Statement of Corporate Intent

2018 – 2019

The Lines Company Limited and Subsidiaries

thelines company

Statement of Corporate Intent 2018/2019

1.0 Overview

This Statement of Corporate Intent:

1. Documents the level of performance for the 2018/19 financial year[i] to be presented from The Lines Company Limited ("TLC" or "the Company") to the Waitomo Energy Services Consumer Trust ("WESCT" or "the Trust")
2. Is prepared in accordance with Section 39 of the Energy Companies Act 1992 ("the Act")
3. Is consistent with TLC's 2018/19 – 2027/28 Ten Year Financial Plan

2.0 About The Lines Company

2.1 Company Profile

TLC's core business is the ownership, maintenance and operation of an electricity distribution business predominantly located in the King Country and Ruapehu regions of New Zealand.

TLC is 100% owned by WESCT, a consumer trust governed by up to six trustees. Three trustees are elected by customers within a gazetted area (Hangatiki and Whakamaru) who then appoint one further trustee. Major customers within the Hangatiki and Whakamaru area also elect two trustees. TLC is committed to growing the value of the Group, for the long term benefit of WESCT, while at the same time distributing profits through dividends or/and discounts to beneficiary customer accounts – a total of $53 million since 2008.

TLC's Head Office is located in Te Kuiti with operational depots in Te Kuiti, Taumarunui, Turangi, Ohakune and Mangakino. The Group has four distinct business units – Network, Metering, Generation and Network Services.

2.2 Customers

TLC has approximately 18,500 'on-network' customers; 23,700 points where our customers are connected to our network. TLC's network is unique when compared to many other New Zealand Network companies in that there is no, large urban centres, few major customers and a large amount of holiday homes as illustrated in Table 1.

TLC's core focus is on keeping our customers connected. Historically the focus has been on providing a reliable supply of electricity however TLC recognise that the connection to our customers', and our community, needs to be stronger. In order to strengthen out ties we have implemented a number initiatives to bring us closer to our customers and our customers closer to us.

Consumer group	Connection point
Accommodation	220
Commercial	2,505
Dairy	450
Farming	2,723
Holiday Home	3,698
Major	96
Residential	14,008
Total	**23,700**

Table 1: TLC ICP as at 31 March 2017

In addition to Network customers, TLC has a number of customers throughout New Zealand supported by TLC's metering business (FCL) as well as a retail customer that received the energy from our Generation portfolio.

2.3 Network

TLC's Network business provides an electricity distribution service to some 23,700 customer connection points – successfully delivering approximately 381 GWh of electricity per year. The distribution area covers 13,700 km^2 and is one of the largest network areas in New Zealand that has no major urban centre (see Figure 1). TLC specialises in providing electrical capacity to rural and sparsely populated areas, including to the highest points in the North Island of New Zealand (the Turoa and Whakapapa ski fields on Mount Ruapehu). TLC's network has a regulated asset value (RAB) of $184million.

Figure 1: Geographical area within which network assets are located

The key metrics of the network business are listed below – note that all figures are from the Information Disclosure year 31 March 2017:

Line and Cable length (All voltages):	4,347km
Asset Regulatory Value:	$184,138,000
Distribution Transformer capacity:	252 MVA
Connected customers:	23,691 (Ave. for disclosure year)
Growth in connected numbers over the last year:	96
Any time Max Demand:	81 MW
Energy transported (Energy Delivered)	381 GWh

Table 1: TLC Information Disclosure Key Statistics – 31 March 2017

2.4 Metering

Financial Corporation Limited (FCL) is a wholly owned subsidiary of TLC and represents the Group's metering interests. FCL owns both On Network meters (meters on the TLC Network) and Off Meter networks (which exist on non TLC networks) where FCL derives income from electricity retailers and some industrial sites throughout New Zealand. FCL owns a 36% share in Embrium Holdings Ltd – a Network data acquisition business based in Wellington.

2.5 Generation

TLC operates and maintains three hydro generation sites – these are either wholly owned, or owned in partnership with landowners. Two generation sites (Speedys Road and Mangapehi) are in TLC's network area while one site is located at Matawai near Gisborne.

The key metrics of the generation business are listed in Table 2.

	Mangapehi	Speedys	Matawai
Annual expected Output	5.2GWh	8.6GWh	7.0GWh
Head	106m	42m	153m
Capacity	1.6MW	2.0MW	2.0MW
Distance from Te Kuiti	27km	52km	358km
Catchment area	53.9km^2	120.7km^2	43.3km^2
Ownership	100% TLC	75% TLC 25% Landowner	100% TLC

Table 3: Key Hydro Generation Business Metrics – 31 March 2017

These generation sites are "run of the river" (i.e. no hydraulic storage) hydroelectric plants. The output is dependent on rainfall in the catchments that supply the Intake Rivers. Ongoing improvements continue to be made on plant and equipment in order to optimise generation output and ensure reliability of supply.

2.6 Network Services (Contracting)

TLC has a wholly owned power systems field services unit. Network Services primarily supports the network (approx. 85% of the work is internal) as well as providing connection and technical services to customers. The business unit employs approximately 62 staff who provide fault response, connection services, asset construction and maintenance support for both the Network and select industrial sites. In addition to in-house teams, Network Services also engage key service providers for vegetation management (arborist services) and major construction projects.

2.7 Our Staff

TLC employs 145 people across the Company – with approximately 125 staff living within the TLC network. With 14 staff within FCL and 2 supporting Generation, the majority of staff are focused on maintaining and supporting both our network and customers. TLC employs a very competent and professional workforce with over 80% of our staff either technically or professionally qualified.

3.0 Our Business Context

The electrical industry in New Zealand is poised for significant change in the near future driven by factors such as the uptake of Distributed Energy Resources (e.g. photovoltaics, battery storage etc), increasing consumer engagement, projected growth of electric vehicles and an 'end-to-end' Government review of the electricity sector– to list a few.

TLC faces more specific challenges as the Company operates one of the most complex and demanding electricity networks in New Zealand. Its key characteristics include:

- A relatively long circuit length (12th out of 29[ii] EDB's in terms of the length of network) and no large urban centres, resulting in a low customer per km ratio (ranked 26th)
- Sparsely populated, with long lines in rugged terrain, and few alternative supply options
- Large unpredictable industrial loads, and embedded hydro generation
- A customer mix (and need) that is widely varied, being a mix of high-value primary sector industry, dairy farming, a relatively low proportion of traditional residential customers, and a high proportion of tenancy or holiday- based accommodation.

To address the geographic and customer characteristics, TLC's network has a unique asset configuration, which includes:

- Access issues with only a few lines near roadsides and many across rugged mountainous terrain

- A large number of Single Wire Earth Return (SWER) systems (approx. 20% of our lines)
- Significant areas supplied directly from major Waikato generation plants bypassing Transpower grid exit points (GXP)
- A number of hydro generators connected to the distribution network
- Long lengths of 33kV network providing sub transmission
- Long lengths of privately owned 11kV lines, often in remote rugged country
- Many lines with low mechanical strength, with close conductor spacing and long spans.

The majority of the distribution network operates at 11kV and is characterised by long rural feeders across terrain that is difficult to access. As such is it prone to a higher level of interruptions than typical, given its size. Operating a network with these characteristics sees a constant balancing of maintaining a safe and reliable supply against the cost of doing so.

13,700km^2	4,347km	34,323	18,289
Area Covered	Lines & Conductor	Power Poles	Customers

In 2013 TLC launched a meter renewal program to update all metering stock with the objective of improved data accuracy and flexibility. By the end of the 2017 all installations had been visited at least once and 89% of the existing meters have been changed. Those meters that haven't been changed are a result of either technical issues (e.g. lack of physical space on the switchboard, the quality of the house wiring etc) or the owners' refusal to allow TLC to replace the current meter. TLC continues to work toward the goal of having all On Network meters updated.

TLC's hydroelectric generation assets continue to operate with high reliability and generate a solid revenue stream, however having no storage, generation is dependent on river flows and revenue is subject to significant seasonal fluctuations. Major refurbishment work has been completed with no material investment expected over the short term. The refurbishment of the Mangapehi penstocks is provisionally budgeted for 2022/23.

In early 2017, TLC began an external review of the customer pricing methodology. The brief was to review the current structure in terms of equity, simplicity and transparency for customers on TLC's network. Toward the end of 2017 a decision, in consultation with the community, had been made to move to a 'Time of Use' based pricing method which will be implemented in 2018.

TLC's prices and quality are regulated by the Commerce Commission to provide consumer protection and a fair rate of return. The revenue that TLC is entitled to secure must be in line with TLC's investment in the network and the funding needs of the business. Currently TLC secures only 88.5%[iii] of the revenue allowed by the Commerce Commission, resulting in customer prices that are lower than what could be charged – a decision that has been made the Company and driven by customer affordability within the region.

A summary of the current and emerging challenges for TLC is listed below, along with a description of how TLC has begun to address these challenges over the last 12 months.

	CHALLENGE	HOW TLC IS ADDRESSING
Customer and community engagement	TLC does not have a strong brand within the community and, historically, TLC's reputation has been defined by its pricing methodology. The evolution of technology and the rise of the 'prosumer' means that having strong relationship with customers and communities is more important than ever.	*TLC now actively seeks community and customer consultation - on topics from brand improvement to pricing methodology. A new Time Of Use pricing methodology that is simple, transparent and more equitable will be implemented on 1 October 2018. Community sponsorship is now more focused and will include the establishment of an energy efficiency trust in 2018.*
Safety Leadership	The Health and Safety at Work Act (2015), sets an expectation that businesses move from a compliance to a proactive safety culture.	*An external review comparing TLC H&S practices against industry peers has been completed. A two-year roadmap has been developed which will enable TLC to work toward industry best practice.*
Cost effective Network service delivery	TLC has an aging asset base that is spread across a wide geographical area. TLC is focused on maintaining network reliability at the least possible life cycle cost which remains challenging with an aging asset and a low population base.	*TLC has revised the asset management planning process with a view to optimising risk, cost and customer experience. In addition, there are a number of business-wide improvement initiatives in place to improve operating costs.*
Major customer uncertainty	TLC has 12 large customers (high demand, industrial sites) within the Network. The future of some key customers remains uncertain. In addition, there is the possibility of significant changes to expected loads which could require additional capital expenditure.	*TLC has strengthened our relationship and commercial engagement with key customers with a view that TLC works toward supporting business growth within the region.*
Emerging technologies	The emergence of new technology such as photovoltaics, battery storage, smart in-home devices, electric vehicles and digital trading platforms, to name a few, has the potential to significantly change the industry and TLC's business activities.	*TLC is involved in a number of technology initiatives from a solar trial through to real time data acquisition and monitoring of Network information. In 2017, TLC was awarded EECA funding to support the rollout of Electric Vehicle charging units at accommodation destinations throughout TLC's network.*

	CHALLENGE	HOW TLC IS ADDRESSING
Changing compliance landscape	Because of our shareholding structure, TLC must adhere to strict compliance requirements. The legislative landscape is subject to regular change – more recently, the commitment from the new Government to review the electricity sector.	*TLC, both directly and through industry representatives, monitors the compliance landscape and considers the implications for both the business and the shareholder.*
Effectively leverage subsidiaries	TLC has invested in complementary subsidiaries, however the full synergist value of these subsidiaries has yet to be fully realised. Investments in technology entities, such as the FCL metering business, that operate in a competitive and dynamic market present both a risk and an opportunity to TLC.	*An agreement has been signed between FCL and Embrium Holdings for the exclusive distribution rights to their technology. Joint sales and business development initiatives are beginning to yield benefits especially with niche electricity retailers.*
Investment in systems and processes	TLC's systems and processes require updating and investment in order to meet the requirements of an evolving business.	*TLC's new customer management system will go live in 2018. In addition, a number of process improvement programmes are in place – especially in the Network development and operations area.*
Retaining and recruitment of effective staff	TLC requires a proficient, motivated and professional staff. The challenge of low unemployment together with physical remoteness makes the retention and recruitment of staff challenging.	*TLC is refining our recruitment and onboarding process, together with building our employment brand. In addition, TLC reviews competencies and resource requirements against our strategy – and aligns training and recruitment accordingly. Where practical, TLC seeks to employ staff from within the region.*

4.0 Our Future

4.1 Strategic Framework

In 2017, TLC developed a robust strategy to deliver long-term financial vitality and viability for our shareholder in the face of rapidly changing customer expectations and an evolving energy landscape – the fundamental building blocks of which are outlined in Figure 2. The strategy provides the foundation and direction that TLC needs to best serve our customers now and into the future.

The strategic plan positions TLC to become a different business in the future and takes into account our responsibilities to our customers and community as well as the changes transforming our industry — increasingly sophisticated Network requirements, greater dependence on technology, third parties entering the market and the importance of Network data and analytics.

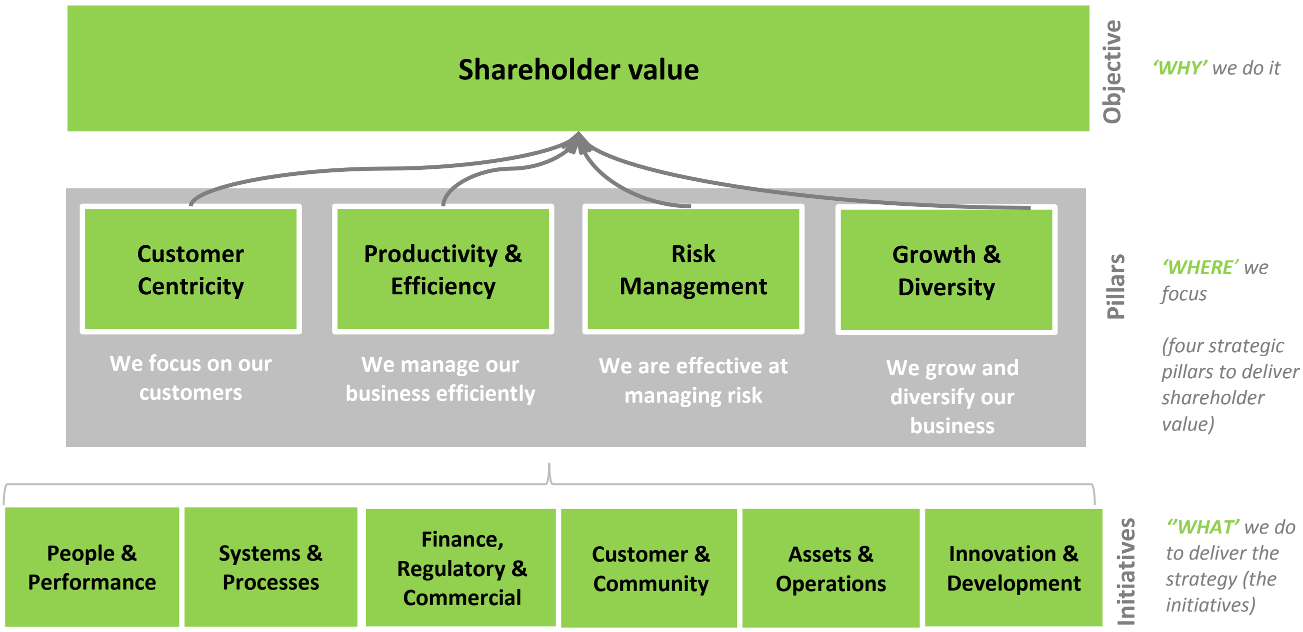

Figure 2: TLC's Strategic Framework

4.2 Organisational Values

Underpinning TLC's strategy is a new set of organisational values that have been defined and rolled out within the Company. Supporting these values are a set of behaviours that outline how the people within TLC are expected to act with their colleagues, customers and community. These values are:

Keep Well

Health and wellbeing comes first.
Act safely.
Protect those around us.

Be Awesome

Innovate and bring ideas to life.
Punch above our weight.
Embrace change positively.
Exceed expectations.

Be Proud

Work hard to get the job done.
Make a difference.
Celebrate our expertise.
Embrace our unique community.

Own It

Be responsible for our actions.
Take ownership from start to finish.
Deliver on promises.
Overcome challenges.

Figure 2: TLC's Values

4.3 Key Strategic Pillars

Since implementing this strategy in late 2017, TLC has achieved a number of early milestones to become a more efficient, dynamic and customer focused organisation. Key aspects of the strategy are now in execution with a strong orientation toward improving the way in which we deliver our service while sustaining, and then growing, shareholder value.

The key strategic initiatives for 2018/2019 are:

CUSTOMER CENTRICITY	**Time of Use Pricing**	Implement a revised pricing methodology to support greater transparency, simplicity and equity in October 2018. Provide customers with the information, education and tools to be able to benefit under a Time Of Use pricing methodology.
PRODUCTIVITY & EFFICIENCY	**Organisation structure & Role Definitions**	Review the business structure, roles and role definitions within the business and the implementation of any changes.
	Asset Management Planning & Execution	Implement the revised ten year asset management plan for the Network. Further refine the asset management methodology, including planning for alternative technology.
RISK MANAGEMENT	**Risk Management Framework**	Define and then implement a risk management framework that defines the organisation's risk appetite through to identification, management and mitigation of critical risks.
	Health & Safety Roadmap	The implementation of the Health and Safety Roadmap for TLC that focuses on organisational culture, safety leadership, critical risk management, health & wellbeing and systems & structure.
GROWTH & DIVERSITY	**Commercial Agreements & Key Account Management**	Review and refresh key commercial contracts and establish a 'key account management' process for existing and new major customers to help support regional growth (e.g. the Hangatiki substation capacity upgrade).
	Metering and Data Services	Expand our meter data services both On and Off Network through FCL.

4.3.1 Time of Use Pricing – A Significant Business Change in 2018

In 2018 TLC will change its charging methodology from its current demand-based approach to a consumption-based Time of Use (TOU) system. This will see customers charged different rates for their consumption (kWh) based on the time of day the electricity is used with three different rates applied.

The Company will be implementing TOU from October 2018 – meaning that a reset was necessary utilising the current, demand based pricing methodology for the first six months of the 2018/2019 pricing period. Changing the pricing method in October will provide a greater opportunity to educate our customers about the change while transitioning during a period where customers will typically use less electricity. While some customers' bills will reduce under TOU, others will increase – the 'new' pricing method, however, will be more transparent and simpler to understand, giving customers an immediacy to control their monthly costs.

4.3.2 Asset Management Planning – Optimising Risk and Cost

Like many EDB's in New Zealand, TLC operates and maintains an aging Network with many assets operating beyond their expected service lives. With the Network investment cycle increasingly moving toward an asset replacement phase, TLC has employed a robust risk management framework to determine where capital is best spent. Investment is prioritised to address those assets that are at the highest risk of failure and greatest impact. The risk management process has identified a range of short to medium term challenges that include security of supply constraints (driven by incremental growth and asset life), safety and environmental issues and line renewal constraints. TLC is conscious that a safe and reliable electricity supply is a key enabler for regional economic growth, and our asset planning seeks to deliver improvements to support this objective. Consequently TLC is forecasting a high level of capital investment in the Network over the next two years.

Figure 3: TLC's Network Capital Expenditure Profile from 2016/17 to 2027/28

It is important to note that Network expenditure is only part of the total TLC capital expenditure.

4.3 Investment Criteria Guidelines

TLC recognises that the Company's main mission is to deliver a strong sustainable network to the greater King Country area. It is therefore willing to invest in network expansion within this geographic area at a minimum of our cost of capital in order to support community growth. Non-regulated business investments will be subjected to the following assessment elements including a premium on the appropriate industry WACC.

Individual investments will be weighted and prioritised according to their risk profile.

New investment for the 2018/19 year will be focused around:

- Network renewal
- Trialling and investigating complimentary emerging technology (e.g. electric vehicle charging units)
- Customer growth related expansion including the upgrade of Hangatiki substation
- Supporting collaboration opportunities with partner businesses
- Providing metering and related services both On and Off Network.

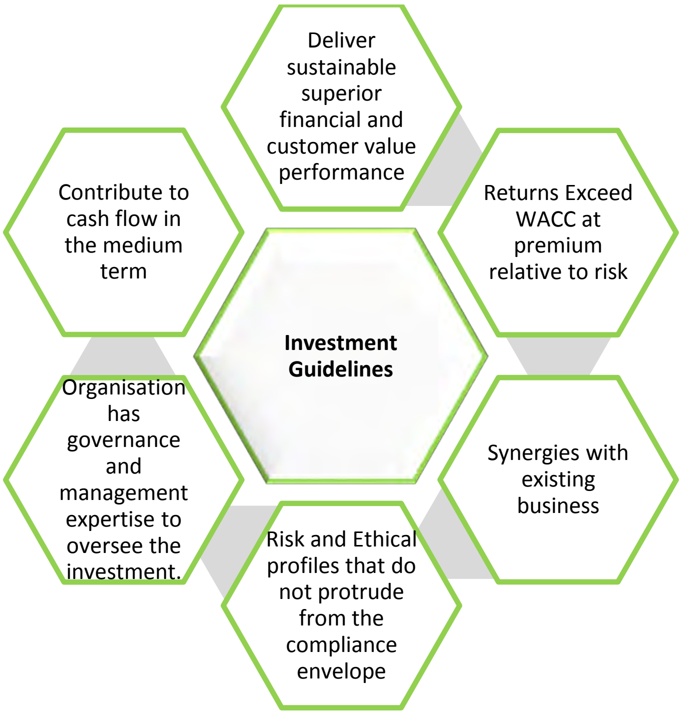

Figure 4: TLC's Investment Guidelines

4.4 Dividend Policy

The value of the dividend will be aligned with expected running costs of WESCT and consider the funds already held by the Trust. The forecast assumes that no dividend will be paid for 2018/19 with a $200,000 dividend resuming the following financial year.

4.5 Discount Policy

The Discount Policy describes the methodology to determine the value of any discounts that are periodically applied to WESCT beneficiary customer accounts.
Factors taken into account when determining the value of the discount are:

1. Level of discount granted in previous years
2. Funding required for the renewal of existing assets
3. Funding required for other Network or business investments
4. Funding required for the prudent management of debt and an efficient capital structure.
5. Any banking or other funding covenants by which the Company is bound from time to time.

Considering the five factors outlined above, in particular the high Network investment programme over the next three years, TLC proposes to pay a discount of $5.6m in 2018/19, $5.6m for 2019/20 and $5.6m for 2020/21.
It is acknowledged that any discounts are proposals only and may not occur in the event of significant unforeseen cash requirements of the company (e.g. a significant natural disaster that necessitated large emergency capital and operational cash requirements).

5.0 Financial Performance

TLC Group - All figures are in $’000s.

Earnings	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	Actual	**Actual**	**Forecast**	**Projected**	**Projected**	**Projected**
Revenue	50,148	50,298	50,027	49,256	51,025	54,283
Less Customer discounts	0	0	(5,600)	(5,600)	(5,600)	(5,600)
Net revenue	50,148	50,298	44,427	43,656	45,425	48,683
EBITDA	24,811	25,877	21,366	21,325	23,862	25,568
EBIT	13,383	14,900	10,658	10,105	12,355	13,718
Interest, net	2,658	2,807	2,807	3,045	3,207	3,115
Profit after tax	7,427	8,619	3,630	4,851	6,744	8,119
Return on average assets	3.9%	4.2%	4.7%	4.3%	4.7%	5.0%
Return - average equity	5.4%	6.2%	2.5%	3.2%	4.2%	4.9%

The projected values are on the basis that TLC has received a positive IRD ruling confirming that WESCT beneficiary discounts are treated as a reduction in taxable income. During the 2016 and 2017 years dividends of $5.0m and $5.3m respectively were paid.

Balance Sheet	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	Actual	**Actual**	**Forecast**	**Projected**	**Projected**	**Projected**
Cash	447	667	650	304	337	415
Other Current Assets	5,351	4,728	5,075	6,368	6,597	6,740
Non-current Assets	244,991	252,489	258,873	270,522	279,744	283,727
Other Financial Assets	0	0	97	97	97	97
Total Assets	**250,789**	**257,884**	**264,695**	**277,291**	**286,774**	**290,978**
Current Liabilities	12,060	10,658	10,257	9,206	8,600	8,569
Deferred Tax	48,380	49,501	46,609	47,216	47,675	48,102
Bank Loans	49,100	52,239	56,047	63,947	66,747	62,347
Sunordinated debentures and Minority Interest Loans	3,950	4,150	4,100	4,100	4,100	4,100
Shareholder Funds	137,299	141,336	147,682	152,821	159,653	167,860
Total Equity + Liabilities	**250,789**	**257,884**	**264,695**	**277,291**	**286,775**	**290,978**

Cash Flows	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Operating Cash flows	21,026	21,188	20,094	20,488	23,607	25,625
Capital Expenditure	(17,516)	(18,757)	(16,049)	(23,134)	(20,574)	(15,347)
Debt Movements, net	1,150	3,139	1,788	7,900	2,800	(4,400)
Dividends/Discounts	(5,000)	(5,300)	(5,800)	(5,600)	(5,800)	(5,800)
Loan to related party	-	-	-	-	-	-
Sale (purchase) of Investments	(50)	(50)	(50)	-	-	-
Net Cash Movement	**(390)**	**220**	**(17)**	**(346)**	**33**	**78**

It is important to note that the Forecast and Projected capital expenditure includes significant Network investment, in addition to the potential cost of a new office building (in 2020) and the completion of the roll out of smart meters across the Network. These are largely one-off capital expenditure events with projected capital expenditure expected to reduce to less than $15.5m per annum from 2021. This reduction in capital expenditure will translate directly to free cash flow - supporting debt to reduce by approximately $6.0m per year from 2023.

5.1 Performance Targets

1. Return on Average Assets

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Return	3.9%	4.2%	4.7%	4.3%	4.7%	5.0%

2. Return on Average Equity

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Return (before customer discounts)	5.4%	6.2%	6.3%	5.8%	6.8%	7.3%
Return	5.4%	6.2%	2.5%	3.2%	4.2%	4.9%

3. Debt

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Subordinated debentures	3,000	3,000	3,000	3,000	3,000	3,000
Minority Interest loans	1,200	1,150	1,100	1,100	1,100	1,100
Bank Loans	49,100	52,239	56,047	63,947	66,747	62,347
Total	**53,300**	**56,389**	**60,147**	**68,047**	**70,847**	**66,447**

4. Equity to Asset ratio: will not be less than 40%.

5. Dividends

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Dividends	5,000	5,000	200	-	200	200

The dividend paid to WESCT reduces from $5m in 2017 to $200,000 in 2018 as TLC moves to providing a distribution through a discount on beneficiary customer accounts.

6. Proposed Discounts

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
Proposed Discounts	-	-	5,600	5,600	5,600	5,600

7. Reliability

The performance target relating to SAIDI and SAIFI reliability is for TLC not to breach the reliability limits as set out in the Default Price Path Annual Compliance Statement.

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Forecast	Projected	Projected	Projected
SAIDI	191.92	251.94	233.00	230.00	230.00	230.00
SAIDI limit	234.18	234.18	234.18	234.18	234.18	tba

SAIFI	3.74	3.39	3.50	3.40	3.40	3.40
SAIFI limit	3.47	3.47	3.47	3.47	3.47	tba

The 2021 SAIDI and SAIFI limits have not yet been set by the regulator.

8. Regulated Revenues

To have a Notional Revenue to Allowable Notional Revenue ratio as set out in the Default Price Path Annual Compliance Statement of between 80% and 100%.

9. Sponsorship

To expend no more than $100,000 in sponsoring community projects .

10. Health and Safety

That there are no notifiable incidents that lead to serious harm; there is steady improvement in lost time injuries and that there is continuous improvement in health and safety culture.

5.2 Other Required Measures

Equity Ratio

This ratio is defined as total consolidated shareholder funds as a percentage of total assets where:

- Consolidated shareholder's funds comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves including revaluations, less any minority interests, plus subordinated debentures.
- Total assets comprise all recorded tangible and intangible assets of the Company valued at their carrying value, less deferred tax assets.

Accounting Policies

The Company's accounting policies will comply with the legal requirements of the Companies Act 2013 and the Financial Reporting Act 1993.

The accounting policies will be consistent with those adopted by the Company in its Annual Report to 31st March 2018, which comply with the International Financial Reporting Standards (IFRS).

6.0 Other Matters

6.1 Information to be provided to Shareholder

1. Updates will be provided on key issues.

2. Quarterly report from the Chairman/Chief Executive.

3. Half yearly reports will be delivered to the Company's shareholder within 3 months after the end of the half-year. These reports will comprise:
   - A report from the Directors covering the operations for the half year, and
   - Un-audited consolidated financial statements for the half year.

4. Annual reports will be delivered to the Company's shareholder within 3 months of the end of each financial year and will comprise:
   - A report from the Directors covering the operations for the year; and
   - Audited consolidated financial statements for the financial year; and
   - Auditor's report on the financial statements and the performance targets (together with other measures by which the performance of the Company has been judged in relation to the Company's objectives).

5. Draft Statement of Corporate Intent (SCI) is required to be delivered to the Company's shareholder within one month after the end of each financial year.

6.2 Procedures for Acquisition of Shares in Other Companies or Organisations

As a general policy, any proposed share investment by the Company 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 Company's Board of Directors. If the size of the proposal makes it a Major Transaction as defined by the Companies Act 1993, then Shareholder approval to the proposal will be sought. For transactions with a value in excess of 10% of the Company's equity, but below that required for a major transaction, the Company will, at least 10 business days prior to the Company entering into any such transaction, supply to the Shareholder a report which, in the opinion of the Directors, gives reasonable particulars of:

- The estimated size of the transaction.
- The benefits to the Company.
- The risks to the Company.
- The likely financial impact on the Company.

6.3 Transactions with related companies and local authority shareholders

The Energy Companies Act 1992 requires the Company to publish in its Statement of Corporate Intent the details of any transactions that the Company intends to enter into with any related company or any local authority that is a shareholder of the Company.

The Company's Network Services division provides services to Financial Corporation Limited, the Company's metering arm.

6.4 Procedure to Modify the Statement of Corporate Intent

The Statement of Corporate Intent may be modified by the Directors provided that they have first given the Shareholder one month to make comments on the proposed modification.

The Shareholder may also resolve, at a general meeting of the Company, to require the Directors to modify the statement. The Shareholder must have regard:

- to the requirement that the principal objective of the Company is to operate as a successful business, and the desirability of ensuring the efficient use of energy;
- to the financial accounts and other reports the Company is required to prepare under Section 44 of the Energy Companies Act 1992;
- and the Shareholder must consult the Directors.

Glossary of Terms

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
EDB	Electricity Distribution Business – a company that provides the infrastructure to supply electricity to regional/local customers
Assets	Total assets, less deferred tax assets.
Net Assets	Total assets, less current liabilities.
Equity Ratio	Shareholders Funds / Assets.
Return on Average Assets	(EBIT multiplied by the applicable tax rate) divided by ((opening Net Assets plus closing Net Assets) divided by 2).
Return on Average Equity	(Profit for the year) divided by ((Opening Shareholder's Funds plus closing Shareholder's Funds) divided by 2).
Renewals	Replacement of existing property, plant and equipment either undertaken or committed to in the financial year.
ROI	Return on Investment.
Shareholders' Funds	Shareholder's equity plus subordinated debentures.
Surplus Funds	Net cash from operating activities less any increase in net cash due to temporary changes in working capital.
WACC	Weighted Average Cost of Capital.

References

[i] TLC's financial year is for 12 months from the 1st April to the 31st of March.
[ii] "Electricity Line Business 2017 Information Disclosure Compendium" – November 2017, PwC
[iii] Based upon TLC's 2017 Default Price Path