

History of the Trust

Origin of the Trust

The Waitomo Electric Power Board was a body corporate duly constituted under the Electric Power Boards Act 1925. Government reforms of the electricity industry resulted in the Board incorporating Waitomo Energy Services Limited (the Company). Pursuant to Section 27 of the Energy Companies Act 1992, the Minister of Energy approved an establishment plan under the Energy Companies Act 1992. This plan provided for the allocation of shares to be held by Trustees.

Waitomo Energy Services Customer Trust (WESCT) was established in 1993 from Government Corporatisation. WESCT was issued 16,000,000 shares to be held by the Trustees on behalf of the customers in the District. The purpose of creating a Trust entity owning 100% of the shares in Waitomo Energy Services Limited eliminated the possibility of fragmented ownership that would have resulted, had the shares been issued to customers.

Transactions involving changes in shareholding

The original shareholding in 1993 was 16,000,000 shares held by WESCT. In September 1996, beneficial customers approved a share sell-back to the Company. WESCT redeemed 2,836,882 shares that resulted in the total shareholding being reduced to 13,163,118. The \$8,000,007 of surplus capital funds held by WESCT from this transaction was distributed to beneficial customers in December 1996.

In July 1998 the Electricity Industry Reform Act came into force and required all energy companies to separate their lines businesses from electricity generation and retailing. Under the Act, shareholders of lines companies were prohibited from owning more than a 10% shareholding in any electricity generation and retailing company.

In order to comply with the above legislation, beneficial customers approved a merger between the Company and King Country Energy Limited. Both companies were in the business of lines distribution and electricity generation and retailing. The merger resulted in the Company selling its electricity generation and retailing business to King Country Energy Limited. The Company then purchased the network (lines) business from King Country Energy Limited.

This merger transaction resulted in the Company being in the core business of a lines distribution network. The size of the Company's geographical area of the lines network approximately doubled in size after this transaction. The areas are commonly referred to as the northern and southern areas. The Company was now 75% owned by WESCT and 25% owned by King Country Electric Power Trust (KCEPT). WESCT held 9,872,340 shares.

On the other side of this merger transaction, King Country Energy Limited took over the business of electricity generation and retailing. To avoid breaching the legislation of owning no more than a 10% shareholding in any electricity generation and retailing company, WESCT distributed its excess shares held in King Country Energy Limited to its beneficial customers in 1999. WESCT retained 1,503,514 shares in King Country Energy Limited which was under the 10% legislative threshold.

The above merger transaction resulted in the Company focusing its expertise in the lines distribution network. A name change then followed from "Waitomo Energy Services Limited" to "The Lines

Company Limited” (the Company) in 1999. The Company structured itself to become experts in three business function areas; lines network, metering and contracting.

In July 2007 WESCT purchased 15% of KCEPT’s shareholding in the Company, being 1,974,468 shares for \$16,400,000. This increased WESCT’s shareholding to 11,846,808 shares in the Company. At the same time WESCT also disposed of its 1,503,514 shares held in King Country Energy Limited.

In January 2014 WESCT became the 100% shareholder of the Company.

Trust Ownership & Returns to Beneficiaries

Prior to the July 2007 acquisition of 15% from King Country Electric Power Trust, WESCT received discounts in lieu of dividends from the Company that were distributed by way of six-monthly discount credit to a beneficial customer’s account. WESCT now receives dividends from the Company. A return to beneficiaries is made by way of capital distribution paid as a credit on their TLC account. As a capital distribution, it does not include GST and is not taxable for Income Tax purposes.

The Trust reviews its ownership structure every six years. Reviews have been held in 1996, 2002, 2008 and 2014. Each review requires a poll of all beneficial customers and the outcome continues to report more than 90% of customers strongly supporting the retention of Trust ownership. Under the terms of the Trust Deed, the next review is due to be undertaken in September 2020.

Trustees

The Board consists of six Trustees, apart from the years ended 2009 and 2010 where there were only five Trustees. This situation arose due to a conflict in compliance with the Trust Deed and the 2008 amendments to the Commerce Act. At that time for a Trust to be recognised as a wholly owned Trust, all Trustees must have been elected by customers. The Trust resolved not to appoint an “appointed trustee” to avoid breaching legislation. However, an investigation concluded that WESCT was not recognised as being wholly owned (under the Commerce Act) in any event due to the election process of the “B” Trustees. Therefore, in April 2010, WESCT resolved to continue to appoint an “appointed trustee” to the Board.

The trustee election process is as follows:-

(a) **Three (3) “A” Trustees**

These three Trustees are elected by postal vote to beneficial customers. The position expires after three years which will be 30th September 2020. The “A” Trustees are Nigel Chetty of Ōtorohanga, Erin Gray of Te Kūiti and William Oliver of Te Kūiti.

(b) **One (1) “Appointed” Trustee**

The elected “A” Trustees jointly appoint this person. The current “appointed” Trustee is Janette Osborne of Waitomo. This position expires on the 30th September 2020.

(c) **Two (2) “B” Trustees**

These two Trustees are elected by major beneficial customers. The position expires after three years. Kyle Barnes of Waitomo and Peter Keeling of Te Kūiti, currently hold these positions which expire on the 31st March 2022.

WESCT and The Lines Company Limited

The Company is monitored by the Trustees on its performance as projected by the Statement of Corporate Intent that is agreed upon annually in the forthcoming year.

The Trustees appoint the Directors of the Company and monitors their performance through annual reviews. Directors are required to retire by rotation and may offer themselves for re-appointment.

The Trust does not participate in the day to day management or operations of the Company. This is the duty of the Board of Directors.

The Trust expects the Company to strive for maximisation of shareholder value and ensuring security of supply. In their decision-making role, the Trustees are continually mindful of quality, value and service.

Specific requirements as to the functions and operations of the Trust are contained in the Trust Deed, a copy of which is available to beneficial customers upon request to the Secretary. A small administration charge may apply.

Further information on The Lines Company Limited can be obtained at their website at www.thelinescompany.co.nz.

The process by WESCT to achieve 100% ownership of The Lines Company Limited

