Statement of Corporate Intent

2019-2021

Westpower | ElectroNet DESIGN.BUILD.DELIVER | ElectroNet SERVICES | ElectroNet TRANSMISSION | Mitton ElectroNet ENGINEERING | Amethyst Hydro

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Introduction

Welcome to the Westpower Statement of Corporate Intent for 2019 – 2021.

This Statement of Corporate Intent sets out the overall objectives for the Westpower Group of Companies and incorporates forecasts for the three years to 31 March 2021.

Westpower's Directors have established a strategic direction which includes growing the wider business, while ensuring that the core business of electricity distribution is sustained.

This strategy of growth and stability will deliver sustainable businesses and returns for West Coast electricity consumers, who are Westpower's ultimate owners and beneficiaries.

Mission

A West Coast Company operating successful businesses

which provide first class electrical and technology solutions,

wherever our customers take us

Vision

Recognised for excellence in all links of the

electricity value chain

Westpower's Board of Directors (from left to right), Sue Merriman, Tony Williams, Mike Newcombe (Chairman) and Hugh Little

Values

Staff of all ElectroNet Companies contributed to the development of the Organisations Values, which are provided below.

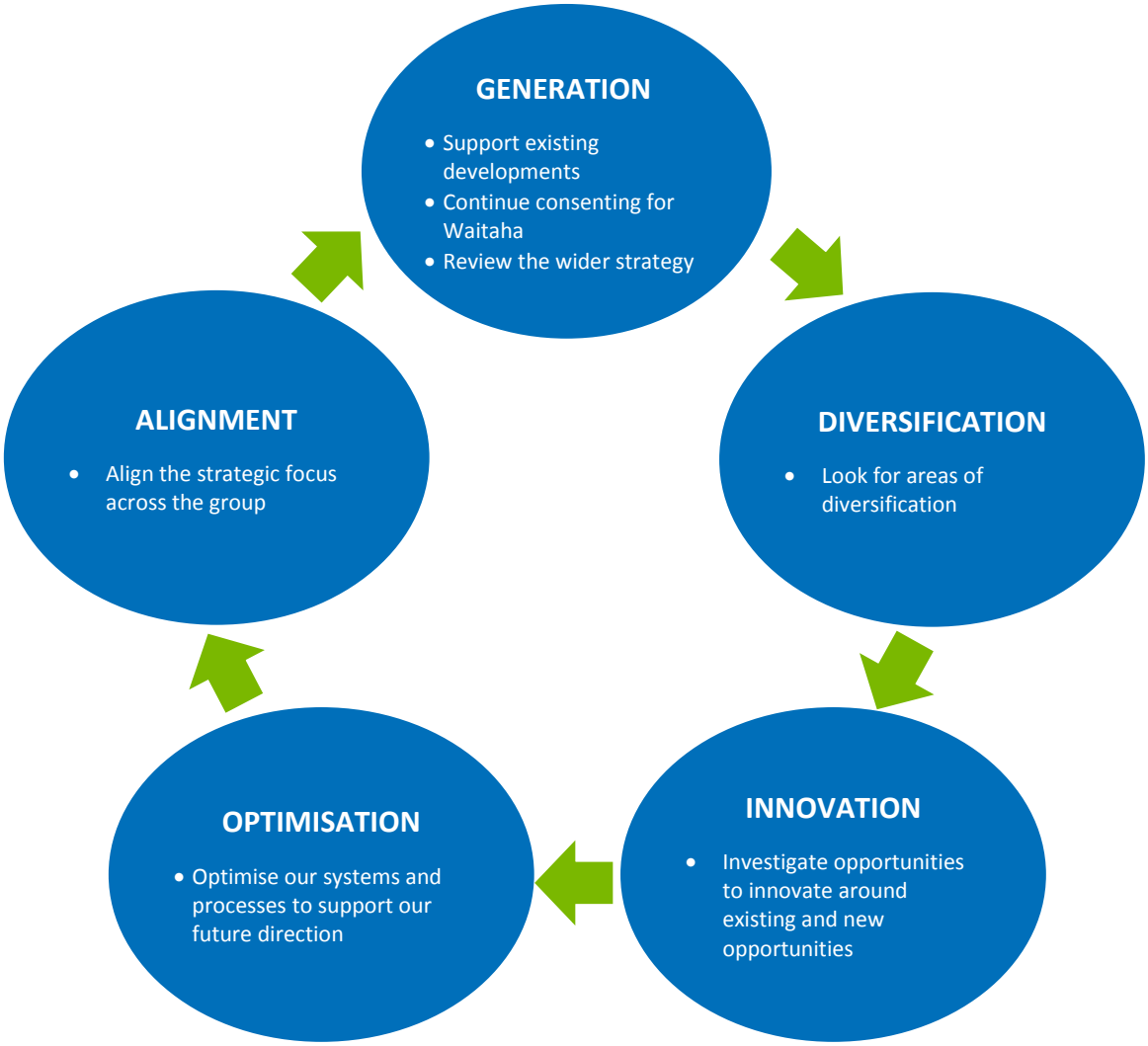
ElectroNet
DESIGN.BUILD.DELIVER

OUR VALUES

SAFETY	Making Your Safety Our Business Keeping Ourselves and Others Safe in all that we do
ACCOUNTABILITY	Using Best Judgement & Making Good Decisions Holding Ourselves to Account
TRUST	Acting Ethically Achieving Best Outcomes
INNOVATION	Forward Thinking Offering Solutions
CAN DO ATTITUDE	Meeting our Customers Expectations Providing Quality Results
RESPECT	Respecting each other's opinions and needs Communicating Effectively

Strategic Initiatives

The Group's key strategic initiatives are as follows:



People

Our people are the driving force behind these strategic initiatives and it is their dedication and commitment that will help us to achieve.

We recognise that investment in our people is an investment in the future of our organisation. Maintaining good employee relations will be achieved by continuing to be a fair employer.

Mitton ElectroNet Staff

Safety

Safety of our People

The Board and Management have made the following commitments with regard to Health and Safety.

Health and Safety Commitment

The Boards of the Westpower and ElectroNet Companies recognise that Health and Safety Leadership is a key priority for the organisation. In respect of the companies Westpower Ltd, ElectroNet Services Ltd, ElectroNet Transmission Ltd and Mitton ElectroNet Ltd, the Board makes the following commitment to Health and Safety management.

The Board is committed to:

- *Assisting with building a culture of excellence in the organisation's approach to Health and Safety;*
- *Providing appropriate resources for Health and Safety activities to ensure that our people and members of the public are kept safe from harm resulting from any action or inaction of the company and from the assets of the company;*
- *Monitoring the Health and Safety performance of the group overall and each company within the group;*
- *Ensuring that management have appropriate programs in place to monitor Health and Safety systems and processes so that they are always effective;*
- *Ensuring that our assets are designed built and maintained with Health and Safety in mind;*

The Board's expectation of Management is that it will:

- *Provide Safety Leadership by continuously demonstrating a dedicated commitment to safety in all activities;*
- *Strive to build a culture of excellence in Health and Safety through the implementation of strategies that encourage participation and training;*
- *Regularly communicate with our people and the community on Health and Safety as it relates to their interaction with our companies and our assets;*
- *Implement programs which monitor the Health and Wellbeing of our people;*
- *Regularly report to the Board on the Health and Safety strategies that have been adopted, and on performance against the objectives from the strategy;*
- *Regularly report to the Board on the performance of the Westpower assets with specific regard to Health and Safety.*

Management is committed to:

- *Providing Safety Leadership by continuously demonstrating a dedicated commitment to safety in all activities;*
- *Building a culture of excellence in Health and Safety through the implementation of strategies that encourage participation and training;*
- *Regularly communicating with our people and the community on Health and Safety as it relates to their interaction with our companies and our assets;*
- *Implementing programs which monitor the Health and Wellbeing of our people;*
- *Regularly reporting to the Board on the Health and Safety strategies that have been adopted, and on performance against the objectives from the strategy;*
- *Regularly reporting to the Board on the performance of the Westpower assets with specific regard to Health and Safety.*

This commitment underpins the Company's Health and Safety policies, procedures and reporting. The Board takes an active role in rigorously monitoring health and safety performance and ensuring that systems and processes are well maintained, subject to continuous improvement and regularly independently verified. Health and Safety Leadership is a key focus for the Board, who are committed to ensuring that a best practice culture is maintained in all businesses.

The ElectroNet companies operate a comprehensive safety system, as evidenced by receiving a tertiary qualification in ACC's Workplace Safety Management Practices regime. In addition to this, significant work has gone into ensuring compliance with the new Health and Safety at Work Act which came into force on 1 April 2016.

Staff participation is key to the success of any safety management system, and is therefore a significant focus for the group.

ElectroNet Services staff completing their tailgate checks before beginning work

Public Safety

Westpower also operates a Safety Management System (SMS) in respect of its infrastructure assets and their interaction with the public. The SMS has been developed in terms of best practice, as evidenced by the independent audit of the system. This audit has provided assurance that the systems and processes meet the requirements of NZS 7901, which relates specifically to Electricity Distribution and Transmission, Electricity Generation and Gas infrastructure.

One of the requirements of the standard is that continuous improvement is a feature of any plans. This will be verified in ongoing audits of the system.

Public safety is an important element of the joint commitment of the Board and Management, as set out in the commitment statement mentioned above.

ElectroNet's Executive Management Team (from left to right),
Pete Theron, Tricia Rands, Peter Armstrong, Rodger Griffiths, Rob Caldwell and Robyn Scott

Nature and Scope of Activities

The core business of the Westpower group is electricity. Over recent years the strategy of the group has been to grow this core business by leveraging off the potential of the skills and knowledge within the group.

This approach has provided the ability to not only secure our position in niche specialisations, but to expand our services into wider electrical fields.

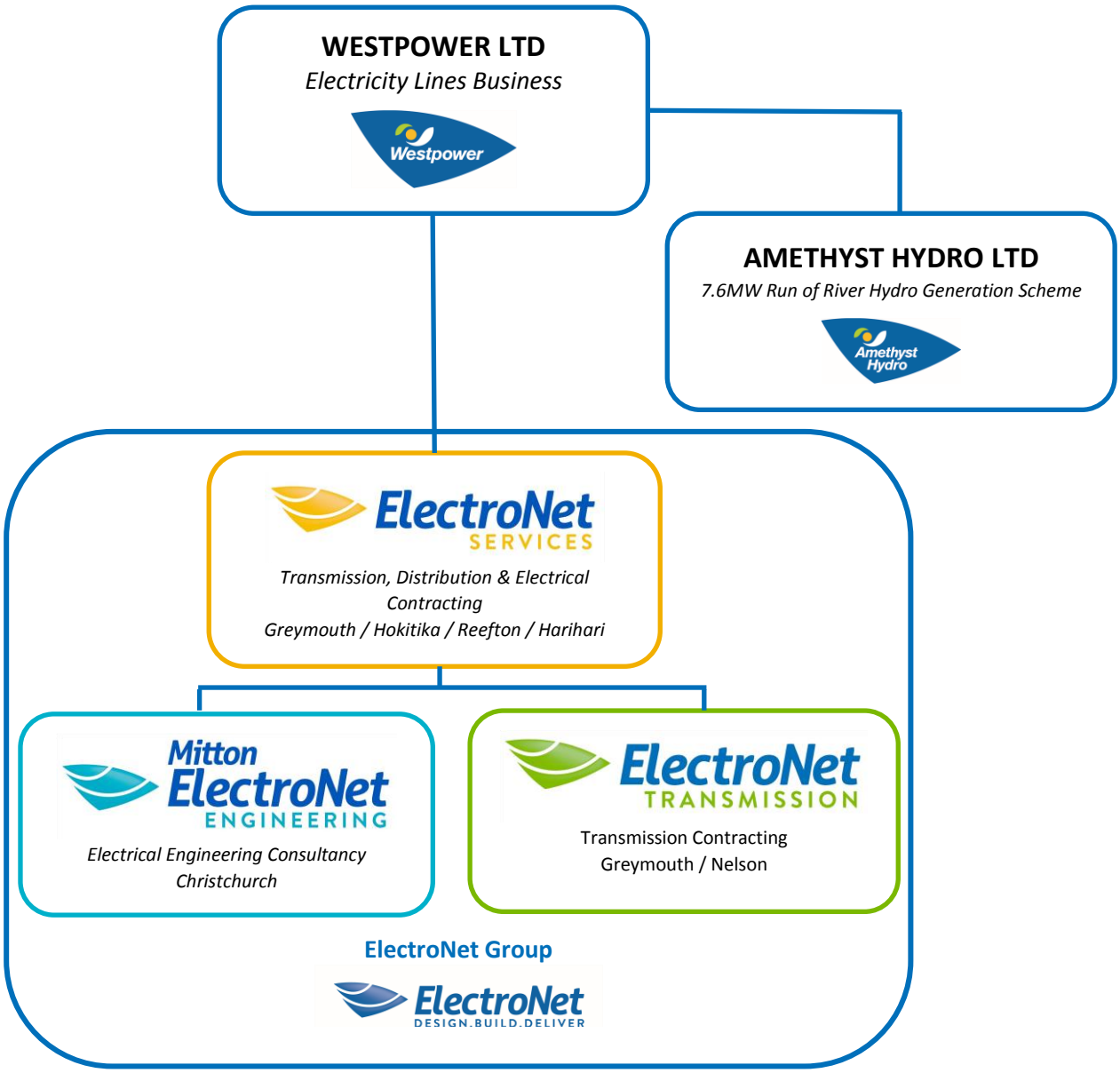
Our vision for the group supports a continuation of this strategy.

The scope of our services cross over into **"…..all links of the electricity value chain"**.

ElectroNet Transmission Staff working on a transmission tower

Our ability to provide the wide range of services throughout the electricity value chain comes from the businesses that we operate within the group.

These are:



The consultancy and contracting services will be delivered throughout New Zealand, the Pacific Islands and Australia, **"…wherever our customers take us".**

Mitton ElectroNet earth grid testing at Takapu Road, Wellington

Electricity Pricing Policy

The Line Charge Pricing Methodology uses an economic pricing model designed to give clear signals to generators and retailers operating in the electricity market. This results in a tariff comprising a combination of fixed, demand and energy-based charges based on measurements of electricity demand at each customer's premises.

Supporting this approach, transmission charges will be treated transparently and passed through to customers without mark-up. Customers able to avoid some of these charges through efficient demand side management will thus receive the full benefit from doing so.

Separate distribution charges have been developed for each group of customers that reflect the costs of operating the distribution system.

In general, averaging over the whole of the Group's distribution area will be applied, and rural and urban customers will be charged equally.

It should be noted that the shape of electricity distribution pricing is to be reviewed across the sector in the immediate future. Consultation with customer groups will be a key element in the development of compliant cost reflective pricing approaches to be applied in the future.

This SCI forecasts an increase in Westpower's distribution pricing for 2019 of 2%, with forecast increases of 1% for each of 2020 and 2021 years. While the actual level of increase will be determined annually, this forecast movement in prices reflects efforts to hold distribution price increases as close to forecast inflation as possible, while retaining the ability to change subject to circumstances prevailing in each year.

As always, the Directors are very careful to balance the needs of the network against those of the community when setting prices.

ElectroNet Transmission staff installing a transmission tower

Special Discount to Consumers

The distribution of operating surpluses to customers through a discount on line charges is considered by the Board of Directors on an annual basis. The Directors have regard to future results and the circumstances prevailing, with the objective of ensuring that an appropriate level of earnings for profitable investment in the Group's business is retained and that capital commitments can be met in a manner which does not impact the debt leveraging of Westpower.

In a change in timing from previous years, the Directors have determined in advance of the commencement of the financial year that the discount to be shared amongst consumers in December 2018 will be $3m. In accordance with established practice, the Directors recommend an appropriate allocation of the special discount between customer classes, taking into account the contribution that various groups of customers make to the Group's overall revenue.

The methodology recommended in this SCI for allocation of the discount between consumer groups is shown below. This methodology is consistent with that applied in previous years:

a. The consumers are split into two groups, one of category 1 and 2 consumers (domestic and small to medium businesses), and the other of category 3, 4, and 5 consumers (large businesses and bulk consumers).

b. The total discount is allocated to each group based on the proportionate share of total income received from each group.

c. Category 3, 4 and 5 will receive a share of their entitlement based on total consumption for the 12 months ending 30 September 2018.

d. Category 1 and 2 consumers receive a fixed amount of $15 per consumer, with the remainder allocated on the basis of consumption for the 12 months ending 30 September 2018.

The financial forecasts included in this SCI include the impact of special discounts to be applied.

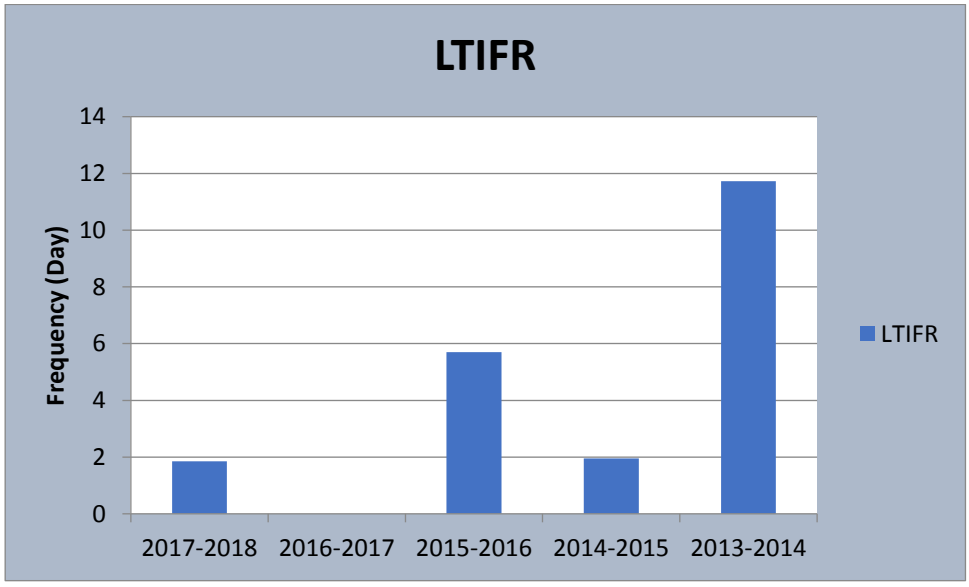
Performance Measurement

The following performance targets have been set for the three years ended 31st March 2021.

Safety

TARGET = ZERO HARM

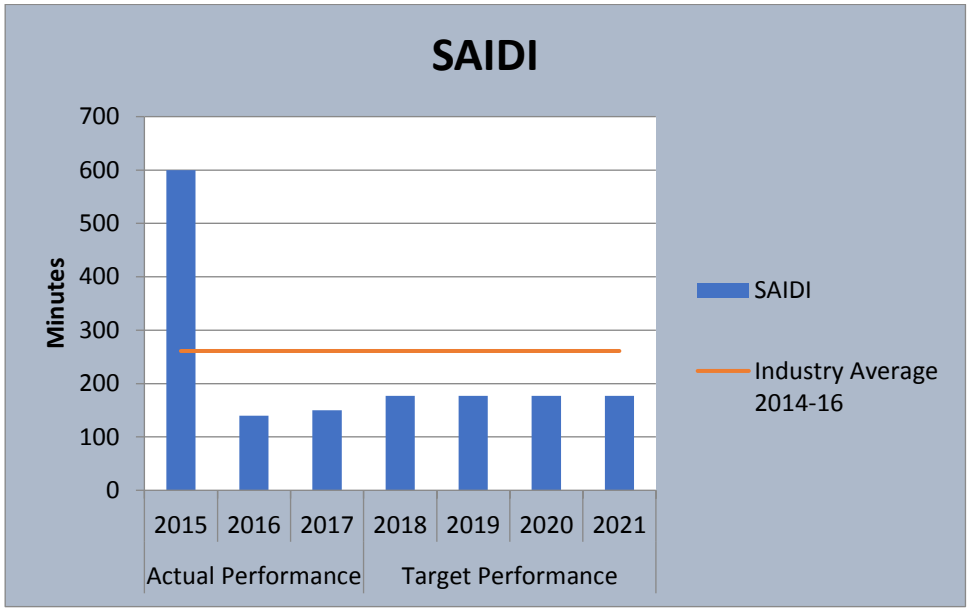
The Westpower group has set a Zero Harm target for all group companies. The graph below reflects our performance over the past five years on the basis of the Lost Time Injury Frequency Rate (LTIFR).



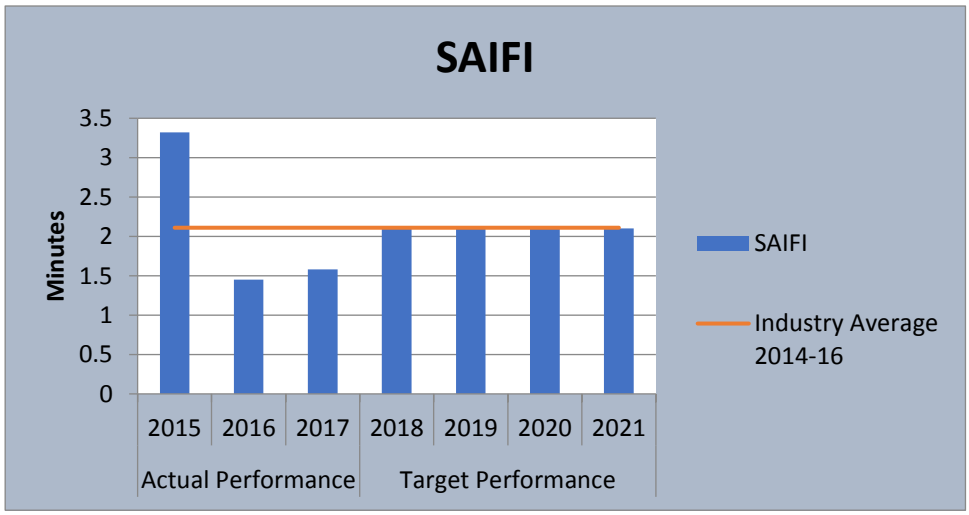
One lost time injury occurred in the 2017 calendar year. This event, a strained elbow requiring one week of lost time, has unfortunately meant that our Zero Harm targets have been reset across the group.

Electricity Distribution

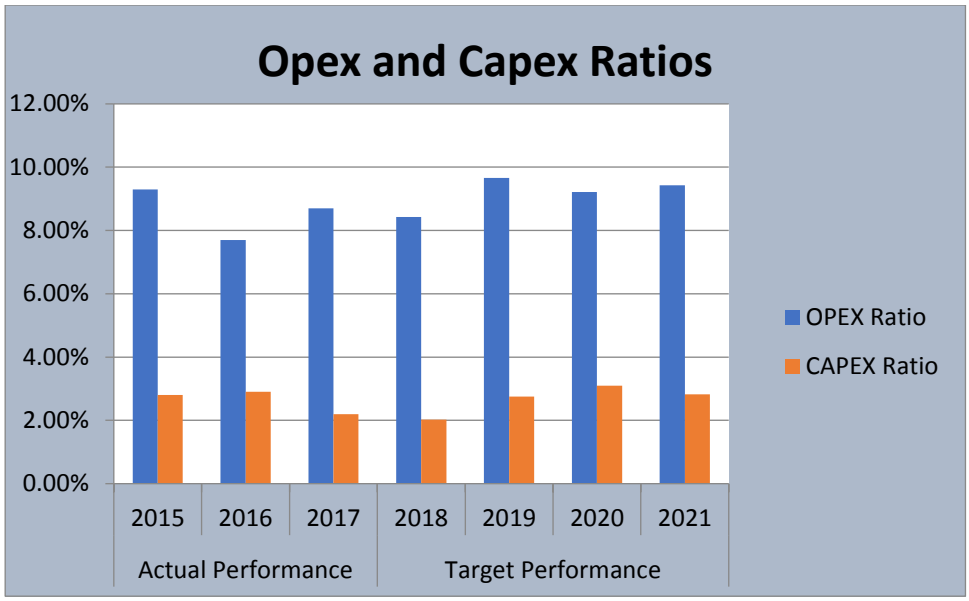
Measurement of Westpower's performance in managing its assets is achieved through a mix of reliability targets and financial ratios, as set out below:



SAIDI – System Average Interruption Duration Index (the 2015 performance for both indices resulted from a sustained period of network outage resulting from Cyclone Ita in April 2014). As the 2018 year had not ended at the time of publishing this SCI, only target performance has been included. The company was on track to meet this target, however in early February 2018 ex tropical cyclone Fehi touched down on the West Coast. This was followed by another event in late February. The combined impact of these events caused a SAIDI close to two and half times the annual target.

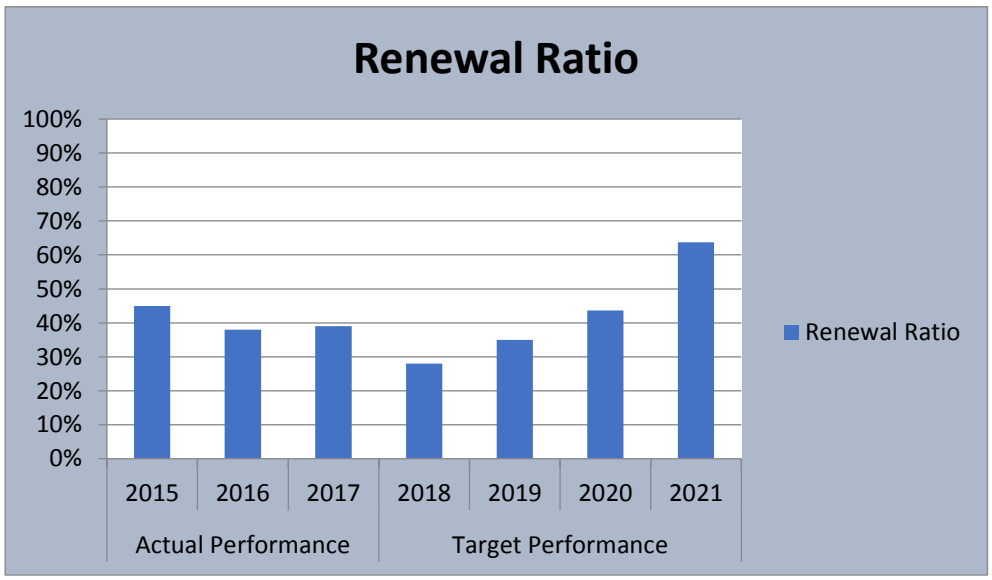


SAIFI – System Average Interruption Frequency Index



OPEX Ratio = Operational Expenditure divided by Systems Assets Depreciated Replacement Cost (DRC)

CAPEX Ratio = Capital Expenditure divided by System Assets DRC



Renewal Ratio = Asset Renewal-Refurbishment Opex & Capex divided by Depreciation

From the 2013 year, asset replacement and renewal expenditure has been re-analysed to ensure it reflects the age and condition of the network. This coupled with the slowdown in the volume of capacity increase driven projects has resulted in the forecast renewal ratio being lower than in previous periods.

Electricity Consultancy/Contracting

Performance targets for competitive subsidiary businesses are commercially sensitive and are therefore not disclosed publicly.

Financial Performance targets set at a group level incorporate and reflect the performance of subsidiary businesses.

Electricity Generation

Measurement of performance of majority owned Amethyst Hydro Ltd is based on electricity generation availability and capacity targets.

Availability refers to the percentage of the time that generation production is available to be injected into the distribution network. Factors which can affect this statistic include scheduled maintenance outages and unscheduled outages.

Capacity refers to the percentage of the maximum output that is able to be achieved over a twelve month period. As this is a run of the river scheme, i.e. there is no water storage capacity, generation will always be impacted by periods of low rainfall and low river flows.

Environment

	2019	2020	2021
Number of reported breaches of Resource Consent conditions per annum	0	0	0
Number of Environmental Incidents	0	0	0

Financial Performance Management

	2019	2020	2021
Group Operating Surplus before tax	$8.4m	$10.4m	$10.7m
Pre Discount Operating Surplus before tax on consolidated shareholder funds	8.5%	8.7%	8.5%
Post Discount Operating Surplus before tax on consolidated shareholder funds	6.3%	7.3%	7.2%
% of Contracting Revenues from group external parties	>30%	>30%	>30%
Consolidated Shareholders funds to total assets	>50%	>50%	>50%

ElectroNet Services employee Ross Wieblitz

Related Party Transactions

The relationship between group companies is based on the provision of services by subsidiaries to the parent, and by subsidiaries to each other. The nature of the transactions entered into are arms length.

Because of the number of transactions entered into between companies, it is not possible to describe them in detail in this document. It is sufficient to say that the main transactions entered into will be within the nature and scope of activities described in this Statement of Corporate Intent.

Above – Electronet Transmission working on BEN-HAY line

Right – Mitton ElectroNet staff testing on site

Below – ElectroNet Services working on distribution lines in Greymouth

Interface with Shareholders

Information to be provided to Shareholders

The Group will provide information which meets the requirements of the Companies Act 1993 and the Energy Companies Act 1992. The following information will be available in respect of the Group:

- **Half yearly reports will be delivered to the shareholders within three months after the end of the first half of each financial year. These reports will comprise:**

  A report from the directors covering the operations from the half year period;

  The following unaudited financial information:

  - Statement of Accounting Policies
  - Statement of Financial Performance
  - Statement of Movements in Equity
  - Statement of Financial Position
  - Statement of Cash Flows

- **Annual Reports will be delivered to the shareholders within four months of the end of each financial year and will comprise:**

  A report from the directors covering the operations for the year;
  Audited consolidated financial statements for the financial year in respect of the company and its subsidiaries;

  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).

The Group's audited consolidated financial statements will comprise the following:

Statement of Accounting Policies
Statement of Financial Performance
Statement of Movements in Equity
Statement of Financial Position
Statement of Cash Flows

Such other statements as may be necessary to fairly reflect the financial position of the Group, the resources available to them, and the financial results of the operations.

- **A draft Statement of Corporate Intent will be delivered to the shareholders not later than ten working days before the commencement of each financial year.**

- **It will be possible for the shareholders to request further information or reports from the directors where the information required relates to a decision to be made by the shareholders.**

Procedures for Acquisition of Shares in Other Companies or Organisations

As a general policy, a proposed share investment by Westpower 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 group share investment and sale proposals will be considered by the directors. Shareholders will be consulted on all group share investment proposals and any such proposal will be put to the shareholders for approval.

Transaction Details

The Energy Companies Act 1992 requires the Group to publish in its Statement of Corporate Intent, the details of any transactions that the Group intends to enter into with any related company.

There are no transactions requiring disclosure under the Energy Companies Act 1992.

Dividends

The Board of Directors will include within its report on the operations of the Group (prepared after the end of each financial year) a statement recommending the maximum amount of dividend (if any) payable in respect of equity securities. The dividend will be restricted to a sum which when the preference dividend is taken into account, will be sufficient to finance the operations of the Trust. In recommending the amount of dividend payable to the holders of its equity securities, the Directors will follow the procedure specified in the Companies Act 1993 and adopt a practice similar to that of comparable public companies.

Accounting Policies

1 REPORTING ENTITY

Westpower Limited is a company domiciled in New Zealand and registered under the Companies Act 1993.

The company is a reporting entity for the purposes of the Companies Act 1993 and its financial statements comply with that Act and section 44 of the Energy Companies Act 1992.

Westpower Limited is primarily involved in the reticulation of electricity and electrical contracting.

Forecast financial statements for the consolidated group are presented.

2 BASIS OF PREPARATION

(a) Statement of Compliance

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ equivalents to International Financial Reporting Standards (NZ IFRSs) and other applicable financial reporting standards appropriate for profit-oriented entities. The Group is a Tier 1 for-profit entity and has reported in accordance with Tier 1 for-profit accounting standards.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value.
- available for sale financial assets are measured at fair value.
- distribution assets and land and buildings are measured at fair value.

(c) Functional and Presentation Currency

These financial statements are presented in New Zealand dollars ($), which is the Group's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(d) Use of Estimates, Judgments and Assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions Eliminated on Consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences are recognised in the profit or loss in the period in which they arise.

(c) Financial Instruments

(i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, customer deposits and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Available For Sale Financial Assets

The Group's investment in non subsidiary equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(j)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of equity investments that are not traded in an active market and are classified as available-for-sale, is based on the non-market valuation techniques.

Other

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses

A provision for impairment of receivables is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is determined by an evaluation of the exposures of individual receivable balances.

Interest Bearing Borrowings

Interest bearing borrowings are classified as other non-derivative financial instruments. After initial recognition, all borrowings are measured at amortised cost using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and Other Payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

(ii) Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value at each balance date. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship (see below).

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iii) Share Capital

Ordinary Shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Preference Share Capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Parent's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss.

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 April 2006, the date of transition to NZ IFRS, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- electricity distribution system	15 - 70 years SL
- electricity generation assets	15 - 70 years SL
- buildings	5 - 50 years SL
- motor vehicles	10 - 25% DV
- plant and equipment	7 - 50% DV
- furniture and fittings including computers	6 - 48% DV

- hydro generation assets 15 - 70 years SL

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Subsequent Measurement

Land and buildings are subsequently measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers. Land and buildings were revalued as at 1 April 2014 by Coast Valuations Limited, registered valuers. The fair values are recognised in the financial statements of the consolidated entity, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

The distribution system is subsequently measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on a discounted cashflow approach. Distribution system assets were revalued by PricewaterhouseCoopers as at 31 March2017. The fair values are recognised in the financial statements of the consolidated entity and are reviewed at the end of each reporting period to ensure that the carrying value of the distribution system is not materially different from fair value. Consideration is given as to whether the distribution system is impaired as detailed in note 3(j)(iii).

Any revaluation increase arising on the revaluation of land and buildings and the distribution system is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the distribution system is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and the distribution system is charged to profit or loss. On the subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

(e) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses. Where impairment losses are recognised these are not reversible.

(f) Other Intangible Assets

Other intangible assets that are acquired by the Group, which are finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of the intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- software	20-40% DV

(g) Work In Progress

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Work in progress is presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(h) Leased Assets (as lessor)

Leases in terms of which the Group transfers substantially all the risks and rewards of ownership are classified as finance leases. These assets are disposed of by the Group and a receivable recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the profit or loss.

(i) Impairment of Equity Instruments

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. For this purpose prolonged is regarded as any period longer than nine months and significant as more than 20 percent of the original purchase price of the equity instrument.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

(ii) Impairment of Receivables

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

(iii) Impairment of Non Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Employee Benefits

(i) Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Other Long Term Employee Benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the risk free interest rate. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(m) Revenue

(i) Goods Sold

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Lines charges represent income charged to energy retailers based on their meter readings during the period. An allowance is made for unbilled line charges from energy retailers to the end of the period. Electricity generation revenue is measured and billed by calendar month for half hourly metered generation.

(ii) Services

Revenue from services rendered comprises the amounts received and receivable by the Group for services supplied to customers in the ordinary course of business. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at balance date as measured by progress invoices raised to customers in conjunction with an assessment of cost incurred to date.

(iii) Vested Assets and Capital Contribution

Vested assets are recognised as revenue at the fair value of the assets at the point that assets are connected to the network.

Capital contribution payments are calculated in line with Westpower's capital contribution policy. Capital contributions are recognised as revenue when payable at the point that the assets are connected to the network.

(n) Leases (as lessee)

(i) Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred. At commence of the lease term, the Group recognises finance leases as assets and liabilities in the balance sheet at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Group will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(ii) Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Payments made under operating leases are recognised as an expense on a straight-line basis over the term of the lease.

(o) Finance Income and Expenses

Finance income comprises interest income on funds invested, unwinding of the discount on assets and dividend income. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and dividends on preference shares classified as liabilities. Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is defined as a separate asset where the construction period exceeds twelve months and costs in excess of $2m. All other borrowing costs are recognised in profit or loss using the effective interest method.

(p) Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Goods and Services Tax

All items in the financial statements are net of Goods and Services Tax except for debtors and creditors which are shown in the balance sheet inclusive of GST.

Prospective Financial Information

The financial statements which follow have been prepared on the basis of assumptions made in respect of future costs and revenues and performance of group companies. Costs in relation to provision of electricity infrastructure are also based on determining levels of reliability and quality of service to consumers.

Individual assumptions material to the financial statements follow:

1. Interest on borrowings has been calculated at 4.5 – 5.0% per annum in the three years of the forecasts included.

2. Westpower's base line charges are projected to increase by 1% in each of the 2018, 2019 and 2020 periods.

3. Network demand over the three years is not forecast to increase.

4. Group subsidiaries (excluding Amethyst Hydro Ltd) are forecast to achieve 10% growth per annum.

5. Significant assumptions as to the future operating, maintenance, capital and renewal costs associated with the extensive network assets employed by Westpower have been made through the Asset Management Plan. This publicly available document details assumptions made in respect of setting the budgets adopted in this SCI.

6. No decisions have been made regarding the allocation of the surplus cash reflected in the Statement of Cash Flows. The surplus cash may be used for investment in other revenue generating assets.

Forecast Statement of Financial Performance

WESTPOWER GROUP				
FORECAST CONSOLIDATED INCOME STATEMENT				
		2019	*2020*	*2021*
		Group	*Group*	*Group*
		$000	*$000*	*$000*
Operating Revenue	**1**	67,012	73,489	78,698
		67,012	73,489	78,698
Operating Expenses		51,787	56,548	61,773
Depreciation & Amortisation		5,998	5,979	5,846
		57,786	62,527	67,619
Operating Profit (Loss)		**9,227**	**10,961**	**11,080**
Finance Income		288	436	625
Finance Expenses		(1,072)	(1,033)	(1,003)
Net Finance Cost		**(784)**	**(598)**	**(378)**
Profit (Loss) Before Income Tax		8,443	10,363	10,702
Income Tax		2,404	2,946	3,041
Profit (Loss) After Income Tax		6,039	7,417	7,661
less Dividends Paid		320	320	320
		5,719	7,097	7,341

1. Group revenues include the effect of line charge discounts of $3m in 2019 and $2m in 2020 and 2021

Forecast Statement of Financial Position

WESTPOWER GROUP			
FORECAST CONSOLIDATED BALANCE SHEET			
	2019	*2020*	*2021*
	Group	*Group*	*Group*
	$000	*$000*	*$000*
NON CURRENT ASSETS			
Property, Plant and Equipment	145,522	144,592	143,520
Goodw ill and Other Intangibles	6,990	6,990	6,990
Other Investments and Receivables	450	400	350
Financial Instruments	(224)	(87)	
Total Non Current Assets	**152,739**	**151,895**	**150,860**
CURRENT ASSETS			
Cash and Cash Equivalents	20,013	26,799	34,141
Trade and Other Receivables	8,858	9,347	9,888
Inventories	1,100	1,210	1,331
Current Tax Assets	(631)	(571)	(514)
Total Current Assets	**29,339**	**36,785**	**44,846**
TOTAL ASSETS	**182,078**	**188,680**	**195,706**
EQUITY			
Share Capital	31,100	31,100	31,100
Reserves	9,951	10,037	10,093
Retained Earnings	92,719	99,792	107,127
Minority Interest	1,070	1,125	1,159
TOTAL EQUITY	**134,839**	**142,055**	**149,479**
NON CURRENT LIABILITIES			
Loans and Borrow ings	22,950	21,950	21,150
Employee Benefits	615	615	615
Deferred Tax Liabilities	18,191	18,229	18,254
Total Non Current Liabilities	**41,756**	**40,794**	**40,019**
CURRENT LIABILITIES			
Trade and Other Payables	5,483	5,831	6,208
Current Portion of Borrow ings			
Total Current Liabilities	**5,483**	**5,831**	**6,208**
TOTAL LIABILITIES	**47,239**	**46,625**	**46,227**
TOTAL EQUITY AND LIABILITIES	**182,078**	**188,680**	**195,706**

Forecast Statement of Cash Flows

WESTPOWER GROUP			
FORECAST CONSOLIDATED STATEMENT OF CASHFLOWS			
	2019	*2020*	*2021*
	Group	*Group*	*Group*
	$000	*$000*	*$000*
Cash Flows from Operating Activities			
Receipts from Customers	66,886	72,669	77,620
Interest Received	308	456	645
Payments to Suppliers and Employees	(51,691)	(55,833)	(60,734)
Interest Paid	(1,072)	(1,035)	(1,009)
Income Tax Paid	(2,191)	(3,006)	(3,098)
Net cash inflows/(outflows) from operating activities	**12,241**	**13,250**	**13,424**
Cash Flows from Investing Activities			
Proceeds from Sale of Property, Plant and Equipment			
Loan and Sinking Fund Payments Received	50	50	50
Acquisition of Property, Plant and Equipment	(5,689)	(5,194)	(5,012)
Acquisition of Investments			
Net cash inflows/(outflows) from investing activities	**(5,639)**	**(5,144)**	**(4,962)**
Cash Flows from Financing Activities			
Proceeds from Borrowings			
Capital Contribution from Shareholders			
Repayments of Borrowings	(1,300)	(1,000)	(800)
Dividends Paid	(320)	(320)	(320)
Net cash inflows/(outflows) from financing activities	**(1,620)**	**(1,320)**	**(1,120)**
Net increase (decrease) in cash	**4,982**	**6,786**	**7,342**
Cash and cash equivalents at 1 April	15,031	20,013	26,799
Cash and cash equivalents at 31 March	**20,013**	**26,799**	**34,141**