

A photograph of three workers in orange safety gear. The worker in the foreground is wearing an orange helmet with a clear visor and a communication system, looking slightly to the right. Behind him, another worker in an orange helmet and sunglasses is visible. To the right, a third worker is wearing a white hard hat. They are all wearing orange high-visibility work shirts with reflective silver stripes. The background is a blurred industrial setting.

Northpower

Statement of Corporate Intent  
FY2020 – FY2022

|                                 |                       |  |
|---------------------------------|-----------------------|--|
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| Prepared by:<br>O O'Neill       | Date:<br>13 June 2019 | Signature:<br> |
| Recommended by:<br>A McLeod     | Date:<br>13 June 2019 | Signature:<br> |
| Approved by:<br>N Davies-Colley | Date:<br>13 June 2019 | Signature:<br> |



Northpower Limited  
28 Mount Pleasant Road  
Whangarei  
New Zealand

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# Contents

|   |    |
|---|----|
| Foreword.....   | 5  |
| Introduction .....  | 8  |
| Our Context.....  | 8  |
| Corporate Objectives .....  | 8  |
| Scope of Activities.....  | 8  |
| Subsidiaries.....   | 8  |
| Our Key Performance Indicators .....  | 9  |
| Financial KPIs .....  | 9  |
| Non-Financial KPIs .....  | 9  |
| Policy and Procedure Statements .....   | 11 |
| Accounting Policies.....  | 11 |
| Dividend Policy .....   | 11 |
| Capital Ratio Policy.....   | 11 |
| Significant Transaction Policy.....   | 11 |
| Matters Required by the Companies Act 1993 and the Energy Companies Act 1992..... | 11 |
| Half Yearly Report.....   | 12 |
| Annual Report.....  | 12 |
| Related Party Transactions.....   | 12 |
| Annual Planning .....   | 13 |
| Quarterly Reports.....  | 13 |
| Further Information .....   | 13 |



# Foreword

Northpower's networks are pivotal in connecting our communities. Our electricity networks connect customers with essential energy markets, and our fibre networks connect customers locally, regionally and globally. Maintaining the integrity and performance of these networks is essential to support prosperity and growth in our region.

Our other business interests, in particular our contracting business, bring scale, diversity, and a strong financial contribution to Northpower's business portfolio. Having businesses with a cash earning orientation compliments network ownership and gives us financial flexibility. This is important as we move to lift investment in our core network assets, to ensure our networks, our staff and our business activities make the strongest possible impact on Northland into the future.

As Northpower looks to the future, we recognise that the industries in which Northpower operates are in a period of change and transition, and it is during such periods that strong governance is critical. It ensures we remain focused on the things that matter most to our consumer owners, and bring appropriate challenge and depth of discussion as we position Northpower for the future. This SCI represents a critical element of Northpower's governance framework.

This SCI is just one element of the robust governance process that operates between the elected Trustees of Northpower, who define the desired outcomes to be achieved by Northpower on behalf of its consumer owners, and the Northpower Board who set strategic direction, guide and oversee business performance, and set the practical frameworks for managing risk and shareholder return. They are distinct and valuable roles, and in combination have served Northpower well in developing and building its contribution to Northland.

Over the past 12 months, the Trust and Directors have continued to engage on material issues facing the company, including long-term matters affecting Northpower's business strategy. Directors also acknowledge the Letter of Expectation received in February 2019. These substantive matters include:

- Actively planning the development of our electricity network to cater for alternative energy sources;
- Ensuring our customers have access to and benefit from new energy and communication technologies;
- Ensuring resilience, reliability and safety around our networks with focus on appropriate asset management processes;
- Managing the rebalancing of consumer tariffs in a fashion that does not create undue hardship;
- Communicating regularly with Trustees on regulatory issues that have material potential impacts;
- Securing additional value for consumers, where there is close linkage to our core businesses.

In line with these discussions, over the next ten years Northpower will invest nearly \$200m in our electricity networks as we move to ensure they are safe, resilient and support regional growth and emerging technologies. Northpower will also continue investment in our fibre networks to bring high speed connectivity to smaller rural communities.

The investments we will make will be funded as much as possible from the returns we are generating from our existing operations, and the sharp commercial focus required to achieve this is reflected in the targets in this document.

Our goal is to achieve predictable financial returns, reduce the cost of delivered energy via posted discounts and maintain investment in assets that bring value to our community.

# Why we exist

## OUR PURPOSE

To improve  
accessibility,  
opportunity and  
prosperity for the  
people and  
communities we serve

A nighttime photograph of a cityscape with lights reflecting on a body of water. The lights are warm and yellow, creating a bokeh effect. The water is dark, and the reflections are clear. The background is a dark blue night sky.



# Introduction

This Statement of Corporate Intent (“SCI”) sets out the background, overall intentions and objectives for Northpower Limited and its subsidiaries (“the Northpower Group” or “the Group”) for the period ending 31 March 2021.

## Our Context

### Corporate Objectives

The principal objective of the Northpower Group is to operate as a successful and sustainable business for the benefit of its shareholders, the electricity consumers of Kaipara and Whangarei.

To be successful and sustainable the Group will focus on improving performance across all aspects of the business while ensuring shareholder value is enhanced. In pursuing Northpower’s objectives, our business activities will be guided by the following principles:

- Demonstrate safety leadership and performance in all areas that we operate;
- Drive sustainable financial performance; and
- Ensure that our stakeholders benefit from effective and reliable network infrastructure ownership and operation.

### Scope of Activities

The scope of activities undertaken by the Group includes:

- Ownership and operation of electrical and fibre distribution networks;
- The supply of network and operations services for the distribution and transmission of electricity and communications; and
- Provision of design, construction, maintenance and professional services for electricity and fibre networks.

The Group will consult its shareholders before entering any new markets or business activities that significantly alter/affect the Group’s risk position. Further, the Group will promptly report to shareholders on any transaction(s) that could materially impact the Group’s risk exposure.

### Subsidiaries

Northpower Fibre Ltd is a joint venture company in which Northpower Ltd currently holds 64% shares (as at 31 March 2019) in conjunction with Crown Fibre Holdings Ltd, and the Minister of Finance holding one special share. Northpower Ltd has the option to buy out any remaining Government shares in 2020. Northpower Fibre Ltd provides ultra-fast broadband (“UFB”) services in our network area.

Northpower Local Fibre Company 2 (“LFC2”), established in 2017, is the company responsible for the ultra-fast broadband build to twelve additional towns in Northpower’s network area under the Government’s UFB2 initiative,

Northpower Solutions Ltd will be amalgamated into Northpower Ltd during FY20.



## Our Key Performance Indicators

Northpower continues to invest significantly in its networks (electricity and fibre). Additional essential capital investment in our electricity network is planned over the next 10 years, as well as lifting the level of investment in our fibre networks via share buyback from the Crown, relating to the original rollout and direct investment in areas currently being reticulated.

The following Key Performance Indicators (KPIs) set our anticipated financial performance for the year ending 31 March 2020, as well as a representative view of the projected financial performance of the Northpower Group over the planning period to 2022.

### Financial KPIs

|  | 2019-20  | 2020-21  | 2021-22  |
|--|----------|----------|----------|
| <b>Northpower Group</b>                                |          |          |          |
| Net Profit After Tax/ Shareholders' Funds <sup>1</sup> | ≥4.8     | ≥5       | ≥5       |
| Capital Ratio  | 55       | 55       | 55       |
| Debt Coverage Ratio (Total Debt)/(EBIT)                | ≤4.5x    | ≤4.5x    | ≤4.5x    |
| Dividend equivalent (posted discount plus dividend)    | ≥\$10.9m | ≥\$10.9m | ≥\$12.3m |

### Non-Financial KPIs

Non-financial KPIs reflect principle business drivers in the areas of safety, network reliability and customer satisfaction.

|   | 2019-20 | 2020-21 | 2021-22 |
|---|---------|---------|---------|
| <b>Safety</b>   |         |         |         |
| Lost Time Injuries (LTIs)                                   | 0       | 0       | 0       |
| Total Recordable Injury Frequency Rate (TRIFR) <sup>2</sup> | ≤8      | ≤6      | ≤6      |

<sup>1</sup> NPAT/Shareholder' Funds excludes the impact of fair value adjustments.

<sup>2</sup> TRIFR: Number of Lost Time Injuries (LTIs) + Medically Treated Injuries (MTIs) + Restricted Treatment Injuries (RTIs)/(hrs worked x 1,000,000 hrs).

|   | 2019-20                | 2020-21 | 2021-22 |     |
|---|------------------------|---------|---------|-----|
| <b>Northpower Electricity Network</b>               |                        |         |         |     |
| Network Interruptions (SAIDI minutes <sup>3</sup> ) | - Planned <sup>4</sup> | ≤80     | ≤80     | ≤80 |
|   | - Unplanned            | ≤90     | ≤90     | ≤90 |
| Average number of faults per 100 km <sup>5</sup>    | ≤10                    | ≤10     | <10     |     |
| Network interruptions (SAIFI) <sup>6</sup>          | ≤2.5                   | ≤2.5    | ≤2.5    |     |
| Customer Satisfaction (Residential) <sup>7</sup>    | ≥85%                   | ≥85%    | ≥85%    |     |
| Customer Satisfaction (Commercial)                  | ≥85%                   | ≥85%    | ≥85%    |     |

|  | 2019-20   | 2020-21           | 2020-22           |                   |
|--|-----------|-------------------|-------------------|-------------------|
| <b>Northpower Fibre Network</b>                      |           |                   |                   |                   |
| Network availability (Max downtime)                  | - Layer 1 | ≤120 min          | ≤120 min          | ≤120 min          |
|  | - Layer 2 | ≤30 min           | ≤30 min           | ≤30 min           |
| Faults (Max downtime)                                | - Layer 1 | 99% within 48 hrs | 99% within 48 hrs | 99% within 48 hrs |
|  | - Layer 2 | 99% within 12 hrs | 99% within 12 hrs | 99% within 12 hrs |
| Service level performance (Residential) <sup>8</sup> | ≥95%      | ≥95%              | ≥95%              |                   |
| Service level performance (Commercial)               | ≥95%      | ≥95%              | ≥95%              |                   |

<sup>3</sup> SAIDI: System average interruption duration index – the average duration of interruptions to supply consumers on average in the year.

SAIDI =  $\frac{\text{Sum of (number of interrupted consumers x interruption duration)}}{\text{Average number of connected consumers}}$

<sup>4</sup> Planned interruptions (SAIDI minutes) target has been reduced to align with Northpower AMP and regulatory targets.

<sup>5</sup> Faults per 100km: a fault is classified by the Commerce Commission as “a physical condition that causes a device, component or network element to fail to perform in the required manner”. The measure calculates the faults per 100km averaged for all voltages.

<sup>6</sup> SAIFI: System average interruption frequency index is the average number of interruptions to supply experienced by consumers.

<sup>7</sup> Customer satisfaction is measured via an annual survey, and measures overall satisfaction with the services we provide.

<sup>8</sup> Service level performance measures the percentage of customers connected within target timeframes.

# Policy and Procedure Statements

## Accounting Policies

The Group's accounting policies will comply with the legal requirements of the Companies Act 1993, the Financial Reporting Act 1993 and will be consistent with generally accepted accounting principles. Financial Statements will comply with New Zealand equivalents to International Financial Reporting Standards and other applicable financial reporting standards as appropriate for profit-oriented entities.

## Dividend Policy

The Group will distribute to its shareholder all funds surplus to the investment and operating requirements of the Group. The estimated dividend to the shareholder in FY20 is \$0.8m, subject to the solvency requirements of the Companies Act 1993, the maintenance of the minimum capital ratio specified below and meeting the investment needs of the Group. In addition, consumers will receive a posted discount estimated at \$10.2m in FY20, providing a total distribution of \$11.0m by way of dividend to the shareholder and posted discount to consumers.

## Capital Ratio Policy

The ratio of shareholders' funds to total assets (capital ratio) will be maintained at greater than 55 percent. The capital ratio for the next three years is as set out in the Key Performance Indicators ("KPIs") and takes into account projected capital needs and minimum dividend payments as set out in the Dividend Policy.

Total assets of the Group will comprise all the recorded tangible and intangible assets at their current book value as defined in the Group's Statement of Accounting Policies.

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

## Significant Transaction Policy

As a general policy, any proposed share investment by the Group will be required to meet the same financial criteria as any significant capital expenditure. In addition, the questions of control and risk will be addressed.

All share investment proposals will be considered by the Group's Board of Directors. For acquisitions that reduce the Group's ratio of Consolidated Shareholder Funds to Total Assets below 50%, recommendations will be made to the shareholder who will make a decision in respect of such acquisitions.

# Matters Required by the Companies Act 1993 and the Energy Companies Act 1992

The Group will provide information to its shareholder, the Northpower Electric Power Trust ("NEPT" or "shareholder"), in accordance with the requirements of the Companies Act, Energy Companies Act and other relevant legislation.

## Half Yearly Report

A half yearly report will be delivered to the Group's shareholder within three months after the end of each half of the financial year covering the operations for the half year period including performance against the metrics defined in the SCI.

## Annual Report

An annual report will be delivered to the Group's shareholder within three months of the end of each financial year and will comprise:

- (i) A report from the Directors covering the operations for the year;
- (ii) Audited consolidated financial statements for the financial year in respect of the Group; and
- (iii) Auditors' report on the financial statements and the performance targets (together with other measures by which performance of the Group has been judged in relation to the Group's objectives).

## Related Party Transactions

Sales and purchases from related parties are made on commercial arm's length terms.

Northpower does not propose any transactions with any related party, except as set out below. The following support services will be provided to Northpower Fibre Limited and LFC2, including the following as required:

- (i) Treasury and accounting services;
- (ii) Human resource management services;
- (iii) Health and safety management services;
- (iv) Specialised technical and/or construction services;
- (v) Operation and maintenance services; and
- (vi) Information systems services.

## Additional Information to be Provided

### Annual Planning

Early engagement between the shareholder (NEPT) and the Northpower Board of Directors supports the development of the annual SCI and strategic plan.

The draft SCI will be delivered to NEPT within one month of the end of each financial year.

A summary of the Northpower Group annual strategic plan and risk appetite framework will be provided to NEPT within one month of the start of the new financial year.

### Quarterly Reports

The Group will provide quarterly reports to the Group's shareholder within two months of the end of the quarter, which will comprise divisional level reporting of the financial performance for the period.

### Further Information

It will be possible for the shareholder to request further information or reports from the Directors where the information relates to matters affecting shareholders and the value of their investment in the Company.

The Chairman and Chief Executive will provide regular briefings to NEPT on all material matters and will ensure that they are provided with the appropriate information, including providing information relevant to material adjustments of electricity network pricing tariffs.