)
Dividends	(300)	(300)	(300)	(300)	(300)	(300)
Net Cash Movement	75	(12)	0	0	0	0

Performance targets

1. Earnings before interest & tax on average capital employed

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Return	6.4%	6.4%	6.6%	7.1%	6.6%	6.6%

2. NPAT before discounts on average shareholders' funds

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Return	8.5%	8.4%	8.6%	8.9%	8.4%	8.3%

3. Debt

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Borrowings	800	5,400	21,335	24,024	22,267	19,772
Percentage of equity	0.4%	2.8%	10.9%	11.8%	10.5%	8.9%

4. Dividends

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Budget	Projection	Projection
Dividend	300	300	300	300	300	300

5. Megawatt hours (MWh)

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Projection	Projection	Projection
Sales (MWh)	504,997	524,659	535,967	564,000	581,000	598,000

6. ICP count (average per year).

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Projection	Projection	Projection
ICPs	37,511	38,169	38,823	39,521	40,273	41,078

Appendix 2 – Definitions

Term	Description
Consumer	A party or parties connected to our electricity network. May also be a customer
Customer	A party or parties who pay the Company directly for goods and/or services. May also be a consumer
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
HV	High voltage; any voltage exceeding 1,000 V a.c. or 1,500 V d.c. but usually pertaining to the 11kV, 22kV or 33kV distribution system, or the 110kV subtransmission network
ICP	Installation control point; a number that uniquely identifies each connection to an electrical lines network that is recorded in a national registry
kV	kilo-volt
Lines	The LV and HV network of overhead and underground electricity conductors and cables and their associated equipment such as insulators, poles, crossarms etc.
LV	Low voltage; any voltage exceeding 32 V a.c. or 115 V d.c. but not exceeding 1,000 V a.c. or 1,500 V d.c.
MWh	mega-watt hours
MVA	mega-volt-ampere
NPAT	Net profit after tax
NPBT	Net profit before tax
Outage	An interruption to electricity supply
Overhead	Above ground, pole mounted conductor
Reliability	The ability of an item to perform a required function under stated conditions for a stated period of time
Trader	An electrical energy supplier who has a Use of Supply Agreement with Counties Power
V	Volt