Waipa Networks Limited

Statement of Corporate Intent

For the Year Ended

31 March 2020

WAIPA NETWORKS

enviro-mark gold certified

Table of Contents

INTRODUCTION

This Statement of Corporate Intent sets out the Company‟s intentions and objectives for the financial year ending 31 March 2019 and the two succeeding financial years.

Waipa Networks owns and operates the electricity distribution network in and around the Waipa district. We are owned by the Waipa Networks Trust on behalf of our connected customers.

The change in affordability and efficiency of technologies such as solar panels, electric vehicles and battery systems has heralded the advent of true distributed generation as was foretold by some industry advocates at the turn of the century. The growth in uptake of solar installations and conversion to electric vehicle models by the auto industry is forcing new thinking across the entire electricity industry.

In this regard Waipa Networks has recast our Strategic Plan to align with the opportunities and risks this new era of energy engagement represents at the individual consumer level.

Our principal focus remains delivering safe, reliable and efficient electricity lines services. The regulatory construct that envelopes our largest asset dictates that this remains so.

However, this underpins a strategic direction targeted at establishing true energy communities with our connected customers and exploring the possibilities afforded by the changing technology landscape in our industry.

Our mission:

- **To improve the lives of our connected customers through emerging and existing energy network-related solutions.**

Our objectives:

- **Deliver power safely all day every day**
- **Facilitating energy use not just a connection**
- **Building a sustainable business by establishing energy communities in the Waipa region**
- **Extend the availability of existing and new energy products from pilot projects to the broader community.**

Our vision:

- **A Waipa Energy Community with customers connected to the most economic electricity supply for them. Informed decisions are made about what sustainable energy production is best for their situation and at what level of reliability they desire. Those connections are made safely all day, every day by Waipa Networks.**

The primary objective of the Company is to be a successful business. It will do this by:

- providing customers with outstanding service and solutions,
- providing value for money,
- operating in an environmentally friendly and sustainable fashion,
- being aware of technological changes which could impact the business model,
- pricing Line Function Services to ensure connected consumers are charged equitably to achieve sustainable profit levels, and
- having regard to the efficient use of energy.

Throughout this document reference is made to Shareholders. The Shareholders are the Waipa Networks Trustees who hold 100% of shares in Waipa Networks Ltd for and on behalf of Connected Consumers.

The Company seeks to be a high performing lines company exercising a philosophy appropriate to its ownership structure, a safe and good employer, and a good corporate citizen.

A OBJECTIVES OF WAIPA NETWORKS

Commercial

Waipa Networks is committed to operating a successful business to further the interests of its Connected Consumers.

The Board of Directors will ensure Waipa Networks adopts appropriate strategies for its long-term success. This will mean diversifying its portfolio of investments over time to spread risk and align us with the achievement of our vision.

To protect the value of the Shareholders" investment Waipa Networks will:

- Undertake new investments which over their life will increase the commercial value of the business.
- Keep abreast of technology with the ability to impact on our business, develop strategies to respond appropriately to these challenges and exploit the opportunities they present.
- Ensure the addition of new distribution capacity will be matched as closely as possible to actual and forecast market demand.
- Develop shorter network capital investment horizons to mitigate against assets being stranded by developing technologies.
- Focus on reducing operating costs and optimising use of capital to achieve commercial efficiency and effectiveness while at all times providing outstanding service and solutions.
- Prudently manage assets, liabilities, risks and costs.
- Manage an efficient and competitive contracting division to install services within Waipa Networks" distribution area and beyond.
- Seek new business opportunities in life improving energy services and solutions, building on the core competencies of network design, management and network utility contracting.
- Preserve the Company"s commercial position at the time of any regulatory reset, and maintain Company value.
- Extend our portfolio of unregulated businesses.

Waikato Networks Limited has and will continue to be a main focus of investment activity. This is discussed further in Section F below.

The Company has also embarked upon investment in new technology projects focused on developing the economic performance of a Waipa Energy Community (unregulated business).

Specific targets for 2020 are:

❖ Maintain our governance influence on the Board of Waikato Networks Ltd to achieve a successful commercial result.

❖ Explore the possibility of new ventures brought about by disruptive technology developments including investment in pilot projects.

Energy Efficiency

Waipa Networks believes energy efficiency is desirable to ensure affordable and reliable supplies of energy are available for consumers in the future. This is important in helping us achieve our dream of being recognised in our community as a leader in life improving energy services and solutions.

- When purchasing new network assets Waipa Networks will base its decisions on the total life time costs including energy losses.
- The use of energy efficient technology by connected consumers will be encouraged.

Specific targets for 2019 were:

➢ Continue to measure the carbon footprint for the Harrison Drive depot.	(Achieved)
➢ Continue to develop strategies to reduce our overall carbon footprint.	(Ongoing)
➢ Continue to promote the uptake of electric vehicles in the Waipa Networks area.	(Achieved)
➢ Encourage retailers to offer pricing options that reflect Waipa Networks “Advanced Pricing” strategy (efficient use of network)	(Achieved)

In the last year the Company has:

- Successfully retained its Enviro-mark® programme Gold standard accreditation
- Produced and distributed a follow-up newsletter to strengthen the awareness of our „Advanced Pricing" which became effective 1 April 2016.
- Sponsored 2 local secondary schools in the EVolocity Waikato electric vehicle competition.
- Installed detailed energy monitoring at the Harrison Drive depot.
- Purchased two hybrid electric vehicles for utilisation in the Company fleet
- Purchased transformers based on their lifetime costs including the energy costs.
- Constructed and replaced distribution lines to reduce losses as appropriate.

Specific targets for 2020 are:

- Continue to measure the carbon footprint for the Harrison Drive depot.
- Continue to develop strategies to reduce our overall carbon footprint.
- Implement a Fleet Electrification Strategy.
- Continue to promote the uptake of electric vehicles in the Waipa Networks area.
- Encourage retailers to offer pricing options that reflect Waipa Networks “Advanced Pricing” strategy (efficient use of network).
- Develop a project to encourage the uptake of energy-efficient LED lightbulbs.

Customer Service

Waipa Networks believes in providing outstanding service and solutions to both energy retailers and connected consumers.

- Waipa Networks will not discriminate between Energy Retailers accessing and using the distribution network and will seek to maintain good working relationships at all times.
- Development of business systems and staff training will continue to reinforce the culture of the organisation to maintain the focus on our community as being "a part of us".
- If a customer relationship breaks down, seek an early resolution to the problem; and provide a free dispute service through the Utilities Disputes Ltd.

Specific targets for 2019 were:

➢ Resolve 95% of complaints using the Company"s Complaints Resolution Process without escalation to the Electricity and Gas Complaints Commissioner.	(Achieved)
➢ Achieve a minimum 90% overall satisfaction rating in the annual independent customer survey.	(Achieved)
➢ Expand the use of tablet-based data access and collection to more team members and fault response.	(Achieved)
➢ Continue to negotiate updated Use of System Agreements with energy retailers.	(Continuing)

In the last year the Company has:

❖ Introduced tablet data access to eight first and second call response staff with positive outcomes.

❖ Signed new Use-of-System agreements based on the Electricity Authority Model, the quickest of which was achieved in 24-hours.

Specific targets for 2020 are:

❖ Resolve 95% of complaints using the Company"s Complaints Resolution Process without escalation to Utilities Disputes Ltd (formerly the Electricity and Gas Complaints Commissioner).

❖ Achieve a minimum 90% overall satisfaction rating in the annual independent customer survey.

❖ Benchmark customer satisfaction in relation to Planned Outages and New Connections.

❖ Expand the use of tablet-based data access and collection to more team members and fault response.

❖ Continue to negotiate updated Use-of-System Agreements with energy retailers.

Security of Supply

Waipa Networks will provide a reliable electricity distribution network as detailed in the reliability performance targets set out in Appendix 2. It will seek to do this by prudent investment in:

- The management of trees close to power lines.
- Employing safe Live Line working techniques.
- Distribution system automation to improve system resilience and performance, and to reduce restoration times to customers in the event of outages.
- Undertaking appropriate security of supply projects to manage risks to customer service.

Specific targets for 2019 were:

➢ Establish an Asset Management Improvement Plan to clearly articulate the desired risk-based level of asset management maturity for the Company and the actions to achieve it.	(Partially Achieved)
➢ Continue asset surveys, preventative maintenance and tree cutting on the network.	(Achieved)
➢ Continue the application of automated devices for network resilience, performance and restoration.	(Achieved)
➢ Continue the replacement of older switching equipment and transformers.	(Achieved)

The Company is experiencing sustained growth through new connections, demand and volumes increases. This has now translated into industrial growth as well, necessitating significant capital investment in network capacity in the medium term.

Specific targets for the next twelve months are:

❖ Undertake detailed network analysis, at transmission and sub-transmission levels, to define capital investment plans to cater for the increased demand being experienced.
❖ Formalise the Asset Management Improvement Plan and make appropriate progress in implementation.
❖ Continue asset surveys, preventative maintenance and tree cutting on the network.
❖ Continue the application of automated devices for network resilience, performance and restoration.
❖ Continue the replacement of older switching equipment and transformers.

Compliance Issues

The Directors will continue to monitor compliance with all relevant legislation and regulations.

Compliance with regulations, and prudent management of regulatory risk, is incorporated in the Company"s strategic thinking and management.

Specific targets for 2019 were:

➢ To continue to have good relationships with industry regulators, with particular reference to achieving good outcomes on new technology investments.	(Achieved)
➢ Continue to meet all compliance requirements.	(Achieved)

In addition, in the last year the Company has:

- ❖ Successfully completed audit requirements for the Public Safety Management System NZS7901.
- ❖ Engaged with the Electricity Authority on market code developments with respect to advancing our strategic development opportunities.
- ❖ Directly, or in combination with other electricity lines businesses, made submissions to various discussion papers issued by the Commerce Commission, the Electricity Authority and, in particular, the Electricity Price Review panel.
- ❖ Continued to utilise more rigorous compliance reporting using commercial software.

Specific targets for the next twelve months are:

- ❖ To continue to have good relationships with industry regulators, with particular reference to achieving good outcomes on new technology investments
- ❖ Continue to meet all legislative compliance requirements.

Social and Community

Waipa Networks will operate in a manner which actively reflects the Company"s sensitivity to our social, cultural and natural environment. The Company believes we are part of our community. A good relationship is therefore considered an essential element of the business. Waipa Networks will achieve this by:

- Maintaining a portfolio of sponsorships.
- Communicating with all stakeholders.
- Promoting our environmental policy.
- Maintaining public awareness of who we are and what we do.
- Being acknowledged as a good corporate citizen.
- Conducting opinion surveys of connected consumers.
- Providing value for money.

Waipa Networks will undertake consultation with the Shareholders on all social and cultural issues which the Board of Directors considers will significantly affect the greater community.

Specific targets for 2019 were:

➢ Market Green Credentials to the local community.	(Achieved)
➢ Continue to promote our photovoltaic generation on our smart home web site and elsewhere.	(Achieved)
➢ Monitor PV impact on subdivision requiring installation by covenant compared with standard subdivision of similar aged and value dwellings.	(Achieved)
➢ Install PV and battery storage in a commercial development to monitor impact on usage and ability to manage domestic peak demand.	(Partially Achieved)
➢ Implement a communications plan for stakeholders with an interest in Waipa Networks‟ asset management plan.	(Not Achieved)

In addition the Company has:

- Maintained our portfolio of sponsorships.
- Published brochures on the tree regulations and a newsletter updating connected consumers on items of interest.
- Maintained our "Smart Home" website.

Specific targets for the next twelve months are:

- Continue to market Green Credentials to the local community.
- Continue to promote our photovoltaic generation on our smart home web site and elsewhere.
- Monitor PV impact on subdivision requiring installation by covenant compared with standard subdivision of similar aged and value dwellings.
- Install PV and battery storage in a commercial development to monitor impact on usage and ability to manage domestic peak demand.
- Implement a communications plan for stakeholders with an interest in Waipa Networks‟ asset management plan.

Staff

Waipa Networks believes in the recognition and acknowledgement of our staff and in increasing the potential of all employees through learning. We aim to grow all employees‟ competency and skills by investing in and utilising individual training plans.

Waipa Networks is a safety conscious, socially responsible and good employer. We recognise the ability to recruit and retain well-qualified, motivated and committed staff is essential for an efficient and effective business.

The Company has a target of zero work place accidents and seeks to promote the health and welfare of all employees.

Our target for 2019 was to:

- ➢ Improve OSH culture and eliminate all injury accidents through implementation of the Health, Safety & Risk Strategic Plan.

We have successfully completed the Leadership and Behavioural Based Health & Safety program. This engaged all staff and supervisors in establishing a consistent understanding of our base-level of H&S expectations. This contributed to a period of nearly six-months in the latter half of the year without experiencing either a Lost-Time or Medical Treatment injury. However, our objective was not met as we still experienced five injuries overall.

In addition the Company has:

- ❖ Continued to update H&S processes to incorporate required risk mitigation functions.
- ❖ Updated our equipment operating manual and introduced electronic information access in the field for fault response personnel.

The specific target for the next twelve months is to:

- ➢ Improve OSH culture and eliminate all injury accidents through implementation of the Health, Safety & Risk Strategic Plan.

B NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

The nature and scope of the activities of Waipa Networks:

	2019/20	2020/21	2021/22
• Distribution (GWh)	396	403	411
• Contracting (Sales $000"s)	1,916	1,944	1,973

Any major diversification of activities into new business areas will be subject to consultation with Shareholders.

In the last year the Company:

- ❖ Achieved contracting sales of $2.56M compared with our target of $2.01M.
- ❖ Distribution sales were 392GWh compared with our target of 386GWh.

C CAPITAL RATIO

The ratio of shareholders' funds to total assets will be maintained at not less than 55 per cent.

The level of spending on capital development is budgeted to exceed depreciation in the 2019/20 financial year. Capital development of the network will exceed depreciation by $8.1M with this work funded from a combination of capital contributions and retained earnings.

Shareholders' funds comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves.

Total assets of Waipa Networks will comprise all the recorded tangible and intangible assets of the Company at their current value as defined in the statement of accounting policies.

D ACCOUNTING POLICIES

Waipa Networks has adopted accounting policies consistent with the Financial Reporting Act 1993. Details of the Accounting Policies and their application are contained in Appendix 1. There have been no material changes in accounting policies since the adoption of IFRS. No further significant changes in these accounting policies are anticipated.

E PERFORMANCE TARGETS

The Board of Directors recognises the need to determine objective targets against which its performance can be measured. These targets need to be comprehensive and recognise the emphasis our customers place on the services provided. The proposed targets therefore recognise reliability, safety and efficiency measures together with financial measures.

The performance targets which have been set for the period, together with forecasted financial statements to 31 March 2019/20, are detailed in Appendix 2.

In the last year the Company:

- Met the equity ratio target Financial Performance Indicator.
- Met both the maintenance Cost Performance Indicator and the operational costs target.
- Achieved the Energy Delivery Performance Indicator.
- Achieved the Reliability Performance Indicators.
- Staff Safety was not achieved. This is commented on in Section A – Staff above.

F PROCEDURES FOR THE SUBSCRIPTION, ACQUISITION AND DISPOSAL OF SHARES

Directors will consider the subscription for, or acquisition of, shares, in any company only where it is consistent with the long-term commercial objectives of Waipa Networks.

If in the opinion of the Directors the subscription or acquisition of shares, or assets in new business ventures or subsidiary companies, is considered significant to the Company"s level of operations it would be subject to consultation with the Shareholders.

Where Waipa Networks decides to incorporate subsidiary companies and/or subscribe for shares in subsidiary companies to undertake its commercial activities, Waipa Networks will ensure effective management of any such subsidiary.

If Waipa Networks decides to dispose of shares or assets of any subsidiary company or business units which amount to more than 25% of the business of Waipa Networks, the consent of the Shareholders shall be obtained.

In the last year the Company has undertaken no new investments; however it has increased its investment in Waikato Networks Limited by way of shareholder loans.

Waikato Networks Limited

The Company consulted with the Trust prior to becoming a 15% shareholder in Waikato Networks Limited.

In February 2016 Waikato Networks Limited completed the fibre optic network for Ultrafast Fibre Limited. The completed network serves Hamilton, Cambridge, Te Awamutu, Hawera, New Plymouth, Wanganui, Tokoroa and Tauranga.

The initial establishment of Waikato Networks Ltd was as a Joint Venture with Crown Fibre Holdings (CFH), the governments funding vehicle for establishing broadband services to a larger proportion of New Zealand homes and businesses. During 2016 the shareholders of Waikato Networks Ltd negotiated an early buyout of CFH vesting full ownership in the two partners, Waipa Networks with 15% and WEL Networks 85%.

Waipa Networks retained a Director on the board of Waikato Networks Limited under the new ownership structure.

Funding for the capital development of Waikato Networks Limited and the CFH buyout continued to be by way of shareholder loans. The value of Company loans to Waikato Networks Limited at 31 March 2019 is $72M. Increasing customer connection numbers will steadily improve the financial performance of the fibre business with the expectation that shareholder loans begin to be paid back from profits in the medium term. Until that time, and in line with the business models, funding is forecast to be at the levels shown below.

	2019/20	2020/21	2021/22
Loans	$87M	$92M	$96M

G DIVIDEND POLICY

The policy on apportioning net profits to be distributed to Shareholders will be determined by the Board of Directors from time to time in accordance with future results and taking into account circumstances, particularly for future capital requirements. No dividend payment will be made without the approval of the Trust (shareholders).

No provision is made for a dividend in the period covered by this SCI.

H DISCOUNTS

Connected Consumers will continue to receive a discount on their line charges during the year to 31 March 2020 and for the two following years. The level of discounts is forecast to be more than $5.0M in 2019/20 and in each of the two following years. These discounts include a provision of $400,000 per annum for loss rental rebates received from Transpower in that year.

The budgeted discounts include the published discount in our tariff schedule of approximately $4.15 M.

Actual discounts will vary with the whole of the loss rental rebate actually received from Transpower being returned to consumers in the discount paid.

In the last year the Company:

- Paid discounts totalling more than $4.8 M.

I REPORTING TO SHAREHOLDERS

Within three months after the end of the first half of each financial year the Directors will deliver an unaudited half-yearly report to the Shareholders.

This will consist of:

1. A statement of financial position.
2. A statement of financial performance.
3. A statement of cash flows.
4. A report on activities.

Within three months after the end of each financial year Directors will deliver to Shareholders an annual report and audited financial statements which will consist of:

1. A Directors' report including:
    a) A review of operations;
    b) Measurement of performance in relation to objectives;
    c) Recommendation in respect of dividend.
2. A statement of financial position.
3. A statement of financial performance.
4. A statement of cash flows.
5. The Auditor's report on the above statements which shall include an audit of the measurement of performance in relation to objectives.

In the last year the Company:

- Met all reporting obligations.

WAIPA NETWORKS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Waipa Networks Limited (the Company) is a profit oriented limited liability company domiciled and incorporated in New Zealand, registered under the Companies Act 1993 (Registered Office is 240 Harrison Drive, Te Awamutu). The Company is an electricity network business, delivering energy to customers in the Waikato Region.

Statement of Compliance

The Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The Financial Statements comply with the New Zealand Equivalent to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Basis of Preparation

The functional and reporting currency used in preparation of the Financial Statements is New Zealand dollars. They are prepared on a historical cost basis.

These Financial Statements have been prepared in accordance with NZ IFRS that are effective or available.

These general purpose financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

Critical Accounting Estimates and Adjustments

The preparation of Financial Statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Revenue recognition for line revenue
The company invoices its customers monthly for the network services on the basis of usage advised by retailers, including estimated amounts for accrued sales from meters unread as at end of month.

Management has made an allowance in revenue and in trade receivables for any amounts which are estimated to be under or over charged as at balance date. These adjustment amounts are not significant compared with total line revenue.

(ii) Useful lives of property, plant and equipment
The Company reviews the estimated useful lives of property, plant and equipment at each balance sheet date. In this financial year it was deemed that no change to the estimated useful lives was needed. The carrying value of property, plant and equipment is disclosed in note 14 Property, Plant and Equipment.

Changes in Accounting Policies

There have been no changes in accounting policies. The accounting polices set out below have been applied consistently to all periods presented in these Financial Statements.

a) Property, Plant and Equipment

Items of property plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of purchased property plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of the assets constructed by Waipa Networks, including capital works in progress, includes the cost of all materials used in construction, direct labour and other directly attributable costs, which have been incurred to bring the assets to the location and condition necessary for their intended use. Borrowing costs are capitalised in respect of qualifying assets which take three months or more to construct.

Certain items of property plant and equipment that had been revalued to fair value on or prior to 1 April 2006, the date of transition to NZIFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property plant and equipment have different useful lives, they are accounted for as separate items of property plant and equipment.

Subsequent expenditure incurred to replace a component of an item of property plant and equipment, that extends the estimated life of the asset, is capitalised. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

Leased Assets

Leases in which Waipa Networks assumes substantially all the risks and rewards of ownership are classified as finance leases. Any asset acquired by way of a finance lease is stated at an amount equal to the lower of the fair value or present value of the future minimum lease payments at inception of the lease.

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis so as to allocate the cost of the assets over the estimated useful lives of each part of an item of property plant and equipment. Land is not depreciated.

Buildings	1% to 3%
Buildings fitout	2% to 10%
Reticulation System	1% to 2.5%
Other Electrical	1% to 2.5%
Motor Vehicles	10% to 20%
Computer Equipment	20%
Plant, Furniture and Fittings	10% to 50%

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

b) Intangible assets

Goodwill on acquisitions of businesses is included in ‘intangible assets’. Goodwill is carried at cost less accumulated impairment losses. At balance date, the company assesses whether there is any indication that goodwill may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs units that are expected to benefit from the synergies of the business combination.

Computer software assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis so as to allocate the cost of the assets over the estimated useful lives.

The useful lives and associated amortisation rates have been estimated as follows;

Computer Software	5 years	20%

Acquired easement rights are capitalised on the basis of the direct costs incurred including injurious affection payments. Easements are deemed to have an indefinite useful life, as the contracts do not have a maturity date and the Company expects to use the easements indefinitely. Therefore, easements are not amortised.

Their value is assessed annually for impairment, and their carrying value is written down if found to be impaired.

Where the rights have an expiration date, amortisation is charged to the statement of comprehensive income on a straight-line basis so as to allocate the cost of the assets over the useful life.

c) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Cost of work in progress and finished goods includes the cost of direct materials, direct labour and a proportion of the manufacturing overhead expended in putting the inventories in their present location and condition.

d) Trade and other receivables

Accounts receivables are stated at their expected realisable value after providing for doubtful debts. Bad debts are written off in the period they are identified.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the company’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

f) Financial instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the entity becomes a party to the contractual provisions of the instrument.
Interest rate swaps are used to reduce the Company’s exposure to interest rate risk on financing transactions.

The fair value of various derivative instruments used for hedging purposes are disclosed in note 19.
The derivatives are subsequently measured at their fair value at each balance date with the resulting gain or loss recognised in the comprehensive income. The Company has elected not to apply hedge accounting.

Fair value of the derivative instruments is the cash flows attributable to the hedged risk.

The portion of the fair value of an interest rate derivative that is expected to be realised within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

g) Impairment

The carrying amounts of the Company's assets other than deferred tax assets (see accounting policy j) and inventories (see accounting policy c) are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of assets is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

h) Impairment of Financial Assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through comprehensive income. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In terms of the Loans to Associates the Company believe that the possibility of non-performance by the associate is remote on the basis of financial projections.

i) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

1) Network Line Services
The Company invoices its customers (predominately electricity retailers) monthly for electricity delivery services across the region's lines network. The Company's obligation is to provide a single performance obligation of continuous service to which the customer benefits incrementally over time as the service is delivered. Revenue comprises the amounts received and receivable at balance date for network services supplied to customers in the ordinary course of business, including estimated amounts for accrued sales from meters unread as at balance sheet date.

2) Contracting Sales
Contracting sales are recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The company provides a 3 year warranty on materials and labour for electrical works constructed. They serve as an assurance that the products sold comply with agreed-upon specifications. No provision for the warranty has been provided as the claims made are not material.

3) Rental Income
Rental Income is recognised in the statement of comprehensive income on a monthly basis.

4) Capital Contributions
Contributions received from Local Authorities towards the cost of additions or modifications to the Reticulation Assets are invoiced when received and recognised in the balance sheet initially as deferred income. When there is reasonable assurance that it will be received and the Company will comply with the conditions attached to it, the revenue is recognised in the statement of comprehensive income as operating income on a straight-line basis over 40 years.

Other contributions towards the cost of additions or modifications to the Reticulation Assets are invoiced when received and recognised in the balance sheet initially as deferred income. The revenue is recognised in the statement of comprehensive income as operating income when the works have been completed.

Asset title and obligation to maintain resides with the Company and the asset is capitalised as part of the electricity reticulation asset.

5) Interest income
Interest income is recognised in the statement of comprehensive income as it accrues.

j) Employee entitlements

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, sick leave and gratuities when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured as the amount unpaid at balance sheet date at current pay rates in respect of the employees' service up to that date.

Provisions made in respect of employee benefits not expected to be settled within 12 months are measured as the amount of future benefit that employees have earned in return for their service in the current and prior periods up to the balance sheet date. The obligation is calculated using the projected unit credit method and is discounted to its present value.

k) Taxation

The income tax on the profit or loss for the year includes both current and deferred tax. The income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case the income tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the Balance Sheet date together with any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

l) Trade and other payables

Trade payables and other accounts payable are recognised when the company becomes obligated to make future payments resulting from the purchase of goods and services.

m) Goods and Services Tax

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated exclusive of GST with the exception of receivables and payables which include GST invoiced.

n) Capital and reserves

Share capital
Share capital consists of ordinary shares which are classified as equity. Refer note 8

Retained earnings
Retained earnings include all current and prior year retained profits or losses. Refer note 9

o) Loans to Associates

Loans to associates are recorded at original investment plus any capitalised interest. Refer note 16

Loans are considered for impairment each year. Refer accounting policy g and h.

p) Consolidation

Associates are entities in which the company has significant influence but not control over the operating and financial policies. Investments in associates are accounted for using the equity method. The investment is initially recognised at cost and adjusted thereafter by the companies share of the net profit, recognised in the income statement. The associate has a accounting policy to revalue the property plant and equipment (specifically its fibre network assets) which differs from Waipa Networks policy, as their assets are a different class to Waipa's no adjustment is made as a result of the difference between the accounting policies of the company and the associate. The companies share of any other gains and losses of associates charged directly to equity is recognised in other comprehensive income. Dividends received from associates are credited to the carrying amount of the investment in associates in the financial statements.

Appendix 2

KEY ASSUMPTIONS IN FINANCIAL FORECASTS

The 2019/20 year is based on the Company budget. The key assumptions used in calculating the financial forecast for subsequent years for Waipa Networks Limited on the following pages are as follows:

- 1.75% growth in network sales volume per annum is assumed.
- Revenue is based on prices effective from 1 April 2019. Future increases in electricity tariffs have been forecast at 1.5% p.a.
- Capital expenditure as per the Asset Management Plan.
- Inflation of internal costs is included in the forecast at 1.5% p.a.

These assumptions were adopted on 26 March 2019. No actual financial results are incorporated in the forecasts. These forecasts will next be updated in the Statement of Corporate Intent for 2021. The forecasts will be reviewed and refined before adoption as budgets prior to the commencement of each of the respective years.

The information on which the Statement of Corporate Intent has been prepared is solely for the purposes of this document and may not be appropriate for other purposes.

The actual results achieved for the periods forecast could have material variations from the information presented, and the variations may be material.

WAIPA NETWORKS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDING 31 MARCH

2016/17	2017/18	2018/19		2019/20 $000	2020/21 $000	2021/22 $000
			REVENUE			
28,926	30,986	30,837	Line Charges	31,493	32,187	32,903
4,355	5,026	4,759	Less discounts	5,050	5,150	5,250
24,571	25,960	26,078	Net Line Charges	26,443	27,037	27,653
5,166	7,356	6,084	Other Revenue	6,964	5,603	5,632
29,737	33,316	32,162	Net Revenue	33,407	32,640	33,285
9,227	9,683	8,785	Transmission	8,615	8,615	8,615
8,487	9,918	10,742	Operations	10,035	10,189	10,325
4,202	4,383	4,533	Depreciation	4,855	5,065	5,217
21,916	23,984	24,060	Operating expenses	23,505	23,869	24,157
7,821	9,332	8,102	Profit from operations	9,902	8,771	9,128
2,101	2,791	3,302	Interest income	3,976	4,487	4,693
(46)	(37)	(33)	Net Gain on Disposal of Assets	35	35	35
9,876	12,086	11,371	Profit before interest expense and tax	13,913	13,293	13,856
1,184	2,659	2,721	Finance costs	2,818	2,585	2,561
8,784	(1,429)	(919)	Share of net profit (loss) of associates	0	0	0
17,476	7,998	7,731	Profit before tax	11,095	10,708	11,295
2,574	2,608	2,485	Tax	2,539	2,450	2,584
14,902	5,390	5,246	Profit after tax	8,556	8,258	8,711
0	0	0	Dividend	0	0	0
14,902	5,390	5,246	Profit after tax & dividend	8,556	8,258	8,711

WAIPA NETWORKS LIMITED
BALANCE SHEET
FOR THE YEARS ENDING 31 MARCH

2016/17 $000	2017/18 $000	2018/19 $000		2019/20 $000	2020/21 $000	2021/22 $000
			Assets			
124,066	124,905	126,036	Property, Plant and Equipment	136,148	138,999	140,846
4,197	4,449	4,538	Intangible Assets	4,698	4,818	4,938
314	304	294	Prepayments	284	274	264
8,784	7,356	6,436	Investments in associates	6,436	6,436	6,436
63,336	70,731	81,170	Loan to associates	91,035	95,499	100,168
200,697	207,745	218,474	**Total non-current assets**	238,601	246,026	252,652
15	110	14	Cash & cash equivalents	80	15	48
2,573	3,345	3,718	Trade and other receivables	2,843	3,416	3,478
58	70	66	Prepayments	370	370	370
251	148	27	Work in progress	200	200	200
920	1,267	1,388	Inventories	900	900	900
3,817	4,940	5,213	**Total current assets**	4,393	4,901	4,996
204,514	212,685	223,687	**Total Assets**	242,994	250,927	257,648
			Equity			
122,361	127,751	132,997	Retained earnings	144,162	152,420	161,131
			Liabilities			
3,635	3,812	4,156	Provisions	7,367	7,367	7,367
21,461	21,915	22,359	Deferred tax liabilities	22,221	22,527	22,833
25,096	25,727	26,515	**Total non-current liabilities**	29,588	29,894	30,200
3,243	3,275	2,239	Trade and other payables	3,032	1,303	1,306
52,760	51,830	56,460	Loan	60,200	61,300	59,000
0	3,092	3,125	Waipa Networks Loan	3,125	3,125	3,125
491	720	2,339	Provisions	2,224	2,224	2,224
0	0	0	Provision for dividend	0	0	0
563	290	12	Income tax payable	663	661	662
57,057	59,207	64,175	**Total current liabilities**	69,244	68,613	66,317
82,153	84,934	90,690	**Total liabilities**	98,832	98,507	96,517
204,514	212,685	223,687	**Total equity and liabilities**	242,994	250,927	257,648

WAIPA NETWORKS LIMITED
STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 MARCH

2016/17 $000	2017/18 $000	2018/19 $000		2019/20 $000	2020/21 $000	2021/22 $000
			CASH FLOWS FROM OPERATING ACTIVITIES			
26,499	29,338	28,548	Receipts from customers	28,357	28,730	29,886
(17,263)	(18,976)	(19,041)	Payments to suppliers and employees	(13,671)	(20,050)	(18,452)
92	(18)	19	Net GST	(82)	(83)	(85)
9,328	10,344	9,526	Cash generated from operations	14,604	8,597	11,349
5	10	0	Interest received	0	23	24
(1,297)	(2,085)	(2,331)	Interest Paid	(2,818)	(2,585)	(2,561)
0	0	0	Taxes received	0	0	0
(1,860)	(2,427)	(2,318)	Taxes paid	(2,239)	(2,144)	(2,278)
6,176	5,842	4,877	Net cash flows from operating activities	9,547	3,891	6,534
			CASH FLOWS FROM INVESTING ACTIVITIES			
84	72	90	Proceeds from sale of property, plant and equipment	55	55	55
2,869	2,407	3,224	Capital Contributions	4,375	2,937	2,937
(8,010)	(5,405)	(5,671)	Purchase of property, plant and equipment	(12,801)	(7,898)	(7,043)
(306)	(276)	(109)	Purchase of intangible assets	(200)	(150)	(150)
(30,784)	(4,615)	(7,137)	Increase in investments	(4,650)	0	0
(36,147)	(7,817)	(9,603)	Net cash used in investing activities	(13,221)	(5,056)	(4,201)
			CASH FLOWS FROM FINANCING ACTIVITIES			
0	0	0	Cash was applied to: Dividend	0	0	0
29,965	2,070	4,630	Proceeds from Borrowings	3,740	1,100	(2,300)
(6)	95	(96)	Net increase (decrease) in cash held	66	(65)	33
21	15	110	Cash and cash equivalents at 1 April	14	80	15
15	110	14	Cash and cash equivalents at 31 March	80	15	48
			CASH BALANCES IN THE BALANCE SHEET			
15	110	14	Cash and cash equivalents	80	15	48

WAIPA NETWORKS LIMITED
PERFORMANCE TARGETS AND OTHER MEASURES
FOR YEAR ENDED 31 MARCH

2016/17	2017/18	2018/19		2019/20	2020/21	2021/22
			Financial Performance Indicators			
9.12%	5.01%	4.87%	Net Surplus before interest expense and tax as a percentage of total assets	5.6%	5.2%	5.3%
12.97%	4.31%	4.38%	Net Surplus after tax as a percentage of Equity	5.6%	5.1%	5.1%
59.83%	60.07%	59.54%	Ratio of Equity to total assets	55%	55%	55%
			Cost Performance Measures:			
$165	$173	$208	Maintenance costs per electricity customer	$210	$210	$210
$85	$85	$104	Operational expenditure per electricity customer	$100	$100	$100
			Energy Delivery Performance Measures:			
5.45%	5.09%	5.48%	Loss ratio	6.5%	6.5%	6.5%
			Energy Reliability Performance Measures:			
11.5	11.0	10.8	Faults per 100km lines (11kV)	10.8	10.8	10.8
204	217	168	SAIDI (minutes per customer)	237	236	235
1.86	1.81	1.37	SAIFI (interruptions per customer)	2.36	2.35	2.33
			Staff Safety			
8.8	8.7	8.1	Lost Time Work Accidents per 100 employees	0	0	0
1,206	504	748	Total hours lost per annum	0	0	0
1.15%	0.47%	0.68%	Percentage of hours lost per annum	0.0%	0.0%	0.0%

Definitions
SAIDI the system average interruption duration index
SAIFI the system average interruption frequency index