the lines company

Te Hono ā-Hiko

Let's all keep connected

Statement of Corporate Intent

2020

Letter of Expectation

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

Tēnā koutou katoa, TLC Board of Directors

Further to the Letter of Expectation WESCT provided in 2019 WESCT thanks the Board for the opportunity to provide a similar document for the Board's consideration when it completes the 2020 Statement of Corporate Intent.

WESCT continues to see The Lines Company (TLC) as an integral part of the community landscape here in the Waitomo district with the Company playing a hugely important role of enabling energy use and keeping our communities connected not only in Waitomo but also throughout the wider King Country.

WESCT would like to confirm its previously stated positions around:

Kaitiakitanga — Custodianship
Whakatipu — Growth
Ngā Whakawhitinga — Communications
Hapori — Community
Hauora me te Haumaru — Health and Safety

We acknowledge that there have been a number of significant changes that have occurred during the FY2020 year involving:

- Regulatory change; and
- The investment in Trustpower metering assets through the TLC subsidiary FCL Metering Ltd (FCLM).

With that in mind it is acknowledged that these will affect the future financial outcomes of the TLC business and the substantial regulatory pricing change will affect the financial results of FY2021 year and beyond.

With this background we confirm our expectations as a diligent shareholder, that we wish the Board to consider in its preparation of the 2020 SCI, as:

1. TLC to continue a 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.
2. An expectation for the TLC Board to act with integrity, to act within in all laws and regulations including quality of (electricity) supply requirements.
3. TLC will continue to actively support local social initiatives and regional development. TLC should also consider issues like energy hardship and affordability and being a large local employer.
4. TLC to be resourceful and innovative with its operations. The company should work collaboratively to provide reliable, safe and cost-efficient services while continuing to make reliability of supply a top priority.
5. Existing investments outside the core distribution network should contribute to the profitability of the company and provide visible benefits to the beneficiaries of WESCT. Any new investments should be carefully considered, regularly reviewed and clearly enhance the long-term viability of the group.
6. The Board will prudently manage debt levels and interest rate risk.
7. There is a strong expectation that TLC is a safe and healthy place to work and that every effort is made to keep both staff and the general public safe. Not only shall all government requirements and regulations be met but the company should also actively promote a fully integrated health, safety and wellbeing culture through the organisation.

Ngā mihi
On behalf of the WESCT Trustees

Peter co Keeling

Peter Keeling
Chairperson

The Lines Company (TLC) 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. TLC also own 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.

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 revenue derived from 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.

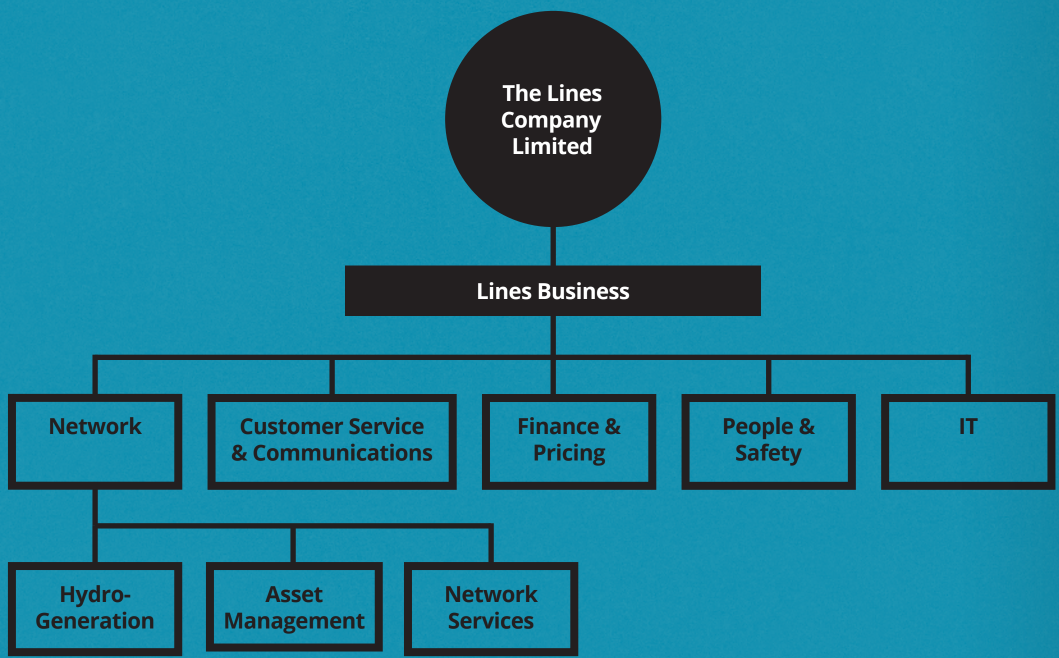
We have approximately 18,500 ‘on-network’ customers and 24,300 points where our customers connect to our network. We operate in some of the most beautiful, but most challenging parts of New Zealand.

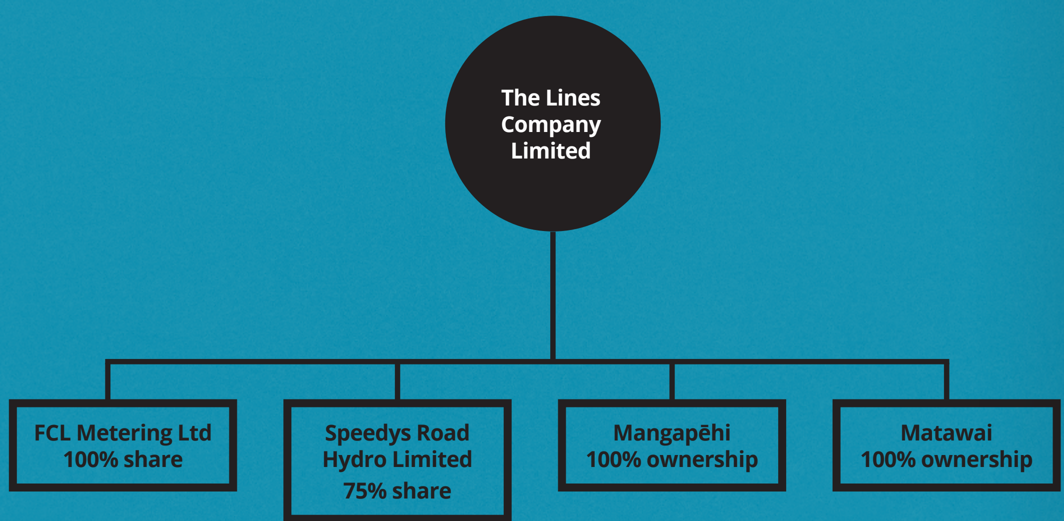
Our core focus is on keeping our customers connected, irrespective of where they live or work. That involves operating and maintaining our extensive network, ensuring we respond quickly to storms and other high-risk events, initiating major electrical projects to enable new initiatives or improve reliability,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

We have our own metering business, FCL Metering (FCL) which is a wholly owned subsidiary of TLC. Through FCL, we have a large number of customers throughout New Zealand and own 140,000 meters.

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





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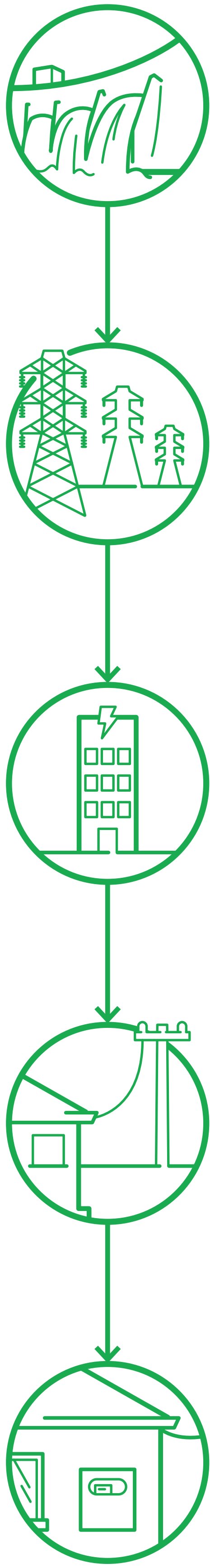
How does electricity get to my house?



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 **powerswitch.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 **powerswitch.org.nz**

External considerations

The Lines Company, like any organisation, is influenced by many factors beyond it's 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.

We cannot underestimate the impact COVID-19 will have on our customers. This is an unprecedented event and the long-term impact and ongoing repercussions this will have on our customers and the community is unknown. As a business we will keep this at the forefront of our minds and ensure we remain proactive in our approach to customer service.

TLC responded positively to findings in the Electricity Price Review by removing our prompt payment discount and automatically incorporating it into all bills, therefore applying it to every customer. We also established a customer advisory panel to seek the views of customers on key industry and regional electricity issues. Over the coming year we will continue to work closely with government and industry working groups around issues that concern the industry and our customers.

Our role in the community is more than just an energy distributor. What our company does will have a demonstrable impact on communities across our network for generations to come. It is a responsibility we take, and will continue to take, seriously.

1

Kaitiakitanga

(Custodianship)

Sustainability

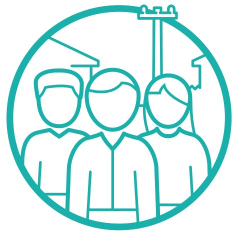
At TLC we believe that economic growth and the wellbeing of our communities are inextricably linked to the health of the environment.

We embrace our responsibility for environmental stewardship, and we are committed to integrating environmental practices and sustainability principles into our core business strategy.

For us, sustainability consists of four elements — culture, community, economic and environmental:

Culture
include and honour

- Fostering diversity and inclusion
- Operate in harmony with cultural concepts
- Honour where we have come from
- Tikanga Māori



Community
care and grow

- Supporting strong, resilient communities
- Equitable distribution of resources
- Do what is right by our people
- Safety/wellbeing

Economic
sustain and enable

- Business resilience and innovation
- Supply chain management
- Intergenerational thinking
- Stimulating social and economic growth
- Acting ethically

Environment
improve and protect

- Reduce our environmental footprint
- Protect our environment

Manaaki whenua, Manaaki tangata, Haere whakamua
Care for the land, Care for the people, Go forward

Asset Investment

In the coming year, we will remain strongly focussed on building and maintaining intergenerational assets. In terms of investment, we will spend more than has ever been spent in a two year period before. We are making investment decisions that will impact on our community for the next 40-50 years while also addressing some long-term design issues.

Our investment programme will remain firmly focussed on improving safety, managing reliability, alleviating security of supply constraints, building resilience in TLC's power transformer fleet and maintaining a sustainable line renewal programme. It will also be aimed squarely at improving customer experience; targeting areas of spend to provide the greatest amount of value to the greatest number of customers.

Risk management across the whole network will continue to be a top priority. Our decisions will continue to consider risk around asset failure, ease of installation, safety, operational issues and ongoing maintenance costs.

We will also continue to focus on cyber-security. There is no single mitigation strategy that guarantees prevention of cyber-security incidents so our focus will be on the implementation of a range of recommendations following a review last year.

In the coming year, we are budgeting to spend $14 million on asset renewals and $6m on work associated with growth and network improvement (this excludes specialist growth projects for major customers).

$14m
budgeted for asset renewals in the coming year

Major investments

TLC has continued to suffer power transformer failures at its key substations, primarily driven by manufacturing defects.

In 2021 we will begin work to install two new 15MVA transformers at Waitete substation which supplies most of Te Kuiti. This work will allow the existing Waitete transformers to be refurbished and used for upgrades at other substations; creating a cascading improvement in reliability of supply throughout the network.

Our decision to relocate and reuse the existing transformers means the work at Waitete has been brought forward by two years.

A further substation is planned for the Whakamaru area, aimed at improving reliability of supply, particularly for farmers.

Work will also continue on the second stage of a major project which has already involved upgrading an aged and undersized cable servicing Turangi and surrounding areas. The second stage will involve installing a back-up supply to improve reliability for more than 3,500 customers, and to allow for future growth.

2

15MVA transformers to be installed at Waitete substation in 2021

Automation and future focus

Our spending on automation projects will increase, focused largely on business-critical projects and those which allow us to meet new regulatory requirements.

The remote nature of our network means increasing automation allows real-time operations to be directed from the control room, providing a significant return on investment. Additional automation reduces the number of customers affected by outages and also allows us to get power back on in remote areas, sooner.

While we are continuing to invest in our network, we will also maintain an eye to the future and will continue to support electric vehicle infrastructure as well as make further changes to our own fleet.

Our industry is a fast-moving one and highly technical. We will explore the timely adoption of alternative technologies and the opportunities and challenges solar energy may present to our community going forward.

Ownership

Waitomo Energy Services Customer Trust (WESCT), which holds 100 percent of the shares in The Lines Company, will hold Trustee elections in September 2020. Seats held by sitting 'A' Trustees Erin Gray, Nigel Chetty and William Oliver will be contested.

There will also be an ownership review of TLC in September, where the WESCT beneficiaries will vote as to whether to keep or sell shares in the company. A report will be published in August outlining the relative advantages and disadvantages of continued Trust ownership. We will work closely with WESCT to provide whatever information is required so they can form a recommendation.

More than anything else our purpose is to help our community prosper and grow through the provision of reliable, safe energy.

2

Whakatipu

(Growth)

We will continue to take an active role in seeking out and supporting growth in our community through our role as an economic enabler. We will also continue to seek growth opportunities for the company, including those which will provide unregulated revenue opportunities.

3

TLC owns and maintains three low-impact hydro-generation schemes

Revenue

TLC's revenue, like many electricity distributors in New Zealand, is regulated and capped. Revenue and quality targets are set-in five-year blocks by the Commerce Commission (known as the default price path 'DPP' or price-quality path). The Commerce Commission has set the price-quality path that applies from 1 April 2020 until March 2025.

The result of that process has been a reduction in net allowable revenue for regulated electricity distributors in New Zealand, driven by a general reduction in the global cost of finance. For TLC this means a reduction from $46m to $42.1m. As a result, we have reviewed our pricing and reduced the distribution charges to customers, creating an 8% reduction in revenue/ customer cost.

Generation

The Lines Company owns three low-impact hydro-generation schemes. Generation revenue from the schemes was impacted in FY20 by low rainfall. However, for the coming year, revenue is forecast to grow, based on average rainfall and an average forecast price path.

Metering

In 2019 TLC subsidiary FCL Metering purchased Trustpower's legacy metering and test house business.

This has given FCL Metering scale, technology and a national footprint to drive work forward and realise further opportunities in this space.

The acquisition of Trustpower's metering business is an example of investments outside our core distribution network focused on generating profitability for the company and lifting benefits to our shareholder.

Over the coming year FCL Metering will focus on fully integrating Trustpower's metering business and on establishing efficient and scalable operational systems. This work will include improving customer service and tailoring services as well as strengthening its asset base, by upgrading legacy metering sites with smart meters and new communication technology.

Responding to growth

TLC is already engaging with two major customers to provide additional capacity for industrial growth. In both cases the work requires the upgrade of existing 33kV lines from the key supply points (Hangatiki and Atiamuri), line construction, construction of a new substation and a new inter-connecting link. These are significant projects estimated at approximately $10 million and work next year will proceed at pace.

The quantum of expenditure means TLC is unable to fund these within its regulated capital expenditure limits. On that basis the 2020 Asset Management Plan (AMP) is based on this work being funded by the customer. Other commercial options will be explored if required.

Our network covers some of the most remote parts of New Zealand. We have no major urban centres and we service a high number of holiday homes. We have challenging access issues which we must overcome to service some of our assets and also have long lengths of privately-owned 11kV lines, often in remote country.

3

Ngā Whakatutukitanga

(Performance)

Given our critical role in the community, we should and do expect our levels of performance to be held to the highest levels of account.

There is an expectation from our shareholder and others that the company work collaboratively to provide reliable, safe and cost-efficient services while continuing to make reliability of supply a top priority.

Reliability

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). New regulatory limits for both SAIDI and SAIFI will come into effect in the coming year with SAIDI and SAIFI split for planned and unplanned work.

Higher planned limits will allow for additional maintenance and capital works.

For the next five years, our expected SAIDI (average minutes of interruption per customer) will go up. In the coming year, given the maintenance programme outlined in our Asset Management Plan, we are forecasting 253 SAIDI minutes per year — 88 minutes planned and 165 minutes unplanned.

We are forecasting 3.6 SAIFIs per customer (budgeted value — DPP3 limit is higher) in the coming year, made up of 1.0 interruptions in relation to planned work and 2.6 interruptions in relation to unplanned work.

The coming year will see us put huge focus on improving unplanned outages.

We intend expanding our approach to reliability management including:

- Improving how we collect, analyse and apply asset and network data to estimate the probability of an outage
- How we mitigate the impact of outages when they occur
- How we assess and apply vegetation management to minimise outages
- Developing our systems and asset management practices to provide greater insights and data analysis to help us understand and mitigate the causes of faults.

Our network

Vegetation control

Trees and vegetation have a significant impact on the performance of our network and in the last year we have seen a growth in interruptions caused by vegetation.

To address this issue, in the coming year, we will increase our expenditure on vegetation control from $1.2 m to $1.4 m.

We remain challenged by trees on some privately-owned forestry blocks and on private land. Where possible, we will continue working collaboratively with block and property owners to address these issues early. Doing so will avoid considerable damage to our assets and at times, major inconvenience to our customers.

The coming year will also see work begin on a substantial vegetation database which will help us assess the work required and target it more effectively.

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.

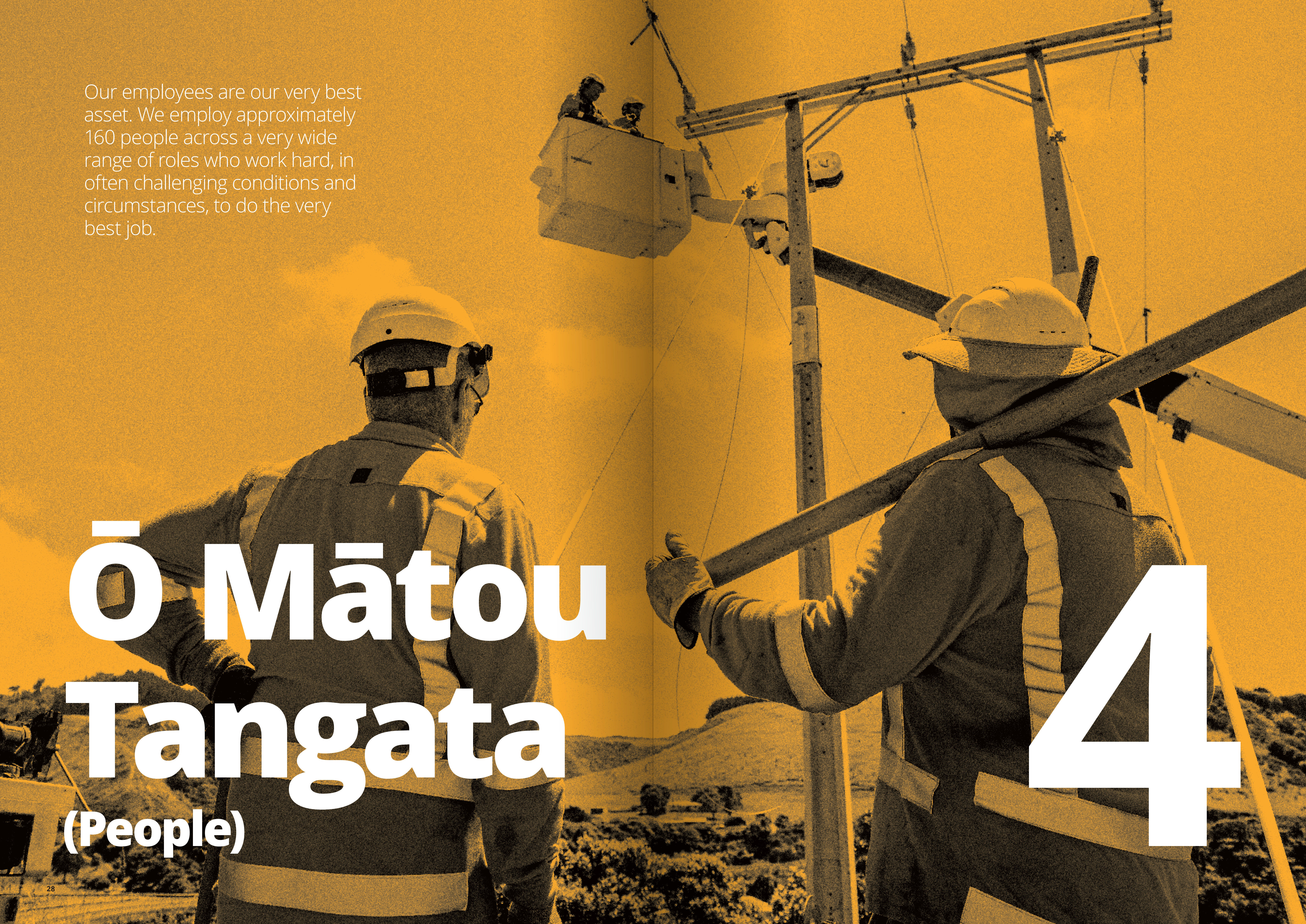
This year we will focus on five internal efficiencies, particularly; fuel, high-volume network assets (like insulators), consumables and the billing process. This financial year these initiatives will aim to save more than $200k in costs to the business. We have already begun work on these initiatives, switching fuel partners and an additional 3000 customers choosing to get their bills by email.

TLC Discount

As part of our review of prices in the 2020/21 year, we moved to a posted discount for WESCT beneficiaries; meaning the discount will be on prices and therefore applied to customers based on volumes used during the year. The discount will now be split across two payments (December 2020 and May 2021) and is expected to be $3.8 million for the coming year, based on forecast volumes. This, combined with reduced line charges, is equivalent to $6.2 million of direct value for beneficiaries for the coming year.

$6.2m

of direct value for beneficiaries for the coming year.



Our employees are our very best asset. We employ approximately 160 people across a very wide range of roles who work hard, in often challenging conditions and circumstances, to do the very best job.

Ō Mātou Tangata (People)

4

The majority of our people live, work and play on the network. They are integral members of the wider community who work hard to keep local businesses, farms, whanau and friends connected. We are an employer of choice, a place where people want to work and to contribute to their community.

Remuneration

During 2019 we developed and implemented a robust remuneration framework. The framework provides a mechanism to ensure that remuneration is managed appropriately, fairly and consistently. This framework and the remuneration policy supports TLC's objectives and values and ensures that we have a very deliberate and systemic approach to remuneration.

This year we made a commitment to pay all staff the Living Wage.

Professional development

We will continue to proactively target professional development opportunities to support the needs of our organisation, and the professional development of our employees.

We will also continue our successful Trainee Line Management Programme to grow and foster local people and help them become highly valued and highly skilled members of our team. We currently have ten trainee line mechanics and one electrical apprentice as part of the TLC crew.

10

trainee line mechanics and one electrical apprentice as part of the TLC crew

Health, safety and wellbeing

The health, safety and well-being of our people will remain an absolute priority in the coming year.

There is an ever-increasing need from our business to deliver better safety outcomes; build safety leadership capabilities and drive successful initiatives. We comply with legislative requirements in order to keep our people, contractors and members of the public safe.

Our health and safety roadmap outlines key workstreams over the next few years to ensure safety and wellbeing remains a priority.

We will focus on improving our safety leadership, further increasing employee engagement, and managing our critical risks through a control-based management framework. Using robust analysis, we are identifying the critical controls associated with the critical risks and this area of work will continue throughout the coming year.

50

field staff vehicles fitted with the Blackline Lone Worker System

The Lines Company is an integral part of the wider community. We are a large employer, an economic enabler and a long-term investor. In the coming year, we will continue to be a strong advocate for our region and the communities and families who make up the population on our network.

Te Hapori (Community)

5

Energy hardship

Part of that advocacy will be continuing to work more closely with whanau who experience energy hardship.

At TLC we have already established a dedicated case management approach to working with vulnerable customers that:

- Takes a holistic approach to support, understanding that our bill is not an isolated expense
- Connects customers to community services
- Works with customers to recover debt
- Supports customers to find the best plan for them
- Supports and educates around energy efficiency

We have strengthened our links to local community groups and, where customers are willing to work with us, we have seen positive results.

In the coming year, we are proposing to continue working on a number of initiatives including establishing an energy hardship package that includes:

- One-on-one support to access community services
- Home energy assessments
- Education and awareness around energy efficiency
- Support to find the best plan
- Further developing collaborative working relationships with community agencies
- Identifying local and national funding opportunities and initiatives to support our customers
- Working harder to continue building trust with our community

Customer Advisory Panel

The coming year will also see us further develop our Customer Advisory Panel established in 2019. The Panel gives a voice within TLC to people with a deep understanding of the groups they represent and enables us to explore topics and seek feedback on an ongoing basis.

It will help TLC to test our investment plans, and customer service process improvements, ensure we capture systemic customer issues and improve the customer experience. TLC intends to continue listening with an open mind to the diverse views expressed, be open with information, and reporting back to the panel on how we have responded to feedback.

Similarly, we will continue to work on initiatives that improve our relationship with customers. That includes offering people more choice in the way we communicate — to make it easier for them, and most cost efficient for us. Last year, after a proactive campaign, we saw an additional 3000 customers choosing to get their bills by email. In addition, more and more customers are now choosing to be notified about outages or updates via email or text.

3,000 **more customers choosing to get their bills by email**

Affordability

In the coming year, we intend to look at encouraging more customers to online payment options to bring down internal costs and assist with issues of affordability. This is also linked to major banks signalling a move away from accepting cheques.

In April 2020, and in line with government expectations, we dropped our prompt payment discount, automatically incorporating it into all bills and therefore applying it to every customer. We also made recommendations to some residential customers about changing pricing plans. In the coming year, we will continue to proactively work with customers to ensure they are on the pricing plan most suited to their property.

Community support

We will continue to be proud key sponsors and funding supporters of our wider community. As a community-owned organisation, we value what that means and it is our intention to continue 'walking the talk'. Our relationship with King Country Junior Rugby will continue in the coming year as will our commitment to the Meads Brothers Exhibition in Te Kuiti.

We will also continue to support young people in our community by offering Inspiring Local Minds Scholarships which assist local rangitahi into training or further study.

We will hold two community funding rounds next year, continuing to give preference to projects which benefit the wider community, are free-of-charge and have already secured other sources of funding. Grants provided by TLC aim to benefit as many people as possible within the network area.

We will invest in Maru Energy Trust which the company established in August 2018 and insulate 200 homes across the network.

At the same time, TLC will continue to work alongside groups in our community and will continue to encourage staff to volunteer and share their skills to make our community stronger.

TLC has a material debenture in the Northern King Country Development Trust. This Trust has refocussed recently on supporting business and economic development as a result of Covid-19.

90

homes already insulated through the Maru Energy Trust scheme

TLC Inspiring Local Minds 2019 Scholarship winners Gemma Gaukrodger and Paige Coffin-Bell.

How we will be measured

Key Performance Indicator	Forecast 2019/20	Target 2020/21	How we will be measured
Custodianship			
We will generate a sustainable Return on Average Assets.	2.9%	2.5%	Our Return on Average Assets.
We will maintain a sustainable Return on Average Equity.	4.2%	3.6%	Our return on Average Equity (before customer discounts).
Our Equity Ratio will not be less than 40%.	47%	No less than 40%	Our Equity to Asset Ratio.
We will meet all expectations under the TLC Discount Policy.	$5.6m	$3.9m (based on expected customer usage)	We will report on the discount paid to beneficiary customers during the year.
We will meet all expectations under the TLC Dividend Policy.	$200k	$250k	Aligned with the running costs of WESCT and consider the funds already held by the Trust. Payment of dividend to WESCT.
Group Debt (including subordinated debentures).	$94.5m	$91.6m	By reporting on the $ value of borrowings including subordinated debentures.
Average Cost of Debt	3.3%	3.12%	Average % cost of debt.
Community			
We will invest in local sponsorships aligned to our key focus areas.	$75k	$65k	We will measure and report on our sponsorship investments.
We will increase awareness of TLC's sponsorships.	20%	23%	Through our annual customer satisfaction and perception survey.
We will invest in Maru Energy and insulated 200 homes across the network	100	150	We will report quarterly on progress.
Effectively and proactively work with customers identified as being vulnerable to reach positive outcomes for both parties.	N/A	100%	We will report quarterly on progress and measures put in.
Performance			
Reliability — Unplanned SAIDI	271 minutes	181.48 minutes (max)	Calculation based on Default Price Path Annual Compliance Statement (target taken from 2020 AMP)
Reliability — Unplanned SAIFI	3.0	3.27 minutes	Calculation based on Default Price Path Annual Compliance Statement (target taken from 2020 AMP)
People			
There will be no serious harm injuries.	Nil	Nil	We will measure how many incidents resulted in serious harm.
We will reduce the H&S Critical Risk Incidents.	48 baseline	Incidents related to Critical Risk categories to reduce by 10%	We will measure and report incidents against each critical risk as a basis for future trend reporting.

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
FCL	FCL Metering 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.
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 FY2021–2025 financial years which are summarised in the tables overleaf.

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 'DPP' or price-quality path). The Commerce Commission has set the default price-quality path that applies from 1 April 2020 until March 2025. When setting the revenue cap, there was a reduction in the allowable return on capital from 7.1% to 4.6%. This meant there was an overall reduction in revenue across most electricity distributors, TLC included.

As a result, we have reviewed our pricing and reduced the distribution charges to customers. In addition, transmission charges payable to Transpower also reduced by approximately 11% which reduced our pass through charges. The impact is a reduction to an average residential customer of around 8% on a comparable bill for the previous year. The overall impact of our pricing changes was to reduce our revenue from network charges by approximately $2.3m.

As part of our review of prices we have also moved to a posted discount for WESCT beneficiaries. This means that the discount will be applied to prices for those customers based on the volumes used during the year. The discount will be applied twice a year and is expected to be $3.9m for FY2021 (based on forecast volumes). This combined with reduced lines charges is equivalent to $6.2m for the FY2021 year (compared to $6.7m in last year's SCI).

The COVID-19 nationwide lockdown started in late March and TLC quickly recognised the impact this would have on our customers. As a result, TLC waived variable charges for residential customers for the month of April. In addition, a lot of businesses were closed during this period, so business income was expected to be reduced. As a result, budgeted network revenue for April 2020 was reduced by $1.0m. Expected capital spend was reduced by $2m and cost recoveries from capital work that was internally resourced was also reduced by $0.7m.

During FY2020 FCL Metering purchased Trustpower's legacy metering and test house business. This has given FCL Metering scale, technology and a national footprint to drive the business forward. As a result, returns from the metering business have increased by $1.7m on the previous year's SCI forecasts for the metering business.

Generation revenue for the FY2020 year has been impacted by low rainfall for the year. The forecast for the SCI period is expected to increase over FY2020 as future forecasts are based on average rainfall and an average forecast price path.

The annual Asset Management Plan (AMP) has been updated and has been used as the basis for operating and capital forecasts. The focus continues to be on improving reliability performance and building resilience in the network. We have also planned for growth in our network area driven by increased capacity requirements of our customers. Our capital plan has been revised to reflect these focus areas. Continuing on from FY2019 and FY2020, there is an increased level of capital spend forecast over the FY2021 to FY2023 years. Over the 10 year period of the AMP the level of capex is $13m (or 3%) higher than in the 2019 AMP for the same period.

The forecast debt position reflects additional capital expenditure in the AMP and the starting debt position of the business which is approximately $17m higher than the previous SCI forecast. This has also increased financing costs accordingly.

Taking these changes into account the company has budgeted a net profit after discounts and tax for the FY2021 year of $5.1m.

Financial Forecasts

TLC Earnings

Earnings (before customer discounts)	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Revenue	52,138	51,400	**60,847**	**61,988**	62,367	63,063	64,659	67,739
EBITDA	20,044	28,087	**31,220**	**32,262**	32,123	31,990	33,235	35,449
EBIT	7,528	16,195	**16,741**	**13,879**	13,425	15,270	16,103	17,948
Interest	2,619	2,978	**2,836**	**3,081**	2,790	2,571	2,238	1,970
Profit after tax	2,443	9,081	**10,059**	**7,893**	7,709	9,208	10,055	11,590
Return on average assets	2.1%	4.2%	**4.4%**	**3.5%**	3.4%	3.7%	3.9%	4.3%
Return on average equity	1.7%	6.0%	**7.1%**	**5.6%**	5.3%	6.1%	6.3%	7.0%

Earnings (after customer discounts)	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Revenue	52,138	51,400	**60,847**	**61,988**	62,367	63,063	64,659	67,739
Less Customer discounts	(5,595)	(5,600)	**(5,600)**	**(3,800)**	(3,947)	(4,061)	(4,164)	(4,423)
Net revenue	46,543	45,800	**55,247**	**58,188**	58,420	59,003	60,495	63,316
EBITDA	14,449	22,487	**25,620**	**28,462**	28,177	27,929	29,071	31,026
EBIT	1,932	10,595	**11,141**	**10,079**	9,478	11,210	11,939	13,525
Interest	2,619	2,978	**2,836**	**3,081**	2,790	2,571	2,238	1,970
Profit after tax	(1,586)	5,049	**6,027**	**5,157**	4,867	6,284	7,058	8,405
Return on average assets	0.5%	2.8%	**2.9%**	**2.5%**	2.4%	2.7%	2.9%	3.2%
Return on average equity	-1.1%	3.3%	**4.2%**	**3.6%**	3.3%	4.1%	4.4%	5.1%

Note: FY 2019 and FY 2020 include transition discounts of $1.6 and $1.9 million (before tax) respectively that supported customers through the first 12 months of Time of Use (ToU) pricing.

Group Revenue before TLC discount	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
The Lines Company								
Network revenue	42,383	42,116	**46,275**	**41,096**	43,719	44,984	46,123	48,989
Network services	2,293	1,500	**1,837**	**2,000**	2,040	2,081	2,122	2,165
Generation Revenue	1,966	1,913	**1,592**	**2,203**	2,062	2,114	1,824	1,820
Total TLC Revenue	**46,642**	**45,529**	**49,705**	**45,299**	**47,820**	**49,179**	**50,069**	**52,973**
FCL								
On Network revenue	2,509	2,508	**2,595**	**2,648**	2,695	2,744	2,793	2,844
Meter reading (OTA and manual)	502	780	**1,149**	**1,148**	1,176	1,197	1,219	1,240
Off Network revenue	2,754	3,377	**2,914**	**3,187**	3,448	3,713	3,780	3,848
GoodMeasure	–	–	**66**	**360**	953	997	1,044	1,092
Trustpower Metering	–	–	**4,727**	**9,569**	6,502	5,465	5,754	5,741
Total FCL Revenue	**5,765**	**6,665**	**11,451**	**16,912**	**14,774**	**14,117**	**14,590**	**14,766**
Consolidation entries								
Consolidation entries	(269)	(794)	**(309)**	**(223)**	(228)	(232)	–	–
Group Revenue	**52,138**	**51,400**	**60,847**	**61,988**	**62,367**	**63,063**	**64,659**	**67,739**

TLC Group Balance Sheet

Balance Sheet	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Cash	725	862	**1,409**	**853**	784	771	792	817
Other Current Assets	7,177	6,779	**9,112**	**5,467**	5,449	5,514	5,608	5,820
Non-current Assets	271,322	284,165	**284,900**	**288,733**	294,448	301,482	303,358	303,552
Other Financial Assets								
Total Assets	**279,225**	**291,806**	**295,421**	**295,053**	**300,681**	**307,767**	**309,758**	**310,189**
Current Liabilities	10,980	8,676	**11,850**	**9,419**	9,262	9,296	9,194	9,693
Deferred Tax	51,051	51,415	**49,863**	**49,951**	50,141	50,777	51,818	52,073
Bank Loans	68,456	72,964	**90,499**	**87,680**	88,462	88,656	82,724	74,081
Subordinated debentures & Minority Interest Loans	4,050	4,000	**4,000**	**3,950**	3,900	3,850	3,800	3,750
Shareholder Funds	144,688	154,751	**139,186**	**144,053**	148,917	155,188	162,222	170,593
Total Equity and Liabilities	**279,225**	**291,806**	**295,398**	**295,053**	**300,681**	**307,767**	**309,758**	**310,189**

Cash Flows	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Operating Cash Flows	17,693	23,013	**19,045**	**28,529**	27,709	27,807	29,324	30,987
Capital Expenditure	(26,401)	(23,366)	**(34,605)**	**(22,216)**	(24,413)	(23,753)	(19,008)	(17,695)
Debt Movements, net	14,467	6,620	**22,043**	**(2,820)**	782	194	(5,931)	(8,644)
Dividends/Discounts	(5,600)	(5,800)	**(5,800)**	**(4,050)**	(4,147)	(4,261)	(4,364)	(4,623)
Loan to related party		–						
Sale of Assets	(92)	(50)	**–**	**–**	–	–	–	–
Net Cash Movement	**159**	**417**	**684**	**556**	**68**	**(13)**	**21**	**25**

Performance Targets

Return on Average Assets	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Return (before customer discounts)	2.1%	4.2%	**4.4%**	**3.5%**	3.4%	3.7%	3.9%	4.3%
Return (after customer discounts)	0.5%	2.8%	**2.9%**	**2.5%**	2.4%	2.7%	2.9%	3.2%

Return on Average Equity	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Return (before customer discounts)	1.7%	6.0%	**7.1%**	**5.6%**	5.3%	6.1%	6.3%	7.0%
Return (after customer discounts)	-1.1%	3.3%	**4.2%**	**3.6%**	3.3%	4.1%	4.4%	5.1%

Debt	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Subordinated debentures	3,000	3,000	**3,000**	**3,000**	3,000	3,000	3,000	3,000
Minority Interest Loans	1,050	1,000	**1,000**	**950**	900	850	800	750
Bank Loans	68,456	72,964	**90,499**	**87,680**	88,462	88,656	82,724	74,081
Total	**72,506**	**76,964**	**94,499**	**91,630**	**92,362**	**92,506**	**86,524**	**77,831**

Dividends	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Dividends	–	(200)	**(200)**	**(250)**	(250)	(200)	(200)	(200)

Discounts	2019 PY	2020 SCI	2020 Current Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Proposed/posted discounts	(5,595)	(5,600)	**(5,600)**	**(3,800)**	(3,947)	(4,061)	(4,164)	(4,423)
Total	**(5,595)**	**(5,600)**	**(5,600)**	**(3,800)**	**(3,947)**	**(4,061)**	**(4,164)**	**(4,423)**

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 2020, which comply with the International Financial Reporting Standards (IFRS).

Distribution of Surplus

In setting any proposed dividend or discount, the intergenerational 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 prices for 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 discount to WESCT beneficiary customers for the FY 2021 year has been included as a posted discount on prices in the pricing schedules as notified on the TLC website.

The Discount Policy describes the methodology to determine the value of any discounts that are periodically applied to WESCT beneficiary customer accounts.

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.

Discounts will be applied by way of discounted prices to beneficiaries and will be based on the volumes as billed to those customers over the period. Discounts will be credited to customers' accounts twice a year. Discounted prices will be advised to customers 20 days prior to the start of the financial year to which the discounted prices will apply.

Information to be provided to the 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 parties

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 FCL Metering the Company's metering subsidiary.

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

FCL Metering 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 (as at 31 March 2020)

M C Darrow (Chair)
A D Johnson
C P Richardson
B L Takiari-Brame
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

Tompkins Wake
Chapman Tripp
Forgeson Law
Harmos Horton Lusk

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