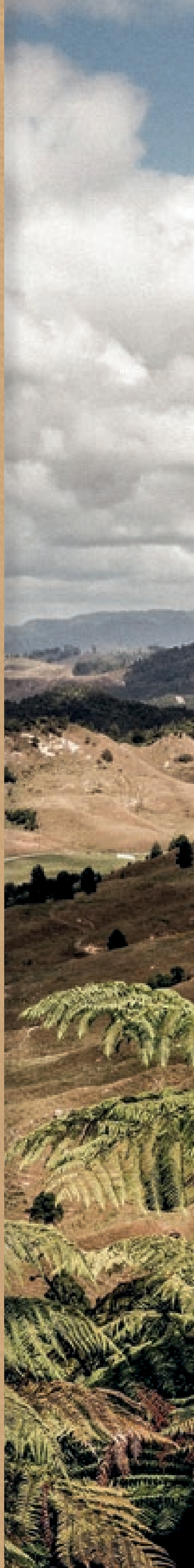
the lines company
Te Hono ā-Hiko

Connecting with the Future



Statement of Corporate Intent
2019–2020

Letter of Expectation

from Waitomo Energy Services Customer Trust (WESCT) to the TLC Board of Directors

Tēnā koutou katoa, TLC Board of Directors

Thank you for the opportunity to provide you with an outline of the Trust's expectations of its investment in The Lines Company (TLC). We wish for the Board to consider these expectations when it prepares the 2019-2020 Statement of Corporate Intent. We look forward to seeing an operating and financial plan which delivers upon these.

WESCT sees TLC as an integral part of the King Country community landscape, whereby it enables access to energy and helps keep our communities connected.

As the 100% shareholder in TLC, WESCT's key purpose is to represent its beneficiaries, and the Board must fully understand and appreciate this. However we are also concerned with TLC getting the appropriate balance between ensuring affordable network charges and achieving an appropriate return on investment each year for the beneficiaries of WESCT.

We acknowledge the newly adopted pricing structure has the potential to significantly impact our beneficiaries and influence the return on their investment and this may need to be given special consideration.

With this background please find our clear expectations:

Kaitiakitanga — Custodianship

TLC is an important intergenerational asset for the community and our approach to ownership is clear.

We expect TLC to continue a very strong focus on building and maintaining assets for the long-term, and on future-proofing the network to meet the changing technology needs of our community. Risk management should continue to be a top priority and TLC must seek to continually improve network performance.

Te Hapori — Community

TLC is a key economic enabler and contributor to our community. We expect that TLC will continue to actively support local social initatives and regional development. TLC should consider issues like energy hardship and affordability and being a large local employer.

Nga Whakatutukitanga — Performance

We acknowledge TLC operates in challenging topography over a large geographical area with a low population density.

We therefore expect the company to be innovative and resourceful. TLC should work collaboratively to provide reliable, safe and cost-efficient services while continuing to make reliabilty of supply a top priority. Investments outside the core distribution network should be carefully considered, regularly reviewed and clearly enhance the longer term viability of the company.

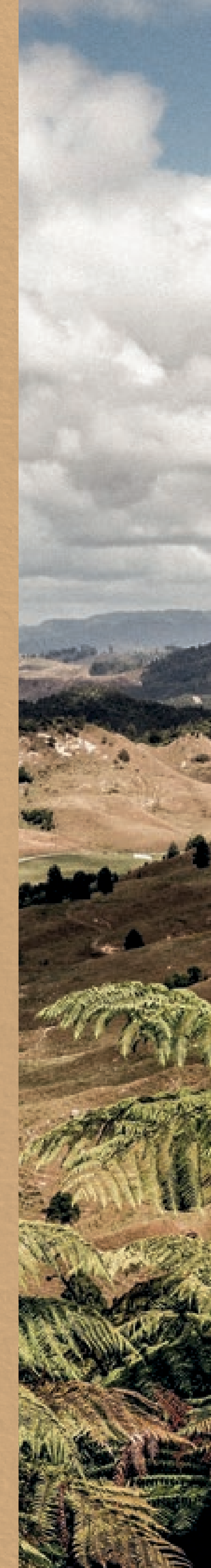
Ō mātou tāngata — People

The Trust wants the Board to ensure TLC is a safe and healthy place to work and that every effort is taken to keep staff and the general public safe. We expect all government requirements and regulations to be met but also expect the company to actively promote a fully integrated health and safety culture.

On behalf of the Trust

Naaku Noa

Erin Wirihana
Chairperson



The Lines Company is a community owned electricity distribution company. We own, manage and maintain the network that connects approximately 18,500 customers to the national grid.

Our network contains assets including the power lines, poles, cables, substations, transformers and other infrastructure.

In addition to our network, we own an electricity metering business with a national presence. We also operate and maintain three, small hydro-electric power plants, two of which are 100% owned by us, with a 75% shareholding in the third.

TLC is wholly owned by the Waitomo Energy Services Customer Trust (WESCT) whose beneficiaries are TLC customers in the northern part of our network.

The amount of money we charge our customers, and the reliability standards of the electricity supplied, are regulated by the Commerce Commission. The Commission's role is to protect customers while ensuring a fair rate of return for the assets we own and manage.

What we do

We ensure electricity is available to homes, farms and businesses throughout the King Country and Central Plateau. Our customers pay us for this service.

We have approximately 18,500 'on-network' customers and 24,700 points where our customers connect to our network. We operate in some of the most beautiful, but most challenging parts of New Zealand.

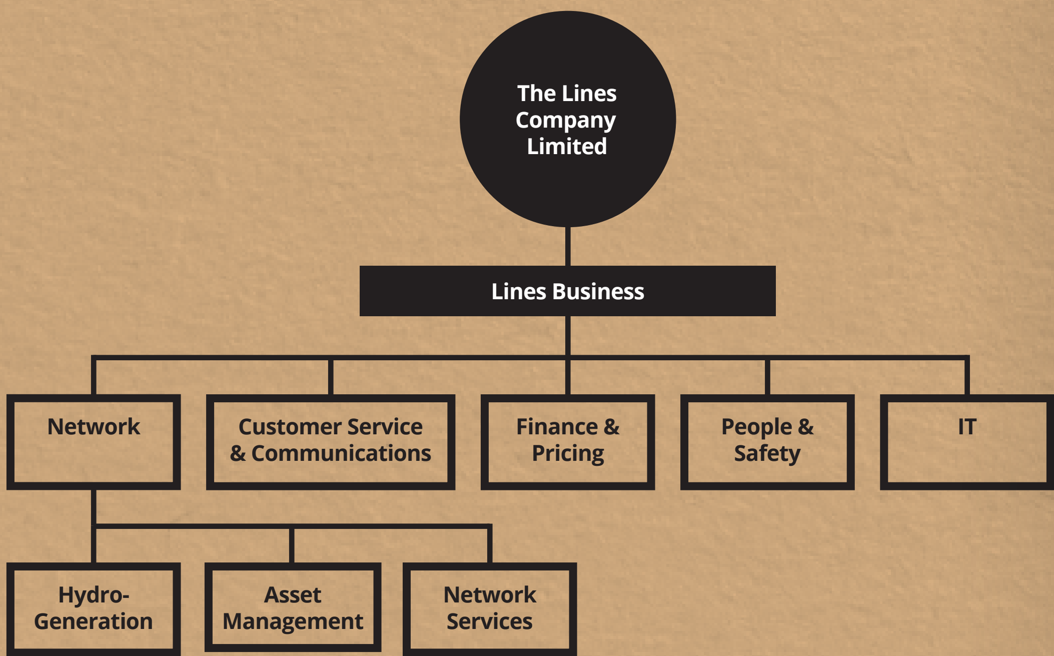
Our core focus is on keeping our customers connected, irrespective of where they live or work. That involves operating and maintaining our extensive network, ensuring we respond quickly to storms and other high-risk events, initiating major electrical projects to enable new initiatives or improve reliability, improving safety and enabling and supporting new industry.

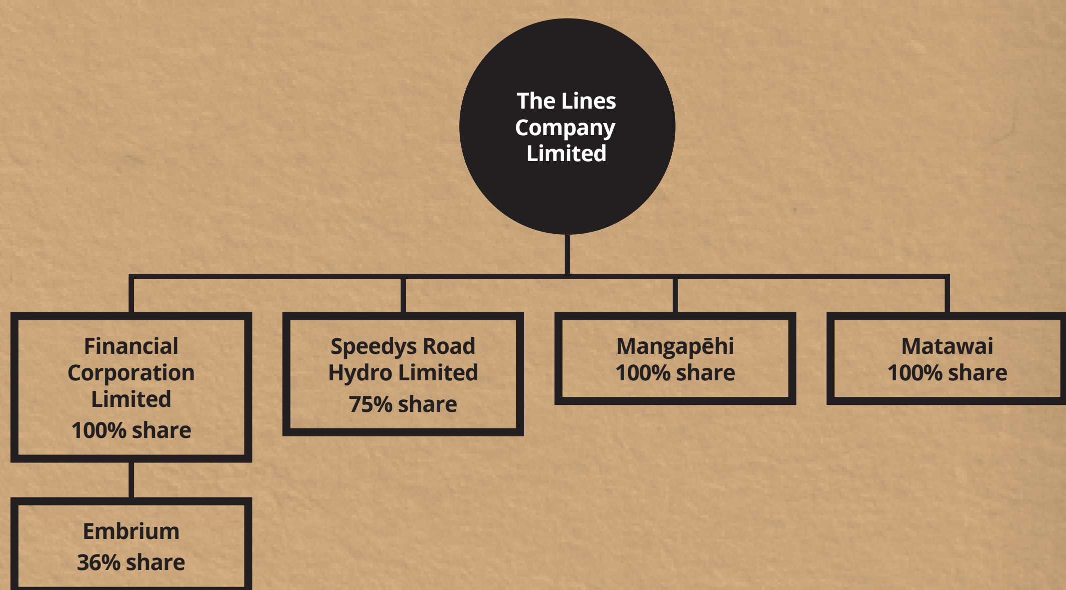
We have our own metering business, Financial Corporation Ltd — Metering (FCLM) which is a wholly-owned subsidiary of TLC. Through FCLM, we have a large number of customers throughout New Zealand. FCLM also owns a 36% share in Embrium Holdings Ltd — a company that provides services that allow real time monitoring of energy through to a customer's connection.

TLC owns two hydro-generation stations (Mangapēhi and Matawai) and has a 75% interest in a third station (Speedys Road). We operate and maintain all three sites.

We pass on to customers the costs incurred from Transpower in bringing power from the national grid into our area. And, on behalf of government regulators including the Electricity Authority and the Commerce Commission, we collect levies from our customers to help cover the cost of regulating the New Zealand electricity industry.

Company structure

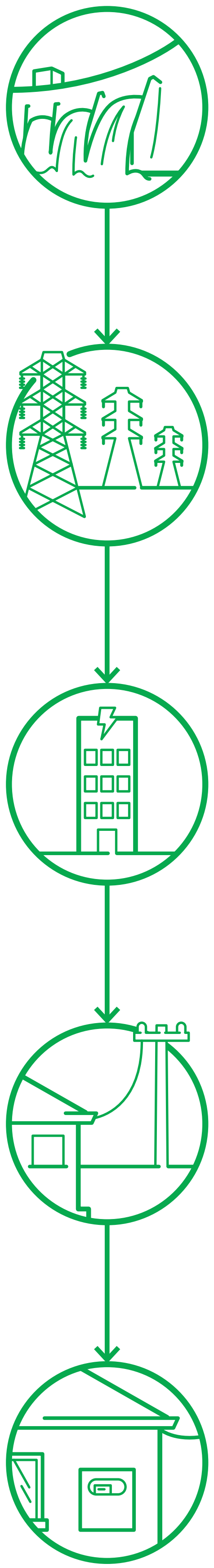




Contents

How our sector works

How does electricity get to my house?



Generation

About 85% of New Zealand's electricity generation comes from renewable sources. Most of our electricity is generated from hydro-electric stations but there is also gas, geothermal, coal, wind, diesel and solar generation. (TLC owns two hydro-generation plants and a 75% interest in a third).

Transmission

New Zealand's national transmission grid is owned and operated by Transpower. The national grid transmits electricity at high voltages (up to 220,000 volts) from where it is generated to the local distribution network. A few large industrial sites connect directly to the national grid.

Transpower charges distribution companies and these costs are passed through to the customer.

Distribution

Local distribution networks (TLC is one of 29 in New Zealand) deliver the power to homes and businesses through overhead wires or underground cables. Distribution networks connect to the national transmission grid.

Retailers

Retailers sell electricity to customers. There are a wide range of retailers and electricity plans available across New Zealand. Check out your options at **www.whatsmynumber.org.nz**

My house

You will have an electricity meter at your house which records the amount of electricity you use.

Wholesale Market

Electricity retailers buy from the wholesale market. Prices on the wholesale market are calculated every half an hour and vary depending on location, supply and demand.

Retailer Market

We have a competitive retail market which means customers can freely choose which retailer they want to buy their electricity from. You can check the retail brands available in your area at **www.whatsmynumber.org.nz**

External considerations

The Lines Company, like any organisation, is influenced by many factors beyond its control. It is our job to recognise the wider environment we operate in, so we can understand the potential impacts on, and opportunities for, our customers and wider community.

In the coming year, there are a number of external issues we are aware of.

Electricity Price Review

In 2018 the Government began a major piece of work — the Electricity Price Review. The review considered issues of fairness and affordability as well as competition and efficiency.

Its options report, released in February 2019, focused on seven main areas:

1
Strengthening the consumer voice

2
Reducing energy hardship

3
Increasing retail competition

4
Reinforcing wholesale market competition

5
Improving transmission and distribution

6
Improving the regulatory sytems

7
Preparing for a low-carbon future

The Electricity Price Review specifically noted that TLC has a number of unique features. We have a small customer base and high network costs because of our large, remote rural terrain. We are also the only distribution company in New Zealand to direct bill our customers. All other distribution companies bill their customers via an electricity retailer.

Over the coming year, we will continue to work alongside the government and contribute to this important piece of work. The government has already signalled it is seeking change in some key areas. In particular, it wants to strengthen the community voice within the sector. This is something we support, and will continue to advocate for.

Change

New technologies like solar power, smart appliances and large rechargeable batteries are creating more interest within the sector and among consumers.

We will continue to take an avid interest in technological change, including developments which could improve and strengthen our own internal processes and make our systems more robust and customer-friendly.

We will engage better with our customers to improve their understanding of the industry and any future changes. We also need sound and timely information and data so we can look at our own pricing structures while continuing to add value to our shareholder and beneficiaries.

We are also aware a report from the Interim Climate Change Committee is likely to impact upon our sector.

We have a huge responsibility to our community and we take that responsibility very seriously. We are entrusted with providing homes and customers across our network with a critical service — one we all rely on each and every day. It's our job to keep our people and our communities connected.

1. Kaitiakitanga (Custodianship)

Over the coming year, we will continue to have a strong focus on building and maintaining assets which will serve our customers and our community for generations to come.

We will continue to make inter-generational investment decisions in the best interests of our community.

We will continue to have a strong focus on risk when it comes to managing our assets and we do not consider risk just in terms of asset age. We understand and balance the risk around asset failure, taking into account safety, ease of installation, operational issues and ongoing maintenance costs. We are also putting greater emphasis and more investment into areas like cyber security to ensure our internal systems are robust.

Our intention is to continue prioritising our investments and maintenance programmes to continually improve the performance and safety of our network, and to ensure the investments we make provide the most value. Essentially, we are seeking to improve our overall network reliability at a lower life cycle cost.

Future-proofing

Our industry is a highly technical one. Developments are fast-moving and for the benefit of our community, it is important we maintain a focus on the future.

Our **Asset Management Plan** (see right) will ensure our existing assets are robust and maintained well. However, it also aims to ensure our network is well-placed to cope with areas of growth and with changing technology. We need to understand both the implications and the potential of new technology for our customers and that means an ongoing investment in data analysis and modelling. Potentially, that could include further investment in areas like electric vehicle (EV) technology and local energy solutions such as solar power and large, rechargeable batteries.

We have increased **capacity** at places like Hangatiki, Ōtorohanga and Taumarunui and, over the next three years, improve the reliability of four zone substations — Turangi, Kuratau, Maraetai and Arohena. These projects will reduce the number and duration of outages to the 5,500 customers (around 23% of our connections) connected to those substations.

We're also **automating** more of our network. Additional automation reduces the number of customers affected by an outage. It also allows us to get the power back on in remote areas sooner by isolating faulted sections of line from our control room. This means we can reconnect some customers while our fault crews are on their way to the location of the fault.

Trees continue to be problematic and a very strong area of focus. Over the next two years we will spend $1.2 million each year to reduce the impact trees have on a reliable supply of electricity.

We have already invested in a **new pricing system**, rolled out from October 2018. Over the year, the impacts and effectiveness of that system will continue to be monitored.

Improving our **communication** is also an area of future focus as we consider new and more effective ways to build relationships with our stakeholders and wider community. That includes working alongside the community to assist consumers and encourage energy efficiency initiatives.

Asset Management Plan

Our Asset Management Plan (AMP) is updated each year. In 2018 we advised that we intended lifting our capital expenditure to an average of $15 million per year over the next decade. With a new AMP in place we are seeing a real focus on condition based assessment. There is also a new emphasis on planning for future demand and meeting the increasing requirements around safety. The investment over the next 10 years means we are replacing assets that are coming of age to create a more reliable and safe network.

The commitment to spend this money remains on track as we seek to meet growing customer expectations for improved reliability and safety and ensure the network is positioned to accommodate future economic growth in the region.

In the 2019–2020 year we have budgeted to spend $2.7 million on specific work targeting improvements in reliability as part of a $17 million spend overall. To do that, we have sharpened our delivery capability, both in-house and via external contractors.

The complex nature of our network means some performance improvements will not manifest immediately. However, over time we anticipate fewer unplanned outages. Meanwhile, our planned outages will be part of a structured, capital programme to enable us to provide a better, more reliable service.

$2.7m

budgeted for targeted improvements & reliability in the 2019–2020 year

Customers

Last year, we averaged 114 phone calls a day to a dedicated customer service team working out of a head office in Te Kūiti.

In October 2018 we launched a new pricing system and partially in response, we saw a huge increase in online help requests (around 500 per month). We engaged, more than ever before, with our customers and wider community via our own Facebook and web pages.

We will continue working hard to have positive, direct and constructive relationships with our customers. We want to be — and be seen to be — part of our community.

This year, we will create new opportunities for our customers to talk to us face-to-face. We will continue to go out and see them — not wait for them to come in and see us.

In the coming year we will be upgrading our billing system and increasing our online interface to make it easy for customers to have a more personalised experience and choice.

Part of our work to better engage with customers includes ongoing efforts to build a TLC brand which reflects and resonates with our community. In the past, some people will have described TLC as introverted and non-engaging. Our intention is to change that and to build much stronger partnerships between TLC and the people we serve.

26,768

calls to our contact centre from 1 April 2018 — 31 March 2019

Environment

Electric vehicles

Over the past few years, TLC has been a keen supporter of electric vehicles (EVs). In 2018 we proactively worked alongside local accommodation and tourism businesses to install 25 EV chargers throughout our network with another 19 planned for 2019. We've invested in EVs ourselves, putting one electric vehicle and two plug-in hybrids on the road as part of our normal fleet replacement programme.

Government carbon and renewable initiatives indicate that EVs will be a growing part of New Zealand's future. We want to ensure our community is part of that future. This initiative signals our commitment to supporting and enabling economic growth by enabling EVs, including those driven by visitors, to be active in our region.

It is also important we understand the impact of EV technology on our distribution network so we can continue to provide the right support. That could include initiatives like EVSE (Electric Vehicle Supply Equipment) products including those that provide real-time monitoring and control at home and work.

Other initiatives

We work with local Marae and other organisations when we prepare resource consent applications. We are currently working with the Mangapeehi Marae and hapū on the feasibility of transferring elver (juvenile eels) into the head waters of the Mangapēhi Stream to increase their abundance. The Marae will also be involved in future monitoring of the health of the stream and its ecology.

25

EV chargers were installed throughout our network in 2018

The Lines Company is a vital part of a vibrant and resilient community. We're proud to contribute to our community and call this place home.

2. Te Hapori (Community)

Iwi

Our relationships with Iwi are critical. What is good for local Iwi, is good for all of us.

According to Statistics New Zealand the number of people living on our network who identify as Māori is 32 per cent (as at 2013, the most recent data available). In our region, Iwi include Ngāti Maniapoto, Ngāti Tūwharetoa, Ngāti Haua and Ngāti Tama.

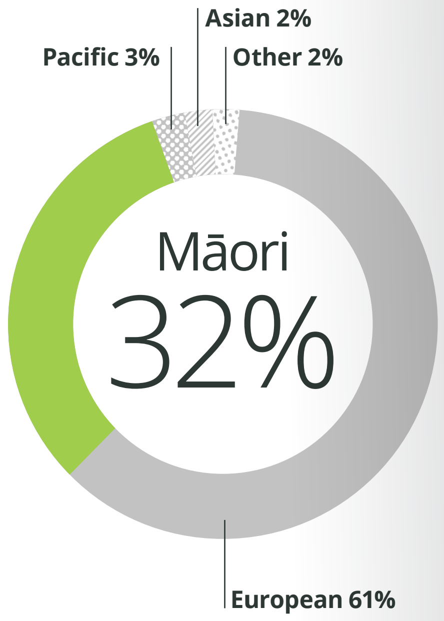
Our relationships with Iwi are critical and we acknowledge we have much to learn.

Over the next year, our intention is to put greater effort into developing strong and enduring partnerships with Iwi, to benefit the hapū and wider community. We aim to do this with the help and guidance of our shareholder WESCT.

We endeavour to take time to meet with local iwi and understand what impact our policies may have for the wider hapū and community.

Our aim is to better understand these issues so we can provide suitable remedies that will not only benefit Iwi, but also the wider community.

While much of that work will be done on a one-to-one basis it will also manifest in other ways. TLC will continue to grow its commitment to te reo — both written and oral. This will be seen in our written documents and in the way we interact with our customers and stakeholders. We will continue working to ensure we have a more comprehensive understanding of the impact of our policies on all our customers and stakeholders, including Iwi.



Employing our people

We are a big employer in our region.

We offer career pathways for local people by offering rewarding, interesting jobs. Currently, around 80% of our staff live on the network. In the 2019-2020 year we will continue to focus strongly on local employment. We have a commitment to recruiting local people and offering career pathways which benefit individuals and secure valuable skills for the company. Currently we have seven trainee line mechanics and one apprentice as part of our team.

Energy hardship

We will also continue developing ways to address issues of energy hardship that exist within our network area. This usually impacts most upon the most vulnerable members of any community, including ours.

One way to measure vulnerability is through the Social Deprivation Index[1] which measures socio-economic status. The Index is used by government agencies to help target services and resources to parts of our country with the most need.

The Social Deprivation Index measures nine things: household income derived from benefits; employment; household income derived from employment; access to a telephone; access to a car or transport; dependency on a single parent; qualifications; living space and home ownership.

From those measures, a score is developed between 1 and 10, with 10 being the most deprived. About 80% of TLC residential customers have a deprivation score of more than 5 and around 60% of our customers have a deprivation score of 8, 9 or 10.

That means that, for many of our customers, finances are tight. A quarter of customers on our network have an average household income of less than $35,000 per annum. We are very mindful that this can directly impact on how much energy these households choose to use.

[1] NZDep2013 Census Area Unit Data, published by the University of Otago, 2013, https://www.otago.ac.nz/wellington/departments/publichealth/research/hirp/otago020194.html

Affordability

Ensuring our customers can afford to pay for the service we provide is important to us.

This year we intend to further promote energy efficiency initiatives which can help make our customers' overall energy bills (lines and energy) more affordable. We will also continue to focus on encouraging activities/actions that lower overall energy costs e.g. dry clothes outside rather than in the dryer, turn off appliances at the wall, use draft stoppers, change to energy efficient light bulbs.

SmoothPay

SmoothPay was introduced in late 2018 to help smooth the highs and lows of a power bill. It allows our customers to pay the same amount each week, fortnight or month — whatever suits them best. SmoothPay assists with household budgeting and ensures customers always get their 10 per cent prompt payment discount. We will, in partnership with WESCT, actively promote SmoothPay during the 2019-2020 year.

Transitional discount

In October 2018 TLC implemented a fundamentally new way of charging. The previous structure had been in place for more than 10 years and following expert advice, the Board believed it was no longer fit-for-purpose. The new pricing was focused on keeping bills simple, transparent and equitable. The new pricing structure means most customers will pay a daily fixed charge plus a variable price for usage based on different times of the day.

We recognise the new pricing will take some time for our customers to understand and adapt their energy use. To ensure customers will pay no more than 20 per cent of what they paid under the old system over a comparable period, we introduced a transitional discount.

The discount will be in place until 30 September 2019 and will help our customers, including our most vulnerable customers, adjust to the new way of charging.

Energy efficiency and education

We will continue to work alongside groups in our community to help share information about energy efficiency. Part of our role is to help educate our community on what households, farms and businesses can do to help reduce overall energy costs.

Giving back

We're proud to be community-owned and we intend staying closely connected to local people and organisations. Part of our purpose is to build strong communities by giving back in a meaningful way. We will continue to encourage our staff to volunteer, share their skills, support community activities and get stuck in!

Sponsorship

We'll also offer community sponsorship for events and projects in our network. We will continue to focus on two key areas: children, youth and families, and energy efficiency. For the 2019-2020 year we have targeted $65,000 for sponsorship and community funding with two funding rounds each year.

$65k

targeted for sponsorship and community funding in the 2019–2020 year

TLC partnered with Variety Club to get 40 King Country kids new bikes at Christmas.

Inspiring Local Minds Scholarship

Supporting young people is important. In 2018 TLC launched the first ever Inspiring Local Minds Scholarship to recognise and provide financial support for local high school students pursuing tertiary education or trade or other training. Next year, we intend to generate even more interest in this scholarship programme from across our network area. We want to support our young people and to encourage them, when they are ready, to bring their skills home. Another five Inspiring Local Minds Scholarships will be awarded in late 2019.

We will also continue to support the popular annual calendar which showcases young local people achieving great things. We will again be a key sponsor of the Waitomo Young Achievers Award.

$100k

targeted to warm homes in 2019-2020

Maru Energy Trust

Warm homes are healthy homes. In 2018, we drove the establishment of the Maru Energy Trust to ensure people in our network did not live in cold, damp houses. Maru aims to create warmer, drier and healthier homes and ultimately, to help people use less energy.

While we are supportive of its activities, Maru Energy Trust is completely independent of The Lines Company. Maru is building its own relationships with groups like the Energy Efficiency and Conservation Authority (EECA) to help fund and support community-based initiatives.

Maru has already had some successes. Within the first 12 months of being established, 54 houses, in conjunction with EECA, will have been insulated. In the coming year, Maru will continue working with regional social agencies to provide more comprehensive home insulation and energy efficiency initiatives for those in need. Maru will continue to actively encourage home owners who meet the criteria to engage with this service.

We will continue to support Maru in the future and have committed a further $100,000 to this for the 2019-2020 year. We will also support the Trust by continuing to help it grow relationships with the community and potential funding partners.

Our network contains assets, including the power lines, poles, cables, substations, transformers, and other infrastructure. The network transmits electricity to homes, farms and business throughout our region.

3. Ngā Whakatutukitanga (Performance)

The geography of our region can make our job particularly challenging.

Our network covers some of the most remote parts of New Zealand, including West Coast beaches, the Tūroa and Whakapapa ski fields and sparsely populated remote farmland which requires long lines in rugged terrain.

Unlike other regions, we have no major urban centre and our network also services a high proportion of holiday homes. This means that, unlike other distribution companies, the vast majority of our lines do not necessarily have easy road access. We also have long lengths of privately-owned 11kV lines, often in remote country. And a large proportion of our residents — up to 60 per cent — live in high social deprivation areas.

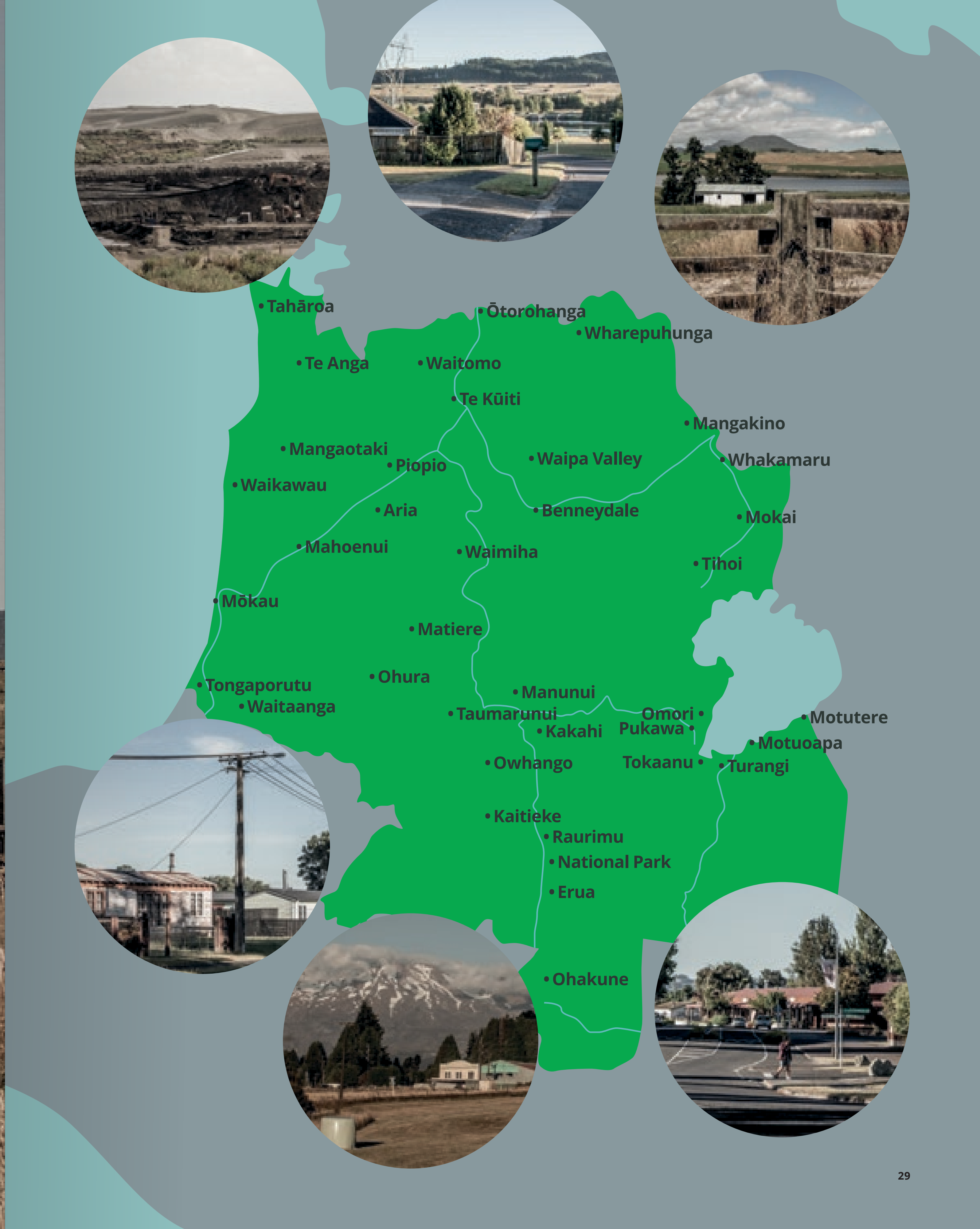
Those challenges force us to be more innovative and think more creatively about ways to provide the best possible value to our customers and to our wider community.

Financial efficiencies

In the past, we have focused strongly on a broad range of financial and other measures to ensure our operating costs are as low as possible, while still meeting the demands placed upon us. Previously, we have looked at financial opportunities to ensure the cost to serve our community is as low as possible.

In addition to this, TLC will focus on internal efficiencies. This year we will specifically look at IT and procurement practices to ensure we are as cost-efficient as we can be, noting TLC has notified discount to WESCT beneficiaries of $5.6 million during the 2019–2020 financial year.

Our network



Reliability measures

Our performance is, in part, measured by two reliability measures.

They are SAIDI (average duration of outages per customer in minutes per year) and SAIFI (average number of interruptions per customer per year).

In some instance, storm events beyond our control can impact negatively on these measures. Storms can cause real problems on our network, leading to unplanned outages. However, these standard industry measures will continue to be enormously important to us over the coming year. Our customers rightfully expect a safe and reliable electricity supply and it is our job to supply it.

In the coming year, given the maintenance programme outlined in our Asset Management Plan, we are forecasting 234 SAIDI minutes — 62 minutes planned and 172 unplanned.

For the next three years, our SAIDI measure in response to planned work will go up, and the measure as a result of unplanned work is forecast to go down.

We are forecasting 3.4 SAIFIs (average number of interruptions per customer) in the coming year, made up of 0.9 interruptions in relation to planned work and 2.5 interruptions in relation to unplanned work.

24,700

Connections throughout our network as at 31 March 2019

Collaboration

TLC already works with a number of other electricity distribution companies to look at ways to provide better, more efficient services focused on the needs of customers. This includes sharing of engineering standards, emergency management plans, asset fault information as well as understanding the effects of new technology on our networks. We are also part of an industry-wide group via the Electricity Network Association that works with the 28 other lines companies on issues that affect us all.

TLC is part of a group of five distribution companies in the North Island (Top Energy, Vector, Counties Power, North Power, TLC) which have established the Northern Energy Group.

This group believes customer voices need to be stronger in the industry and in government decision-making, and that customer interests belong at the heart of the energy sector. This group is collaborating to strengthen the customer voice, reduce energy hardship, use data better to benefit customers and support innovation and technology co-ordination.

Customer focused service

We will continue to invest in ways which provide customers with more choice about the way they interact with us. We are developing an online customer portal which will allow customers to directly access account balances. We will also look to move to more online payment options and online forms.

Our major customers are highly valued as part of the TLC network and it is recognised that they contribute significantly to the regional economy both in terms of employment and support for the wider district. In 2018 TLC began an engagement programme with these customers to ensure we understood their future business needs, and that our forward plans took these into account. We continue to work with our major customers to maintain a reliable supply.

The Lines Company employs around 150 people, across five sites, with many working in the field. We know we are a big employer but our aim is to be a great one.

4. Ō mātou tāngata (People)

We want TLC to be the place where local people aspire to work. We want our existing staff to be passionate about their jobs and the role they play in keeping our community connected.

Around 80 per cent of our people live on the network. They play in local sports teams, their children go to local schools and many have extended family living close by. They are part of this community and we want to offer fulfilling career pathways which encourage them to stay here.

Values

The TLC team has a set of shared values. We aim to:

- **Keep well.** That means putting health and safety first, protecting ourselves and those around us.
- **Be proud.** Working hard to get the job done and making a difference.
- **Be awesome.** We aim to embrace change, to exceed expectations and to be innovative. Our aim is to punch above our weight in our sector and in our community.
- **Own it.** We are responsible for our actions and will take ownership of what we do. We aim to overcome challenges and deliver on the promises we make.

Diversity

Our workforce should be representative of our community, and all other things being equal, our aim is to employ local people wherever possible. We have a focus on ensuring pay and gender equity, and as we continue to recruit high calibre individuals into our team we will seek to broaden the diversity of our company. We will do this through the employment of people with different views, backgrounds, ideas, skills and capabilities.

Professional development

We are continuing to implement a range of internal development programmes. We have a commitment to stretch and grow our own people by emphasising proactive workforce planning and investing in our workforce for long-term benefit. We will provide a range of varied and interesting learning and development opportunities so our people can be challenged, grow their capability, advance their career and achieve their full potential. We will actively identify people with high potential and provide accelerated career advancement opportunities.

TLC competes for great staff against a nationwide backdrop of increasing demand and skill shortages in key areas. In response, we have re-introduced the Trainee Line Mechanic Programme to grow and foster our own highly-skilled people. We currently have seven trainee line mechanics and an apprentice electrician as part of the TLC team.

Health and safety

Every single person working for and with us should return home, unharmed, every day. We expect this no matter how demanding the task we undertake.

To further embed this, TLC has developed a long-term Health and Safety Roadmap that outlines key workstreams over the next few years to ensure health and safety remains our number one priority. We'll continue to increase health and safety engagement, participation and accountability at all levels across the company and with our contractors and we will work to ensure critical risks are controlled and managed.

Our approach to health and safety ensures equal emphasis on both safety and wellbeing. We will promote personal resilience, physical health and mental health.

In the coming year we will make sure the organisation understands our critical risks and that our leaders are clear about their role in enabling and encouraging safe behaviours. It is critical to us and to our people that our staff are engaged and participating in health and safety discussions and decisions.

In the coming year we will concentrate on safety leadership, managing risks and increasing employee participation. We have identified 11 critical risks to focus on.

These are:

1. Moving vehicles
2. Isolated workers
3. Manual handling
4. Working at heights
5. Public
6. Contractors
7. Psychosocial
8. Confined spaces
9. Plant and equipment
10. Electricity
11. Hazardous substances

Isolated worker focus

The remote nature of parts of our network means reliable cellphone and radio communications with our team can be difficult. Sometimes our staff have to work alone, in isolated areas.

We have a number of business processes already in place to manage the safety of isolated workers. However, we have also invested in technology — the Blackline Lone Worker System — to help keep our people safe. This technology uses both mobile and satellite coverage to provide cover across our whole network area.

It helps us monitor where our field staff are and ensures we are alerted if they are seriously injured or don't 'check in' using this system.

Around 50 of our field staff and associated vehicles have been fitted with this technology and this personal safety device is now another part of day-to-day safety equipment.

50

field staff vehicles fitted with the Blackline Lone Worker System

Our role in our community is not just about ensuring electricity is available to homes, farms and businesses. We want to use our technology and skills to be a positive economic force for the King Country and Central Plateau.

5. Whakatipu (Growth)

We will continue to develop deeper relationships with key stakeholders to identify what TLC can do to help our community grow and prosper. There is huge potential for growth across a number of sectors. We want to be part of stimulating and supporting that economic growth.

Opportunities

Tourism is one area where we have already led an initiative to make it easier for EV drivers, including tourists, to visit and stay in our region. We've worked alongside local accommodation and tourism businesses to install 25 EV chargers throughout our network. In the coming year, we'll be installing three fast EV chargers in collaboration with Ruapehu and Ōtorohanga District Councils. We'll also continue to look for other EV opportunities in conjunction with local authorities and other key stakeholders, who, like us, are focused on positive growth.

We will continue to work with our communities to explore new ways of powering homes and businesses including sharing of electricity between families or communities, solar and batteries and smaller community-focused networks.

We have begun, and will continue, to use drones to assess the condition of poles and cross-arms and to map power line routes and better understand the condition of our network. We are also continuing to explore technology like battery storage and solar power to ensure we are in the best possible position to respond quickly to the advantages and potential opportunities — financial and otherwise — that new technology might offer us and our community.

13

EV chargers installed throughout our network working alongside local accomodation and tourism businesses.

3

TLC operates and maintains three main hydro-generation sites

Investments

Financial Corporation Ltd — Metering (FCLM) is a wholly-owned subsidiary of TLC. The company has experienced significant growth in the past year and expanded its meter stock to include residential and industrial metering both on and off the network. FCLM is continuing to grow with nearly 40,000 meters across New Zealand, working with 45 retailers and service providers nationally. Much of this growth is off the network.

The company is also the meter provider of choice to all major solar installers across New Zealand. This year FCLM took on eight local (mainly in the southern part of the network) meter readers which ensured ongoing employment in the local area.

In the 2019-2020 year FCLM will focus on providing innovative solutions and high quality, customised data — faster — to our retailers. The products and services will reflect the current and future needs of this customer group.

FCLM also owns a 36 per cent share in Embrium Holdings Ltd — a company that provides services that allow real time monitoring of energy through to a customer's connection.

TLC owns two hydro-generation stations (Mangapēhi and Matawai) and has a 75% interest in a third station (Speedys Road). We operate and maintain all three sites. Two are in the TLC network area and electricity produced improves the reliability of supply to communities in Tahāroa, Te Anga, Marokopa, Benneydale, Kopaki, Puketutu and Waipa Valley. The third station is at Matawai near Gisborne and is connected to the Eastland network.

North King Country Development Trust

In 1993, the North King Country Development Trust was formed. Part of the Trust's role is to help stimulate growth in the North King Country.

The North King Country Development Trust holds a debenture with TLC. The interest generated from that debenture is paid to the Trust each year. A Board of six Trustees make funding available, via an interest-free loan or a grant, to promote economic development. One of the WESCT Trustees, Kyle Barnes, was appointed to the North King Country Development Trust by the TLC Board in 2019.

How we will be measured

Key Performance Indicator	Our target	2019 Forecast	How we will be measured
Custodianship			
We will generate a sustainable Return on Average Assets	Return on Average Assets of 4.2% before customer discounts	3.6%	Our Return on Average Assets
We will maintain a sustainable Return on Average Equity	Return on Average Equity of 6.0% before customer discounts	4.6%	Our Return on Average Equity
Our Equity Ratio will not be less than 40%.	No less than 40%	52%	Our Equity to Asset Ratio
We will meet all expectations under the TLC Discount Policy	Proposed discount is $5.6 million for the FY 2020 year	$5.6 million	We will report on the discount paid to beneficiaries during the year.
We will meet all expectations under the TLC Dividend Policy.	A dividend of $200k will be paid for the 2019-2020 year to WESCT	Nil	Aligned with the running costs of WESCT and consider the funds already held by the trust. Payment of dividend to WESCT
Debt* (including subordinated debentures)	Total Debt forecast $76.9 million	$68.5 million	By reporting on the $ value of borrowings including subordinated debentures.
Community			
We will invest $65,000 on sponsorship activities.	To invest $65,000 (excluding Maru Trust) on sponsoring community initiatives aligned with our two key areas of focus: children, youth and families, and energy efficiency.	$97,400	We will measure and report on our annual sponsorship investment.
We will increase the awareness of TLC's sponsorship activity.	10% increase in awareness of sponsorship activity.		Through our annual customer satisfaction and perception survey.
We will increase the number of customers signed up to online payments.	10% increase in customers paying online.		We will report on the number of customers signed up for online payments at the start and end of the year.
We will invest $100,000 into Maru Energy Trust			
Performance			
Reliability — SAIDI	Target for 2019-2020 = 234.2 Planned 62.2 Unplanned 172.0	286	Calculation based on Default Price Path Annual Compliance Statement (target taken from the AMP 2019)
Reliability — SAIFI	Target for 2020 = 3.47 Planned 0.92 Unplanned 2.55	4.22	Calculation based on Default Price Path Annual Compliance Statement (target taken from the AMP 2019)
Regulated Revenues	To have a Notional Revenue to Allowable Notional Revenue ratio of between 80% and 100%	TBC	As set out in the Default Price Path Annual Compliance Statement
People			
There will be no serious harm injuries.	No serious harm injuries.	Nil	We will measure how many incidents resulted in serious harm.
We will reduce the number of lost time injuries.	20% reduction in lost time injury frequency rates compared to the previous year.	LTIFR = 0.5	We will measure the number of lost time injuries compared to the previous year.
There will be a continuous improvement in health and safety culture.	Improvement in rating of the GSI safety index	Maturing 53.5	Increase on base measurement from 2017
We will actively promote local employment			We will report the number of TLC staff who live on network.

Glossary

AMP	Asset Management Plan
EA	Electricity Authority
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
EVs	Electric vehicles
FCLM	FCLM Limited — subsidiary of The Lines Company
Assets	Total assets, less deferred tax assets.
Net Assets	Total assets, less current liabilities.
Equity Ratio	Consolidated Shareholders Funds / 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.
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.
SAIDI	System Average Interruption Duration Index — the average time supply unavailable to all customers.
SAIFI	System Average Interruption Frequency Index — the average length of each interruption to supply.
Shareholders' Funds	Shareholders' 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.

Financial Forecasts

We have prepared our financial forecasts for the FY2020–2023 financial years which are summarised in the tables overleaf. We have included in our forecasts our expected lines charges to customers, network services, metering and generation revenue from our hydro-generation stations based on our current number of connections, our time of use pricing structure which took effect on 1 October 2018 and the regulations that are currently in place (under which we operate). For the FY2020 year we have included new pricing transition discounts ($1.9 million) which are in place until 30 September 2019. These discounts cap the increase to customers' bills when compared to demand charging to +20% on their previous year's demand charge.

Prior to the change to the new pricing structure, customers were invoiced in advance. Under the new structure customers are billed in arrears based on the kWh used during the period, at the price based on the time of use. The change in the timing of the billing to customers, and the introduction of the new pricing transition discount has had an impact on our cash flow and debt levels. In addition we have increased capital spend in FY2019 by $6.5 million over the previous year. The impact of these changes has meant the forecast debt position at 31 March 2019 is $12.4 million higher than the previous year ($2.4 million higher than previously budgeted) which has increased interest costs.

During the FY2019 year the company obtained a binding ruling on the treatment of the discounts paid to beneficiary customers. This meant that the discounts paid were treated as a reduction from revenue for the year and were tax deductible. This gives the appearance that earnings have declined but this is partly due to the reclassification of beneficiary discounts.

Taking these changes into account and the subsequent increase in interest costs as a result, the company has budgeted a net profit after discounts and tax for the FY2020 year of $5.0 million.

TLC's revenue, like many electricity distributors in New Zealand, is regulated and is capped. Revenue and quality targets are set in five year blocks by the Commerce Commission (known as the default price path or price-quality path). The current price-quality path finishes at the end of March 2020.

The Commerce Commission is currently in the process of setting the default price-quality path that will apply to non-exempt electricity distributors from 1 April 2020 until March 2025, including TLC, and is expected to reach their final decision by 28 November 2019. Once this decision is released, it will then allow us to update forecasts.

TLC has historically priced under our allowable regulated revenue as we recognise that affordability is a concern for our customers. The difference between what TLC could have priced at compared to what we have priced at, has meant our notional regulated revenue averaged about $3 million less than it could have been over the last four years.

We don't know what our regulated revenue will be from FY2020-2026, however because the cost of debt is low, the regulated revenue we are allowed to charge may go down. Early indications are there is some revenue risk which we are working through. For FY2020 we have assumed that our electricity network revenue will grow at 2% year on year, which is largely driven by volume and an assumption that our forecast revenue will be closer to our regulated revenue. We have also included cost estimates which reflect some cost reduction measures to be implemented over the next year.

While our forecasts provide a reasonable return on investment, we have also included a proposed discount to beneficiaries of WESCT of $5.6 million in the FY2020 year.

TLC and Subsidiary Companies

1.1 TLC Group Earnings

Earnings (before customer discounts)	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Revenue	50,298	51,700	48,700	51,399	54,975	56,410	57,881
EBITDA	25,877	28,382	24,647	28,087	31,689	32,823	33,794
EBIT	14,900	17,423	13,431	16,195	18,886	19,503	20,042
Interest, net	2,807	2,723	2,875	2,978	3,051	2,711	2,186
Profit after tax	8,619	10,207	6,868	9,081	10,806	12,940	14,516
Return on average assets	4.2%	4.8%	3.6%	4.2%	4.7%	4.8%	4.8%
Return — average equity	6.2%	7.1%	4.6%	6.0%	6.8%	7.8%	8.3%

Earnings (after customer discounts)	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Revenue	50,298	51,700	48,700	51,399	54,975	56,410	57,881
Less Customer discounts	–	(5,600)	(5,600)	(5,600)	(6,706)	(6,840)	(6,977)
Net revenue	50,298	46,100	43,100	45,799	48,269	49,570	50,904
EBITDA	25,877	22,782	19,047	22,487	24,983	25,983	26,817
EBIT	14,900	11,823	7,831	10,595	12,180	12,663	13,065
Interest, net	2,807	2,723	2,875	2,978	3,051	2,711	2,186
Profit after tax	8,619	4,607	2,836	5,049	5,978	8,015	9,493
Return on average assets	4.2%	3.2%	2.1%	2.8%	3.1%	3.1%	3.1%
Return — average equity	6.2%	3.2%	1.9%	3.3%	3.8%	4.9%	5.5%

Note: FY 2019 and FY 2020 include transition discounts of $1.6 and $1.9 million (before tax) respectively.

Group Revenue	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
The Lines Company							
Revenue	40,811	42,936	41,413	44,057	44,707	45,601	46,513
Transition discount	–	–	(1,549)	(1,941)	–	–	–
Network revenue	40,811	42,936	39,864	42,116	44,707	45,601	46,513
Network services	3,329	2,027	1,484	1,500	1,523	1,546	1,569
Generation Revenue	2,663	2,520	2,033	1,913	2,460	2,545	2,670
Total TLC Revenue	**46,803**	**47,483**	**43,381**	**45,529**	**48,690**	**49,691**	**50,752**
FCL							
On Network revenue	1,572	1,836	2,399	2,508	2,558	2,609	2,662
Meter reading			520	780	790	799	809
Off Network revenue	2,115	2,399	2,666	3,377	3,732	4,093	4,451
Total FCL Revenue	**3,687**	**4,235**	**5,585**	**6,665**	**7,080**	**7,502**	**7,922**
Consolidation entries	(192)	(18)	(267)	(794)	(794)	(783)	(793)
Total Group Revenue	**50,298**	**51,700**	**48,700**	**51,399**	**54,975**	**56,410**	**57,881**

1.2 TLC Group Balance Sheet

Balance Sheet	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Cash	667	566	445	862	186	198	2,520
Other Current Assets	4,728	4,630	6,659	6,748	7,210	7,101	7,285
Non-current Assets	252,489	261,644	273,144	284,165	292,184	298,821	303,405
Other Financial Assets	–	31	31	31	31	31	31
Total Assets	**257,884**	**266,871**	**280,278**	**291,806**	**299,612**	**306,151**	**313,240**
Current Liabilities	10,658	11,137	9,121	8,676	8,122	7,857	7,627
Deferred Tax	49,501	51,309	51,204	51,414	52,367	53,021	53,505
Bank Loans	52,239	53,939	66,344	72,964	74,264	72,264	69,464
Sunordinated debentures & Minority Interest Loans	4,150	4,100	4,050	4,000	3,950	3,900	3,850
Shareholder Funds	141,336	146,386	149,560	154,752	160,909	169,108	178,794
Total Equity and Liabilities	**257,884**	**266,871**	**280,278**	**291,806**	**299,611**	**306,151**	**313,240**

1.3 Cash Flows	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Operating Cash Flows	21,188	21,954	17,613	23,013	26,400	28,205	29,012
Capital Expenditure	(18,757)	(17,905)	(24,489)	(23,366)	(21,421)	(19,102)	(16,664)
Debt Movements, net	3,139	1,700	12,405	6,620	1,300	(2,000)	(2,800)
Dividends/Discounts	(5,300)	(5,800)	(5,600)	(5,800)	(6,906)	(7,040)	(7,177)
Loan to related party	–	–	–	–	–	–	–
Sale (purchase) of Assets	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Net Cash Movement	**220**	**(101)**	**(121)**	**417**	**(677)**	**12**	**2,321**

2.0 Performance Targets

Return on Average Assets	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Return (before customer discounts)	4.2%	4.8%	3.6%	4.2%	4.7%	4.8%	4.8%
Return (after customer discounts)	4.2%	3.2%	2.1%	2.8%	3.1%	3.1%	3.1%

Return on Average Equity	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Return (before customer discounts)	6.2%	7.1%	4.6%	6.0%	6.8%	7.8%	8.3%
Return (after customer discounts)	6.2%	3.2%	1.9%	3.3%	3.8%	4.9%	5.5%

Debt	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Subordinated debentures	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Minority Interest Loans	1,150	1,100	1,050	1,000	950	900	850
Bank Loans	52,239	53,939	66,344	72,964	74,264	72,264	69,464
Total	**56,389**	**58,039**	**70,394**	**76,964**	**78,214**	**76,164**	**73,314**

Dividends	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Dividends	5,300	200	–	200	200	200	200

Discounts	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Proposed Discounts	–	5,600	5,600	5,600	6,706	6,840	6,977

SAIDI/SAIFI	2017 Actual	2018 Actual	2019 Forecast	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast
SAIDI	251.94	243.00	280.96	234.20	234.20	234.20	234.20
SAIDI Limit	234.20	234.20	234.20	234.20	234.20	234.20	234.20
SAIFI	3.39	3.75	4.22	3.47	3.47	3.47	3.47
SAIFI Limit	3.47	3.47	3.47	3.47	3.47	3.47	3.47

Compliance

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 2019, which comply with the International Financial Reporting Standards (IFRS).

Distribution of Surplus

In setting any proposed dividend or discount, the inter-generational nature of our assets is considered and a balance is struck between any discount that may be paid to beneficiaries, dividend paid to the Trust and our debt position.

This approach aims to fund investment in assets by the customers that will use them on an ongoing basis, whilst ensuring current beneficiaries are able to recognise an appropriate return on the investment held on their behalf.

Surplus funds from the operations of the business shall first be applied to:

1. Renewal of existing assets.
2. The prudent management of debt. The prudent management of debt includes consideration of debt repayment related to asset lives, dividend maintenance, and having regard to the Company's equity ratio.
3. Funding for network and business investments.

Beneficiary customers receive discounts on their lines service charges and WESCT receive a dividend from TLC.

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.

Discount Policy

The proposed discount to WESCT beneficiary customers for the FY 2020 year has been notified to customers on the company website.

The following discount policy was applied to the FY 2020 proposed discount.

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 $5.6 million in FY 2020.

For future years Directors are proposing the following Discount Policy.

The Company will provide discounts to WESCT beneficiaries on an annual basis. The discount will be up to 15% of revenue subject to:

- The Equity ratio forecast being not less than 50% in the following three years;
- banking and other funding covenants that the company is subject to being met;
- sufficient funding being available for prudent management of the company's debt;
- funding being available for the renewal of existing assets or investment in network or business assets.

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).

Proposed discounts will be notified on the company's website prior to the start of the financial year.

Information to be provided to Shareholder

1. Updates will be provided on key issues.
2. Quarterly report from the Chairman/Chief Executive followed by meetings to discuss.
3. Half year reports will be delivered to the Company's shareholder within three 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. The Annual Report will be delivered to the Company's shareholder within three 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 with a final SCI delivered to the shareholder within three months of the end of the financial year. The final report is to be made available to the public within one month of the final version being delivered to the shareholder.

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 criteria as any significant capital expenditure. In addition, the questions of control and risk will be addressed.

All investment proposals will be considered by the Company's Board of Directors. If the quantum / value 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 Share-holder 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.

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 electrical contracting services to FCLM, the Company's metering subsidiary.

TLC owns 75% of Speedys Road Hydro Limited and provides electricity lines services to allow export of electricity tothe network.

FCLM provides metering services to TLC.

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.

As per the provisions made in Section 40 (2) of the Energy Companies Act 1992, 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.

The Lines Company Limited

Company number

578653

Directors

M C Darrow
A D Johnson
J M Rae
C P Richardson
R A Sutton
S V Young

Registered Office

The Lines Company Limited
King Street East
Te Kūiti 3941
New Zealand

Auditor

PricewaterhouseCoopers has been appointed to perform the audit on behalf of the Auditor-General

Solicitors

Russell McVeagh
Forgeson Law
Harmos Horton Lusk

Postal Address

PO Box 281, Te Kūiti
New Zealand

Telephone 07 878 0600

Fax 07 878 7024