



OUR PEOPLE | OUR POWER

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1 Introduction

This Statement of Corporate Intent (SCI) is submitted to the CHB Consumers Power Trust (the Shareholder) by the Board of Directors of Centralines Limited (the Company) and sets out the Board's overall intentions and objectives for the Company for the financial year ended 31 March 2017 and the two succeeding financial years.

The SCI is submitted in accordance with the provisions of Sections 39 and 40 of the Energy Companies Act 1992.

Centralines is a consumer owned Company. 8,000,000 Shares have been issued and are owned by the CHB Consumers Power Trust, the beneficiaries of which are the consumers connected to the Company's distribution assets as defined in the Trust Deed.

This statement represents the Directors intent to ensure the Company will operate as a successful business.

2 The Company's Mission is:

- ☐ To provide, a safe, efficient and reliable electricity network that meets the needs of consumers.

3 Principal Objectives

The Company, through a focus on service and recognition of the value of skilled staff, will strive to achieve the following objectives:

Safety

Centralines' objective is to achieve an injury-free workplace by creating a culture where each person truly believes that "safety first" is a core value, and that working safely is part of all employees' everyday activities.

Financial Performance

Centralines shall deliver sustained financial performance through sound investment policy, efficient and cost effective services, and strategic growth.

People

Centralines is committed to building an organisation that people want to be a part of. We aim to develop a performance driven culture that is guided by company values. The business must ensure that it has the appropriate number of skilled and engaged employees to deliver operational success.

Network Performance

Centralines aims to sustain and improve the level of network performance to our customers while improving emergency response through enhanced network security and safety.

Works Delivery

Centralines shall deliver its Asset Management Plan commitments to ensure the continued operation of the network meets stakeholder requirements.

Growth

Centralines is committed to exploring growth opportunities which may be incremental in nature, or green fields, and could take a number of business structures. Opportunities will be evaluated against Centralines' capabilities and higher risk appetite related to strategic growth opportunities. Diversification of income and enhanced utilisation of balance sheet strength are important.

Customer Service

Centralines aims to not only meet, but exceed customer expectations through the provision of an economic electricity network service to consumers, priced at sustainable levels, and characterised by on time, on budget, delivery. A customer driven approach is coupled with strong network performance to deliver high levels of customer satisfaction.

Community

Centralines aims to be a good corporate citizen by engaging with our customers and community to understand their needs and expectations and responding appropriately.

Compliance

Through a culture of compliance, Centralines will deliver against its legal, corporate governance and community obligations.

4 Nature and Scope of Activities to be Undertaken

Section 36 of the Energy Company's Act 1992 requires Centralines, as its principle objective, to operate as a successful business.

To achieve this, the Company is structured to provide the following services:

4.1 Network Services

This includes the maintenance and operation of the Network Assets to allow Retailers to convey electricity from the national power grid to an end customer's premises. The Company welcomes and encourages competition across its network subject to certain credit criterion for Retailers.

4.2 Electrical Contracting

This includes the undertaking of a wide range of contracting work for both the Company and for other customers predominantly within the Centralines Geographical area.

The Company will undertake these activities in a manner consistent with:

- ❑ The safe and effective utilisation of the Company's physical assets and human resources;
- ❑ The prudent management of the Company's business risks; and
- ❑ In accordance with regulatory requirements.

All activities will be carried out with the objectives of protecting and growing shareholder value.

In support of the Principle Objectives the Company will:

- ❑ Ensure a positive Health and Safety culture which encourages compliance with the Health and Safety at Work Act 2015;
- ❑ Explore growth opportunities relevant to the Company's capabilities and risk appetite;
- ❑ Assuming the Ruataniwha Water Storage Scheme proceeds, ensure the electrical infrastructure supporting the project is owned and operated by the Company;
- ❑ Under the same assumption seek direct involvement in downstream infrastructure assets which could involve generation investment, where the business case is positive;
- ❑ Encourage and facilitate distributed generation opportunities in the Central Hawke's Bay where the business case is positive;
- ❑ Understand and meet our customers' existing needs in terms of network reliability and security of supply, and meet our customers' future needs in terms of fit for purpose solutions which are also cost effective and timely;
- ❑ Ensure electricity network services are maintained and priced at sustainable levels;
- ❑ Achieve efficient Operating Costs;
- ❑ Undertake new investments on the electricity distribution network which over their lives:
 - ❑ are aimed at yielding a return at least equal to the Company's cost of capital;
 - ❑ can add to the commercial value of the Company;
 - ❑ add to the stability, safety and security of the Network; and
 - ❑ are compatible to the overall strategy of the Company.
- ❑ Maintain active participation with other lines companies and wider industry stakeholders and participants; and
- ❑ Continue to maintain and extract value from the fibre optic network.

5 Performance Targets and Measures

The following are the performance targets for the next three years ending 31 March 2019

	2014/ 2015 Actual	2015/ 2016 Actual	2016/ 2017	2017/ 2018	2018/ 2019
Safety Measures					
Number of Lost Time Injuries		0	0	0	0
Total Financial Return Measures					
(a) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed.	10.06%	10.73%	10.75%	10.95%	11.34%
(b) Net Profit after tax (adjusted for discounts) as a percentage of Average Shareholders' Funds	6.12%	6.50%	6.64%	6.82%	7.19%
(c) Network Operational Costs - per ICP (Excluding Transmission Costs and Depreciation)	\$436	\$410	\$437	\$436	\$436
(d) Network Operational Costs - per kilometre of line (Excluding Transmission Costs and Depreciation)	\$1,887	\$1,781	\$1,898	\$1,892	\$1,892
(e) Total Planned Electricity Network Capital Expenditure	\$2.23m	\$2.15m	\$1.72m	\$1.91m	\$1.90m
Reliability Measures					
The System Average Interruption Duration Index <i>SAIDI is the average length (in minutes) of interruptions for all customers that have interruptions in any one year. It includes interruptions for maintenance work but not interruptions from Transpower</i>					
	98.6	72.67	119.1	119.1	119.1
The System Average Interruption Frequency Index <i>SAIFI is the average number of supply interruptions that a customer experiences in the period including maintenance but excluding transmission (Transpower)</i>					
	2.26	1.41	3.52	3.52	3.52
Number of major (33kV) faults which result in interruptions to supply, per 100 kilometres of line per year			2	2	2

Note: new definitions for SAIDI and SAIFI were introduced by the Commerce Commission for 2015/16

6 Ratio of Consolidated Shareholders Funds to Total Assets

The ratio of consolidated shareholders' funds to total assets will be maintained for each year at not less than 60%.

"Consolidated Shareholders' Funds" means the total contributed capital, reserves and retained earnings at the end of the previous financial year.

"Total Assets" means all the recorded tangible assets of the Company as shown in the Statement of Financial Position.

7 Accounting Policies

The Directors shall cause proper accounting records to be kept that comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and that are in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). The Company's financial statements will comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. They will also comply with international Financial Reporting Standards ("IFRS") and IFRIC interpretations. For the purposes of complying with NZ GAAP, the Company is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR and will apply disclosure concessions accordingly.

8 Information to be reported to Shareholder

In addition to information required by legislation, the Company will provide sufficient information to enable the Shareholder to assess the value and performance of the Company.

Before the commencement of the financial year the Directors will deliver to the Shareholder a draft SCI in accordance with Section 39 of the Energy Companies Act 1992 and will as required by Sections 40 and 41 of that Act make any modifications required and then deliver such SCI to the Shareholder.

Within two months after the end of the first half of the financial year of the Company the Directors will deliver to the Shareholder an un-audited report of the Company's operations during that half year. This report will include such details as are necessary to permit an informed assessment of the Company's performance during the reporting period.

Within three months after the end of the financial year of the Company the Directors will deliver to the Shareholder in accordance with Section 44 of the Energy Companies Act 1992:

- ❑ Operations:
A report on the operations of the Company during the financial year.
- ❑ Financial Statements:
Audited consolidated financial statements for that financial year in respect of the Company.
- ❑ Auditors Report:

The Auditors report on

- those financial statements; and
- performance targets and other measures by which performance has been judged in relation to the objectives.

Every report will contain such information as is necessary to enable an informed assessment of the operations of the Company and including a comparison of the performance of the Company and its subsidiaries with any relevant SCI.

The Chairman will provide regular briefings to the Shareholder on all material matters and the Company will provide further information as the Shareholder may require in order to properly undertake its duties and to act as a diligent trustee shareholder.

9 Dividend Policy

The Company will pay an annual dividend of at least \$100,000 to the CHB Consumers Power Trust.

10 Extraordinary Capital Expenditure

Electricity Network Capital Expenditure is commensurate with clause 3 and is not extraordinary by definition.

11 Projections

The financial forecasts in the SCI for the period 1 April 2016 to 31 March 2019 have been prepared for the purposes of this document and may not be appropriate for other purposes. The actual results for any period are likely to vary from the information presented.

12 Discount Policy

The Company's policy is to distribute to the consumers each financial year funds surplus to the investment and operating requirements of the Company as determined by Directors, subject to:

- ❑ The solvency provisions of the Companies Act 1993;
- ❑ Any banking or other funding covenants by which the Company is bound from time to time;
- ❑ The forecast economic conditions in which the Company is expected to be operating; and
- ❑ The Company's efficient capital structure and future funding requirements.

The target pay-out for the next three years is 10% of gross line revenue. If the Company decides not to pay the full discount, the company will provide an explanation to the Trust

13 Acquisition Procedure

No acquisition by the Company of shares or assets in another company or organisation, the value of which exceeds 5% of the Share Capital of the Company (other than in the course of a re-organisation, reconstruction, merger etc as defined in Clause 9.9 of the Trust Deed) shall be undertaken without prior Shareholder approval.

14 Disposal of Assets

No assets will be disposed of other than in the normal course of business without consultation with the Shareholder. Before any assets are transferred to a subsidiary company the Directors will consult with the Shareholder.

15 Reserves

In accordance with the long term strategic plan, the Company has committed to a capital expenditure programme, however, borrowings will not be required for core network activities within the period of forecast of this Statement.

16 Investments

The Company will make prudent investments with minimum risk to an appropriate level from time to time having taken provisional advice and in accordance with the company's Investment Policy. The Company shall keep the Trust informed of any surplus funds and investments.

17 Reserves for Investment

The company will keep the Trust updated on any reserves held for capital projects, e.g. Ruataniwha Water Storage Scheme.

18 Extraordinary dividends

An extra ordinary dividend will be discussed with the Trust, if the reserve funds referred to in Clause 17, are not required by Centralines in the foreseeable future.

19 Community Contribution

The Company acknowledges a role in contributing to significant Community activities as shall be mutually agreed upon from time to time by the Company and the Trust. The Company's policy is to sponsor community activities within an annual target of \$100,000. The Company shall provide a list of organisations to which they provide sponsorship as part of the Chairman's quarterly update to the Trust.

20 Relationship with the Shareholder

The Company will make available facilities and resources for the operation of the CHB Consumers Power Trust.

The Company will supply to the Trust within a reasonable time of receiving a written request the name and address of each consumer as defined by the Trust Deed.

The Company will meet with the Trust at not more than six monthly intervals to discuss matters of mutual interest.



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J Nichols
CHAIRMAN

29/6/16
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Date