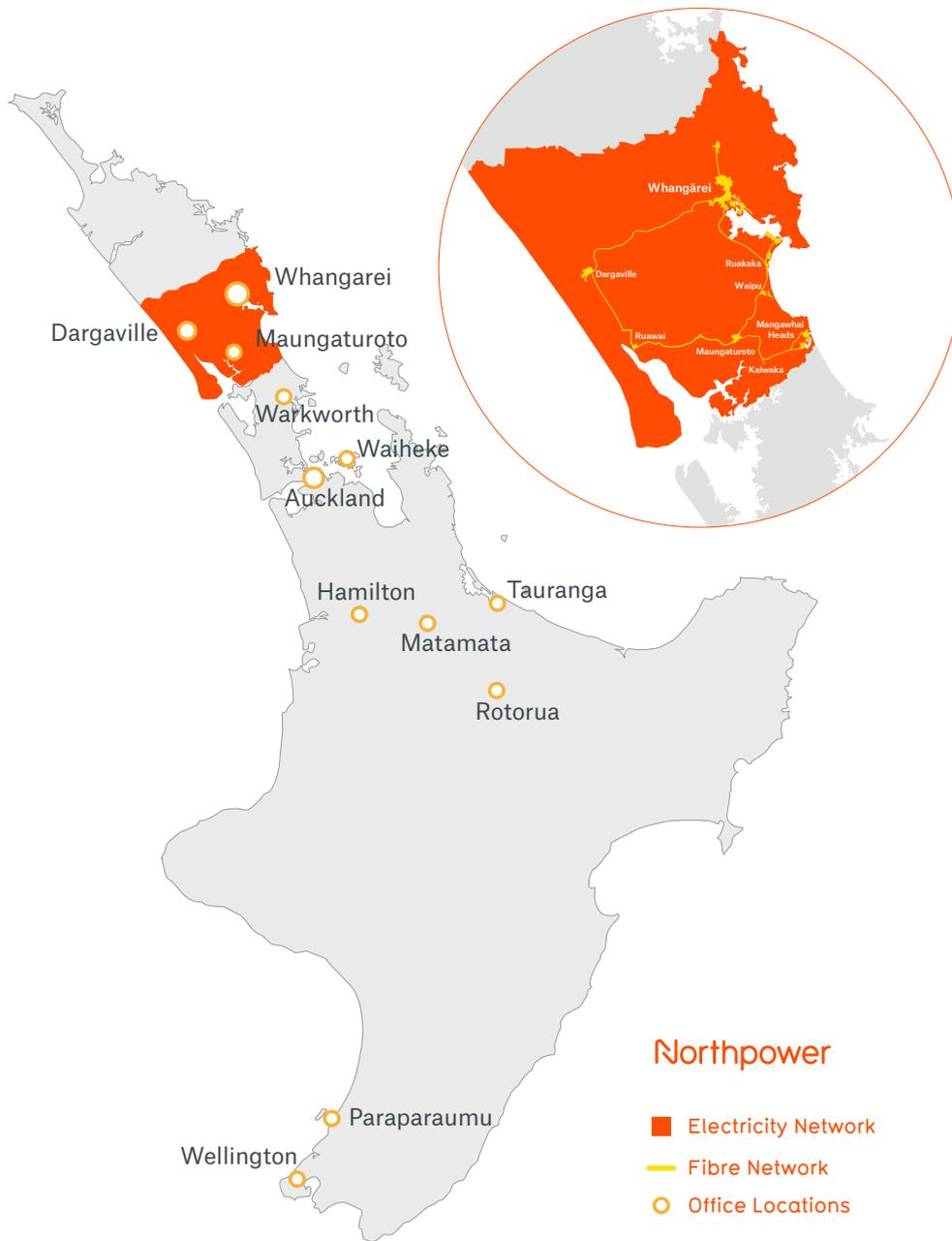




Statement of Corporate Intent FY2023 – FY2025

Northpower



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Statement of Corporate Intent

FY2023 – FY2025

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Foreword

The role of the Statement of Corporate Intent

This Statement of Corporate Intent (SCI) is Northpower's performance commitment to the Northpower Electric Power Trust (NEPT) and its consumer owners.

Northpower's delivery is overseen by its Board of Directors, and Directors use this SCI to shape Northpower's focus and delivery. It is also the reference point for discussions on performance between NEPT Trustees and Northpower Directors.

The targets in this SCI reflect discussions between NEPT Trustees and Northpower Directors. They set out specifically the performance outcomes to be achieved, the community contribution to be made and the nature and level of financial return to be achieved.

This SCI is an element of the integrated governance applied by NEPT on behalf of consumer owners. This includes a 5-yearly review of ownership structure for completion in July 2022.

Northpower's role enabling economic growth and development

Northpower is a consumer owned company, and its role in supporting economic development of the region is reflected in its Purpose - Connecting Communities and Building Futures for Northland.

The company's core focus in Connecting Communities was keenly felt as the region has traversed the uncertainties of Covid-19 over the past two years. Its power and high speed fibre networks supported businesses and families as the workplace and home have become increasingly interconnected.

Northpower's broader ambition to Building Futures for Northland has also been evident as its teams extend networks to stay ahead of record population growth in the region and explore options to enable the realisation of Northland's significant renewable energy potential.

This SCI sets the standard for that contribution and a structured benchmark to measure its success. It's an important tool in ensuring Northpower's contribution in the region is maximised.



Erc Angelo

NEPT Chair



Mark Trigg

Northpower Chair

Our why?
Connecting communities and
building futures for Northland



Introduction

This Statement of Corporate Intent (“SCI”) sets out the background, overall intentions and objectives for Northpower Limited and its subsidiaries (“the Northpower Group” or “the Group”) for the period ending 31 March 2023.

Our context

Corporate objectives

The principal objective of the Northpower Group is to provide a safe, secure and reliable supply of electricity, while operating as a successful and sustainable business for the benefit of its shareholders, the electricity consumers of Kaipara and Whangārei.

In pursuing Northpower’s objectives, our business activities will be guided by the following principles:

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

Scope of activities

The scope of activities undertaken by the Group includes:

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

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

Subsidiaries

Northpower Fibre Ltd (NFL) is a 100% owned subsidiary of Northpower with the Minister of Finance holding one special share. Northpower Fibre Ltd provides ultra-fast broadband (“UFB”) services in our network area.

Our key performance indicators

Northpower is approaching peak investment in its Electricity Network over FY23 and FY24 reflecting the growth on the Electricity Network and the need for resilient Electricity Networks. As demand for capital peaks, our focus will be on generating steady returns to fund these investments while managing debt levels and ensuring capital is available to continue to sustainably grow the value of the group for the benefit of consumer owners.

The following Key Performance Indicators (KPIs) set out our anticipated performance for the year ending 31 March 2023, as well as a representative view of the projected financial performance of the Northpower Group over the planning period to 2025. Our KPIs seek to ensure we strike an appropriate balance between a reliable service offering, the level of debt we take on to support increased levels of investment and appropriate financial returns as we adapt to the factors impacting our sector.

Financial KPIs

Our financial KPIs reflect our focus on ensuring an appropriate balance and focus on business performance, lifting distributions to our consumer owners and our management of longer term debt levels. Our targets are set at a Group level and reflect the strength of our complementary asset holding.

	2022-23	2023-24	2024-25
Northpower Group			
Net Profit After Tax/Shareholders' Funds ¹ (pre-distribution)	≥7.5%	≥7.5%	≥7.5%
Debt/Capital Ratio (Net Debt)/(Net Debt + Equity)	≤40%	≤40%	≤40%
Debt Coverage Ratio (Net Debt)/(EBITDA)	≤4.25x	≤4.25x	≤4.25x
Distribution (posted discount plus dividend)	\$13m	\$16.4m	\$16.4m

Non-financial KPIs

Our non-financial KPIs reflect our core operational focus on safety, network reliability and customer satisfaction. As a company with a long operational history, we understand that structured and sustained focus is required to ensure consistent outcomes in these areas.

	2022-23	2023-24	2024-25
Safety			
Total Recordable Injury Frequency Rate (TRIFR) ²	≤6	≤6	≤6
Permanent disability and/or fatality	0	0	0
High Potential Event Frequency Rate (HPEFR) ³	5	5	5

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

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

³ HPEFR: Number of events classified as having potential for serious harm/hours worked x 1,000,000 hours.

		2022-23	2023-24	2024-25
Northpower Electricity Network				
Network Interruptions (SAIDI minutes) ⁴	- Planned ⁵	≤162.05	≤162.05	≤162.05
	- Unplanned	≤93.31	≤93.31	≤93.31
Network Interruptions (SAIFI) ⁶	- Planned	≤0.7231	≤0.7231	≤0.7231
	- Unplanned	≤2.2843	≤2.2843	≤2.2843
Average Number of Faults per 100 km ⁷		≤10	≤10	≤10
Customer Satisfaction	- Residential ⁸	≥85%	≥85%	≥85%
	- Commercial	≥85%	≥85%	≥85%

		2022-23	2023-24	2024-25
Northpower Fibre Network				
Network Availability (Max downtime) - Layer 1		≤120 min	≤120 min	≤120 min
	- Layer 2	≤30 min	≤30 min	≤30 min
Faults (Max downtime)	- Layer 1	99% within 48 hrs	99% within 48 hrs	99% within 48 hrs
	- Layer 2	99% within 12 hrs	99% within 12 hrs	99% within 12 hrs
Service Level Performance	- Residential ⁸	≥95%	≥95%	≥95%
	- Commercial	≥95%	≥95%	≥95%

⁴ SAIDI: System average interruption duration index – the average duration of interruptions to supply consumers on average in the year for planned and unplanned outages. Unplanned SAIDI normalised to remove extreme events according to methodology used for regulated EDBs.

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

⁵ Planned interruptions (SAIDI minutes) targets have been amended to align with Northpower AMP and regulatory targets.

⁶ SAIFI: System average interruption frequency index is the average number of interruptions to supply experienced by consumers for planned and unplanned outages. Unplanned SAIFI normalised to remove extreme events according to methodology used for regulated EDBs.

⁷ Faults per 100km: A fault is classified by the Commerce Commission as “a physical condition that causes a device, component or network element to fail to perform in the required manner”. The measure calculates the faults per 100km averaged for all voltages.

⁸ Customer satisfaction is measured via an annual survey and measures overall satisfaction with the services we provide.

⁹ Service level performance (residential) measures the percentage of customers connected within target timeframes.

Policy and procedure statements

Accounting policies

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

Dividend policy

The Group will distribute to its shareholder all funds surplus to the investment and operating requirements of the Group. The estimated dividend to the shareholder in FY23 is \$0.6m, subject to the solvency requirements of the Companies Act 1993, the maintenance of the minimum debt to capital ratio specified and meeting the investment needs of the Group. In addition, consumers will receive a posted discount estimated at \$12.4m in FY23, providing a total distribution of \$13m by way of dividend to the shareholder and posted discount to consumers.

Debt/capital ratio policy

The ratio of debt to capital (debt/capital ratio) will be maintained at less than or equal to 40%. The debt/capital ratio for the next three years is as set out in the Key Performance Indicators ("KPIs") and takes into account projected capital needs and minimum distribution payments as set out in the Dividend Policy.

Debt will comprise of the Group's total debt.

Capital of the Group will comprise of total shareholders' funds plus total debt.

Significant transaction policy

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

All share investment proposals will be considered by the Group's Board of Directors.

Matters required by the Companies Act 1993 and the Energy Companies Act 1992

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

Half yearly report

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

Annual report

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

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

Related party transactions

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

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

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

Additional information to be provided

Annual planning

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

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

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

Quarterly reports

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

Further information

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

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





Northpower