THE POWER COMPANY LTD

Statement of Intent

2019–2022

Mataura Valley Milk, McNab

Contents

1. Introduction

This Statement of Intent (SOI) for 2019-2022 is submitted by the Board of Directors of The Power Company Limited (TPCL). It sets out the Board's overall intentions and objectives for the Company and its group for the year ending 31 March 2020 and the two succeeding years.

The SOI has been prepared in accordance with the TPCL Constitution and is a public statement of the activities and intentions of TPCL incorporating its subsidiaries, joint ventures and associated entities. It sets out the nature and scope of activities intended to be undertaken, its objectives and key performance indicators by which TPCL's performance can be measured.

The TPCL Board is committed to ensuring the interests of the Trust's beneficiaries, the customers of TPC network, are met by providing effective governance, oversight and strategic direction over the affairs of the company.

TPCL is a profit oriented limited liability company that was incorporated on 30 October 1990. It is owned by the customers connected to its network. The Southland Electric Power Supply Consumer Trust (SEPSCT) exercises ownership rights on behalf of these customers.

The future involves delivering improvements in customer service, securing a sustainable cost base and deploying efficient new technologies.

TPCL will continue its high focus on customer service, safety, reliability, efficiency and power quality, which is managed and delivered through the Business Plan and Statement of Intent.

2. Corporate Overview

2.1 The Power Company Limited

- Large, provincial electricity distribution network
- Owned by the customers connected to the TPCL network
- The SEPSCT exercise ownership rights on behalf of these customers
- Owner of the electricity distribution network and advanced metering assets in Southland and West Otago
- Low customer density per kilometre of line
- 110,000 poles, 37 substations, 36,000 customers, 8,883 km of lines and 11,051 distribution transformers

2.2 Company Structure

- The diagram below provides a summary of the TPCL company structures, including the joint venture interests

2.3 Investment Diversification

Outside of TPCL core electricity distribution business, TPCL together with its joint venture partners, jointly own a number of other electricity sector businesses:

- PowerNet Limited

  A 50% owned electricity distribution management company. It has long term network management agreements in place for TPCL, Electricity Invercargill Limited (EIL), OtagoNet Joint Venture and Electricity Southland Limited electricity distribution networks. In addition, they identify and realise other relevant energy investments for TPCL and its other 50% shareholder, Electricity Invercargill Limited

  PowerNet in turn owns 91% of Peak Power Services Limited, the Queenstown Lakes / Central Otago based electricity contracting company. Indirectly, TPCL effectively owns 45.5% of Peak Power Services Limited

- OtagoNet Joint Venture

  A 75.1% owned electricity distribution business in rural Otago covering Balclutha, Milton, Ranfurly and Palmerston

- Electricity Southland Limited

  A 75.1% owned electricity distribution business in Central Otago covering Frankton and Wanaka

- Southern Generation Limited Partnership

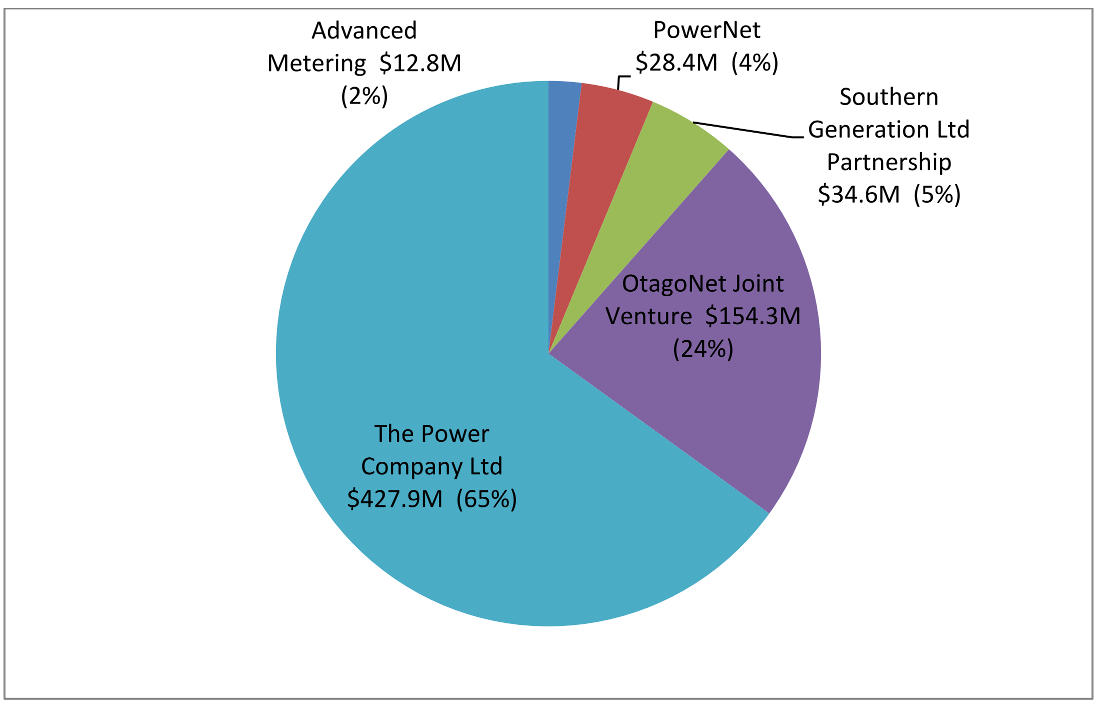
  A 25% owned renewable electricity generation business, with wind and hydro generation sites throughout New Zealand. In conjunction with Electricity Invercargill Limited, TPCL equally owns Roaring Forties Energy Limited Partnership (RFELP). Southern Generation is owned 50% by RFELP and 50% by Pioneer Energy

- Advanced metering

  Provision of smart meters on TPCL network. These meters replace the previous legacy meters and allow the company to provide improved metering services to customers. In addition, network benefits will be realised due to much improved information relating to network quality

- The Power Company Limited (protected cell) insurance captive

  It is intended that TPCL during 2020 will own 100% of a protected cell captive insurer for the TPCL group electricity distribution investments uninsured asset risk, being its non-substation electrical assets for the TPCL electricity distribution network and TPCL's share (75.1%) of OtagoNet Joint Venture



3. Industry Landscape

3.1 The Electricity Industry

TPCL, like other electricity distribution businesses in New Zealand, is regulated by the Electricity Industry Participation Code (EIPC) administered by the Electricity Authority. The Code sets out the duties and responsibilities that apply to industry participants and the Authority. Generation, transmission, distribution and retailing are regulated.

The Electricity Network Association (ENA) is the industry membership body that represents the local electricity distribution businesses. The ENA guides the development of policy surrounding the electricity distribution sector. It also interacts with Government agencies on behalf of its members.

Transpower is the State Owned Enterprise that owns over 12,000 km of high voltage transmission lines and more than 170 substations that make up the National Grid. Once this high voltage electricity reaches TPCL grid exit points at Gore, Edendale, North Makarewa or Invercargill, PowerNet takes over responsibility for the safe distribution of electricity. PowerNet is 50% owned by TPCL.

3.2 Industry Regulation

Commerce Commission

Electricity Distribution Businesses (EDB) such as TPCL, as natural monopolies, are subject to economic regulation under Part 4 of the Commerce Act. The Commission has developed as set of rules to regulate the sector called Input Methodologies.

TPCL is amongst a group of 12 Trust owned EDB's that are not fully regulated but are subject to Information Disclosure regulation (regulatory reporting and planning) The TPCL network is not subject to the Default-Price Quality Path (DPQP) regime. This means TPCL is able to make normal commercial decisions without being influenced by the impacts of regulatory [dis]incentives that have developed under the DPQP regime.

TPCL's group is subject to the DPQP regime with OtagoNet Joint Venture (OJV) investment being one of the 17 fully regulated EDB's.

TPCL and OJV are both required to meet the verification requirements of the recently introduced Related Party Input Methodology that affects transactions with related party entity PowerNet.

PowerNet acts as agent to TPCL and OJV and also provides network management and field services to both EDB's.

Electricity Authority

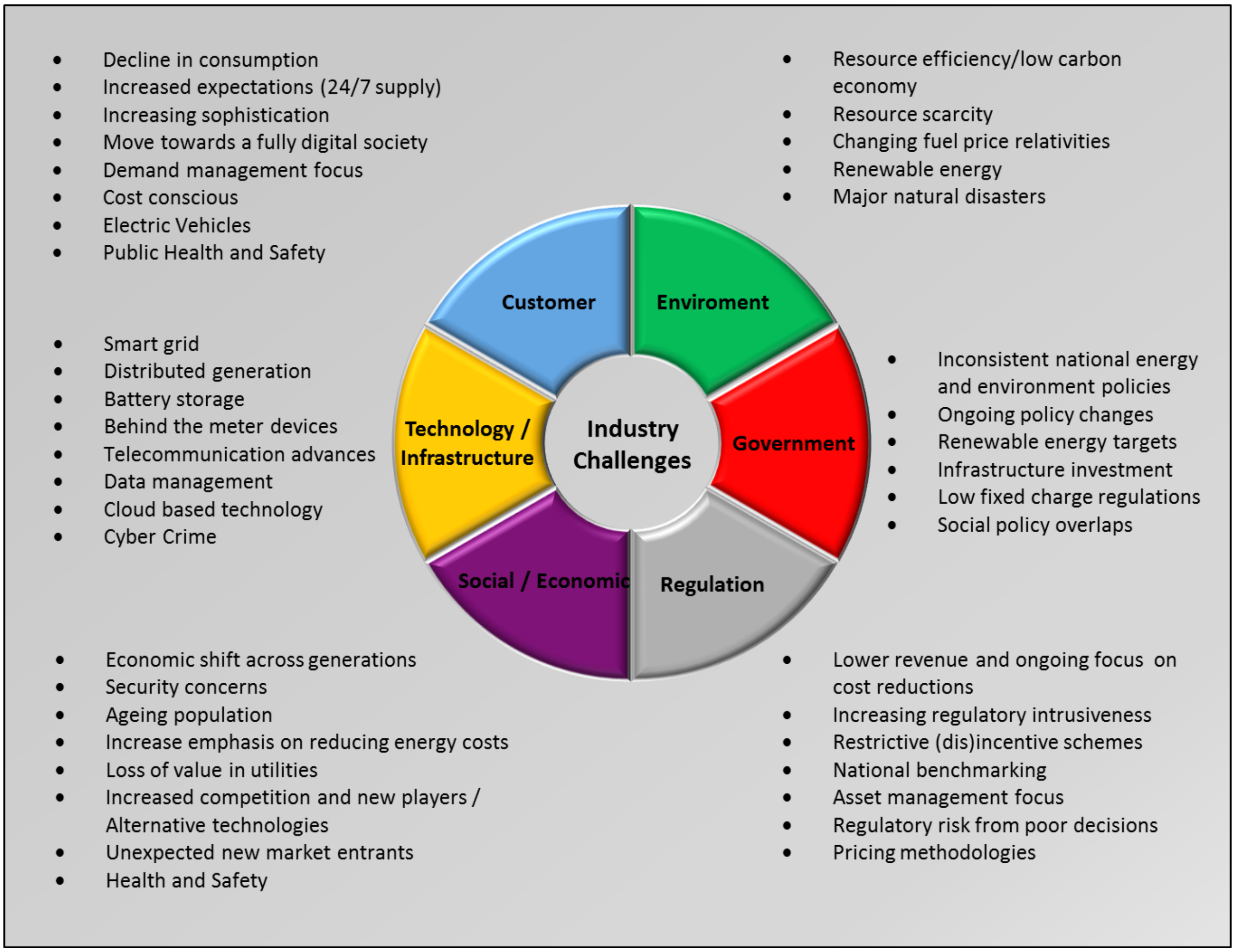
The Electricity Authority's statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of customers. The Authority is presently focusing on Transmission Pricing Methodology, distributed generation, distribution pricing and the low fixed charge regulations.

TPCL while supportive of the Authority's objectives is concerned about the consultation process, potential unintended consequences, lack of consideration of other statutory requirements and the increase in regulatory risk that some of the decisions that the Authority is making have resulted in. This includes (but not limited to), recent decisions with distributed generation and avoided cost of transmission,

TPCL will continue to work with the Authority to achieve more equitable outcomes for the sector for the long term benefit of customers.

3.3 Industry Challenges

TPCL continues replace and upgrade assets, adding additional network capacity where there is a customer need. The use of current and emerging technology is also very important to these investment decisions and will become increasingly important.



Electricity Consumption Trends

Much of the TPCL network area has at best static population and current muted economic activity. But the Government incentivisation of electric vehicles by measures such as exemption from road user charges or their directive for a low carbon economy may positively impact consumption and therefore network use.

A rapid improvement in energy efficiency whether in industrial processes or domestic demand, means a significant challenge for TPCL is how to anticipate what consumption dynamics might be so investment decisions are well founded.

Customer focussed solutions will be key to ensure customers value remaining connected to the network.

TPCL are involved in a Smart Energy Home project, in conjunction with PowerNet. The smart energy home is equipped with technologies that aim to make living there more energy efficient including:

- Solar generation from PV panels, an inverter, battery storage, an electric vehicle and an electric vehicle charging station.
- The home is insulated, has LED lighting and heat pumps for space heating.

A real time visual monitoring system is installed showing electricity generation and consumption patterns of the household.

Revenue – Pricing

TPCL wants to ensure equitable charging amongst its customers and together with the EDB sector is currently considering options how to best recover its costs from customers through pursuing pricing reform.

TPCL with the support of the Electricity Authority intends to introduce a new pricing methodology from 1 April 2021 following consultation with customers, its owners the Southland Electric Power Supply Consumer Trust and electricity retailers.

The intention of any pricing reform must assure that the network can be maintained to meet reliability standards, give sustainable returns to the owners but is cognisant of a customer desire to utilise pricing options and innovative technology.

Government Policies

TPCL noted that in the lead up to the 2017 general election all parties were supportive of the removal of the poorly designed low fixed user charge regulations.

Where Government intends to deliver support for particular socio-economic groups, this should be delivered through social policy, not imposed on the electricity industry and therefore creating significant distortions and incentivising poor investment decisions. This has happened with the low fixed user charge regulations. They need to be repealed.

Government policies need to be targeted and relevant to the sector.

The 2017 Labour led Coalition Government is to conduct a pricing review of the electricity sector scheduled to report back in 2019. TPCL is concerned about the investor uncertainty created by protracted timeframes and broad terms of reference.

The EDB sector already regulated under the Commerce Act and therefore should not be subjected to this review.

The opportunity for the low fixed user charge regulations to be addressed as part of this review is welcomed.

4. Strategy

4.1 Core Business

To commercially manage all assets, business units, products and investments within and associated with the Electricity Sector as a successful business for the shareholders of TPCL.

4.2 Vision Statement

To be recognised as the leading consumer trust owned electricity sector company and an excellent corporate citizen.

4.3 Commercial Objectives

TPCL operates as a successful commercial business. We strive to be an efficient and effective operation within the electricity sector and provide stakeholders with an appropriate balance of;

- Competitive pricing
- Leading public and workplace safety performance
- Customer service focus
- Sustainable social and environmental impacts
- Commercial return on investment

4.4 Company Objectives

4.4.1 Ensure workplace and public safety is paramount and that its network assets and operations do not present a safety risk to members of the public, their property, PowerNet staff and contractors.

4.4.2 Manage its operations in a progressive and commercial manner.

4.4.3 Achieve an efficient and effective operation within the electricity sector and provide its customers with competitive prices and optimised service by:

- Ensuring through PowerNet, that sufficient resources are available to satisfy its service requirements,
- Achieving a return for all its electricity distribution assets nearer to the Weighted Average Cost of Capital prior to customer discounts.

4.4.4 Continuing to grow its commercial relationship with its joint venture partners, Electricity Invercargill Limited and Pioneer Energy Limited.

- Continuing to strengthen relationships with appropriate companies with a view to achieving economies of scale through strategic alliances or associations.

4.4.5 Investigating non-regulatory activities and investments to increase shareholder value including generation, electricity distribution and new, relevant investments in the electricity sector.

4.4.6 Pursuing alternative energy technologies in the best interests of shareholders and customers.

4.5 Deployment of Company Objectives

PowerNet Company Purpose

TPCL contracts PowerNet Limited (PNL) to manage its business activities.

PowerNet is integral to TPCL's success, and therefore the PowerNet Shared Vision is most relevant to TPCL.

Safe, Efficient and Reliable

The company endorse the same Safety Always Culture as PowerNet Limited.

Safe, efficient and reliable power to communities drives the company's commitment to its customers.

TPCL continues to identify its customers' needs. The ability to respond to changing customer demands is essential to retain grid-connected customers in an ever changing energy market.

The company strives to create a lean and efficient organisation that delivers improved customer service, long term sustainability around network pricing and stable long term returns to its shareholders.

The company explores investments in a contemporary network that provides flexibility both in the home and in industry. It supports the integration of distributed energy resources without compromising grid security.

Innovation

The company continues its research into developing new products and services which complement the existing network and provide customers with greater choice and control.

Adapting the business where commercially viable to newer, smarter technologies, or changing customer needs and requirements is essential.

For example this includes but is not limited to;

- Remote Area Power Supply (RAPS)
- Electric Vehicles (EVs)
- Battery Storage
- Solar
- Peer to Peer trading

Community

TPCL supports the wider community as follows:

- Provides customers of the TPCL network with a line charge discount
- Supports Southland Warm Home Trust insulation and heating installations in the Southland and West Otago region
- Through PowerNet's partnership with St John by;
    - Donating emergency first aid training (through St John) to community groups, including first aid training for all school children aged 15 and under
    - Donating defibrillators and other equipment to our communities

Risk Management

TPCL, through PowerNet, has a comprehensive risk management framework in place. Two areas of particular focus and development at present are:

Insurance Captive

During 2019, TPCL intends to enter into an insurance captive, providing self-insurance cover for their uninsured assets in particular its non-substation network assets. This intended insurance cover will have partial coverage for its non-substation electrical assets for the TPCL electricity distribution network and TPCL's share (75.1%) of OtagoNet Joint Venture and Electricity Southland.

This means that TPCL over time will be able to access funds in a timely manner to assist with the build and restoration of its network should a significant natural disaster or other event occur (i.e. damaging underground cables/overhead power lines and otherwise uninsured equipment), for the benefit of its customers.

Cyber Security

Cyber fraud training has been provided to all staff under the PowerNet Limited umbrella of companies, thereby minimising the risk of cyber-attack on TPCL network.

Cyber fraud testing and training is ongoing within the business, including auditing, information technology and risk management. Heightened controls around information technology has resulted in increased security for the business. Deloitte, as independent auditors, have and continue to be engaged to undertake cyber fraud training within the company. Other risk mitigation measures are also undertaken, including penetration testing and system segregation and firewalls.

4.6 Responsibilities of the Board

Directors are to act in good faith, to comply with the Companies Act 1993 and their Constitution.

TPCL Board of Directors has and may exercise all the powers necessary for managing, and directing and supervising the management of, the business and affairs of TPCL, except to the extent that their constitution or the Companies Act 1993 expressly requires those powers to be exercised by the shareholders or any other person.

The company's shareholders appoint the directors to govern and direct the company's activities. The board is the overall and final body responsible for the proper direction and control of the company's activities and decision making. The board's responsibilities include areas of stewardship such as:

- establishes and oversees the company strategy
- commercial performance
- business plans and budgets
- financial and dividend policies
- company policies
- delegations of authority
- reports to shareholders
- compliance with applicable law
- stakeholder and external party relationships
- management oversight and development
- identifying and managing business risks and opportunities
- internal control systems
- integrity of management information systems

5. Performance Measures

5.1 Financial

	2019/20	2020/21	2021/22

EBIT% - Percentage Earnings Before Tax and Interest on Assets Employed

EBIT %	3.03%	3.06%	3.10%
EBIT % (excluding Discount)	4.00%	3.98%	3.97%

NPAT% - Percentage Tax Paid Profit on Equity

NPAT %	1.95%	1.89%	1.98%
NPAT % (excluding Discount)	3.51%	3.48%	3.59%

GEARING RATIO

% Gearing Ratio	40.64%	39.39%	38.25%

INTEREST COVER RATIO (TIMES COVERED)

Interest Cover Ratio	4.38	4.43	4.66

5.2 Supply Quality

	2019/20	2020/21	2021/22

System Average Interruption Frequency Index (the average number of times each customer connected to the network is without supply)

SAIFI	2.83	2.82	2.81

System Average Interruption Duration Index (the average total times in minutes each customer connected to the network is without supply)

SAIDI	181.48	179.51	177.56

5.3 Health & Safety

PowerNet is contracted to TPCL to manage operations. TPCL employ no staff. Therefore the PowerNet Health and Safety Performance targets are relevant to TPCL.

	2019/20	2020/21	2021/22

Total Recordable Injury Frequency Rate – for PowerNet employees and contractors

TRIFI	4.20	3.50	3.00

Serious Harm Incident Target – for both Public and Workforce (PowerNet employees and contractors)

Serious Harm	0	0	0

6. Shareholder Information

6.1 Proposed Distributions

Dividend

The operating expenditure of the Company's shareholder is offset at year end by the interest payable by the Company to a Loan from the Shareholder. It is therefore not intended to make any dividend payments.

6.2 Information to be reported

The Company will report on a six-month and annual basis, in the form set down by legislation. An audited Annual Report is required to be delivered to the Shareholder with the opportunity to assess the performance of the Company and the value of the investment.

Un-audited half-yearly accounts will include Statement of Comprehensive Income and Financial Position, together with such other supporting information as may be required to enable an informed assessment of the Company's performance during the reporting period, as agreed between the Shareholder and the Directors.

In addition, a monthly Consolidated Summary report will be provided to the Shareholder showing the Financial Performance of the Group together with The Power Company Limited's Lines Interruptions Reports.

Transactions with related parties primarily consist of network asset construction and maintenance, administration and management services.

All related party transactions are eliminated in the preparation of the Annual Financial Statements.

6.3 Acquisition Procedures

Except by a special resolution of shareholders the Company may not enter into a major transaction.

A major transaction includes the acquisition of, or an agreement to acquire assets, the value of which are more than half the value of TPCL's assets before the acquisition.

6.4 Board Estimate of the Value of Shareholder's Investment

The Directors estimate the commercial value of the shareholder's investment in the Group to be at least the value of shareholder's equity reported in TPCL's financial statements and Statement of Intent.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment, however this may be subject to future adverse consequences of any central government decision to place the company under the regulatory provisions of Part 4 of the Commerce Act.

6.5 Consumer Discount

Since 2001, the Company has provided a discount to consumers. The discount is typically credited to consumers in or around August each year, when consumers tend to have higher power bills.

The Company expects to continue paying consumer discounts, and for the amount of the discount for the period ending 31 August 2019 to be set based on the following principles (the amounts referred to exclude GST):

(a) The projected total discount is $7,500,000 (excluding GST), although the total of the actual discounts paid may differ from $7,500,000 as a result of rounding, and/or of certain connections being ineligible for the discount although their usage is included in the total usage figures used in the calculations set out below

(b) The total discount is allocated to customer groups in proportion to the customer group's contribution to total distribution revenue (eg, if the distribution revenue from non-domestic customers and domestic customers was equal (ie, 50% of the overall total was contributed by each customer group) then 50% of the total discount would be allocated to each customer group). The discount for each customer is then calculated for each customer group as follows:

   (i) Non-domestic customers: the discount for each non-domestic customer will be proportionate to that customer's contribution to total distribution revenue for the non-domestic customer group. Eg, if distribution revenue for a given non-domestic customer represents 1% of the total distribution revenue for all non-domestic customers, then that customer would be credited 1% of the total discount allocated to non-domestic customers.

   (ii) Domestic customers: the discount for each domestic customer will be proportionate to that customer's contribution to total distribution revenue for the domestic customer group, but taking into account only the variable component of distribution revenue (ie, the fixed component of distribution charges will not be taken into account).

(c) Discounts will be credited to customers in their first electricity bill they receive from their retailer on or after 31 August.

(d) The Company reserves the right not to pay any discount in exceptional circumstances resulting in a significant fall in revenue or a significant increase in costs in the period to which the discount relates or if the Company's financial circumstances are such that paying the discount would be inconsistent with the Company's legal obligations. Exceptional circumstances could include circumstances such as natural disasters, law changes or significant changes in the demand for, or supply of, electricity. Since introducing consumer discounts in 2001, the Company has provided discounts in all but one year.

The discount credited in August 2018 was $7.95 million. This resulted in residential consumers receiving a credit for 2.01 cents per unit of their annual consumption, and in non-residential consumers receiving a credit for 1.13 cents per unit of their annual consumption and 15.98% of their fixed daily charge.

In the absence of any exceptional circumstances, the Company expects to continue paying consumer discounts over the next three years. The Company expects that the discount will continue to be based on the Company's Distribution Revenue (net of transmission costs payable to Transpower) and will credited to consumers based on usage.

6.6 Debt Management

TPCL's debt levels are managed taking into account banking covenants, the group's profit, depreciation, capital expenditure, discounts to customers and new investment plans.

TPCL's group holds investments in different classes of assets. Of these, a particular class of assets require replacement of a significant portion of their value as they approach the end of their economic lives. These classes of assets are predominately the renewable electricity generation and advanced meter asset types. TPCL recognises that where these classes of assets have been acquired via debt funding, a prudent approach is to repay the associated debt as the economic value of the asset diminishes throughout its life.

7. Statement of Accounting Policies

7.1 Accounting Policies

General Accounting Policies

The Group's accounting policies comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and are consistent with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as applicable for profit oriented entities.

The Company is eligible and has elected to report in accordance with Tier 2 for profit accounting standards, NZ IFRS Reduced Disclosure Regime on the basis it has no public accountability and is not a large for profit public sector entity.

NZ IFRS standards are subject to change and therefore the Company's accounting policies are also subject to change during the period of the Statement of Intent.

Specific Accounting Policies

The specific accounting policies, which materially affect the measurement of financial performance and financial position, are fully listed in the Company's annual report.

Invercargill Grid Exit Point, Findlay Road, Invercargill

THEPOWERCOMPANYLTD