

Waitaki Power Trust

100% Shareholder of Network Waitaki Limited



2021

Ownership Review

of Shares in

Network Waitaki Limited

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Submission forms can be download from the Trust's website: www.waitakipowertrust.co.nz

**Please email submissions to: waitakipt@gmail.com
or mail to:**

**Waitaki Power Trust
C/- PO Box 147, Oamaru, 9444.**

Submissions close on Friday, 10 September 2021



**Comment by Waitaki Power Trust on the Report,
Review of Ownership of Shares in Network Waitaki Limited 2021
prepared by the Directors of the Company with further support from Deloitte.**

The Process

The Waitaki Power Trust Deed (the Deed) requires that consumers serviced by Network Waitaki Limited (NWL) are to be given the opportunity to express their views on the type of organisation or entity they believe should hold the shares in the local electricity lines distribution company.

Key aspects of the review process are:

- that Trustees initiate the review of share ownership by requiring the Directors of NWL to prepare a Report which meets the requirements of Clause 4.1 of the Deed;
- that Trustees consider and comment on the Directors' Report; and
- that the Report, along with the Directors' recommendations and a summary of Trustees comments including the recommendations by Waitaki Power Trust (the Trust)' is to be made publicly available, so that consumers can also have input to the final decision to be made by Trustees, by submitting on the type of organisation they consider the shares in NWL should be vested in.

Background to Trustees' comments

Trustees have considered the Directors' report which was supported by Deloitte's report.

Factors taken into account include:

- **criteria for ownership of electricity distribution lines businesses including an analysis and assessment of the range of organizations and entities which could potentially hold all or the majority of shares in NWL;**
- the effectiveness of the NWL Board of Directors with a balance of local and NZ wide talent;
- the fact that previous generations of consumers have funded the accumulation of debt free assets held by NWL;
- the very good financial performance with assets now totalling \$127 million;
- the reliability and pricing of electricity supply levels attained by NWL.

Trustees noted that during the past ten years Network Waitaki Limited

- has invested significant funds in both new capital and maintenance work to not only maintain earlier service reliability levels, but also to increase the capacity and further improve reliability levels to meet the present and future needs of its consumers;
- has returned almost \$20 million to the area the network services, by way of consumer discounts and provided significant sponsorship of \$1 million to many local community sports clubs and other organisations.

- that NWL line charges have continued to compare favourably with line tariffs nationwide by being consistently placed in the lower quartile of charges levied by the other twenty eight lines companies in New Zealand.
- that those results have occurred under Consumer Trust ownership of 100% of the shares in Network Waitaki Limited.

It is worth noting that the focus of consumer trust ownership generally is to ensure that the benefits of ownership are returned to consumers who are the ultimate owners of our consumer trust owned business.

Conclusions

Trustees have concluded that the analysis of ownership options provided by the Directors of NWL through Deloitte's report gives sound reasoning why the ownership structure should not be changed.

The Directors further consider that the interests of consumers are best served when the shares in a natural monopoly, in this case NWL, are held in Consumer Trust ownership. Under the Commerce Amendment Act 2008, Consumer Trust owned monopolies are exempt from government imposed price-quality controls and profit levels.

Consumer Trust ownership is also the only option which ensures that Consumers, **and only Consumers**, receive in their capacity as the ultimate owners of the business the benefits of ownership.

Trustees acknowledge that the benefits of Consumer Trust ownership of NWL have been and will continue to be significant for consumers.

Accordingly, Trustees unanimously support the following recommendations:

1. That the ownership option of shares in Network Waitaki Limited remains unchanged; and
2. That the shares in Network Waitaki Limited continue to be owned by Waitaki Power Trust, whose Trustees are elected to act in the best interest of Consumers.

Trustees would remind Consumers it is important that their views on this ownership review are clearly publicly enunciated amongst the consumers within the NWL distribution area.

Signed: Waitaki Power Trust Trustees

John Clements



John Webster



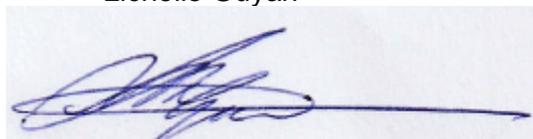
Doreen Cleave



Herb Tonkin



Lichelle Guyan



29 July 2021



OWNERSHIP REVIEW

Ownership review of Network Waitaki Limited, prepared by the
Board of Directors for the Waitaki Power Trust

June 2021

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1.0 Background

Network Waitaki is 100% locally owned by the Waitaki Power Trust, for the benefit of electricity consumers connected to the network (the trust beneficiaries).

In accordance with the Trust Deed of the Waitaki Power Trust, Trustees are required to periodically review the ownership structure of Network Waitaki Limited, and as part of that exercise the Directors of the company are required to undertake a review of Network Waitaki for consideration by the Trustees.

The last such review was completed in 2011 where it was the unanimous recommendation of Directors that the status quo of 100% Trust ownership was the most appropriate ownership structure for Network Waitaki.

These recommendations were consistent with all such reviews completed since the first one in 1996.

In February 2021, the Trustees requested the Directors to complete another review of the ownership structure, consistent with the requirements set out in the Trust Deed. Directors have engaged Deloitte to support them with this review and Directors present their recommendations in this report.

2.0 Trust Deed

The relevant section of the Trust deed (Clause 4) is included in Appendix 1. The key requirements of the Trust deed are that the Director's review shall include:

Analysis

- (a) an analysis of the recent performance of the Company to the date of the report together with a discussion of the advantages and disadvantages of trust ownership;
- (b) an analysis of the various ownership options considered including, without limitation, a share distribution to Consumers, a sale of shares to the public, a sale of shares to institutional investors and retention of shares by the Trust;
- (c) a comparison of the performance by the Company with the performance of other energy companies;

Conclusions and Statements

- (d) the conclusions of the Directors as to the most appropriate form of ownership together with an indication of whether the conclusions are unanimous and if the decision is not unanimous, a summary of the conclusions of the dissenting Directors shall be included;
- (e) the matter contained in Clause 4.7 (of the Waitaki Power Trust Deed) if a distribution of shares is recommended;
- (f) a summary of the professional advice (if any) obtained in respect of the preparation of the report; and
- (g) a statement as to whether or not the Directors have had regard to any views expressed by the public with respect to ownership.

3.0 Previous Ownership Reviews

There have been a number of ownership reviews completed since the settlement of the Trust in 1993. The first was completed in 1996 and the most recent review was completed in 2011. The 2011 review concluded that the status quo of Trust ownership was the most appropriate ownership structure for the following reasons:

- The continued performance of the company
 - o Minimal and acceptable levels of supply interruptions
 - o Maintaining lines charges in the lower quartile
 - o Providing ownership benefits to local customers through:
 - Discounts
 - Sponsorships

- Investing to meet demand and facilitate economic growth
- Previous customer surveys were overwhelmingly in favour of Trust ownership
- Consumer support of company decisions evident through customer survey comments
- Stability of consumer owned EDB's over recent years

Ultimately, consumer trust ownership was considered to best support the desires of the community that Network Waitaki serves.

4.0 Review approach taken by Directors

In preparing this report, Directors have considered two key areas of performance, Financial and Operating performance, as well as Customer and Community performance.

An overview of Financial and Operating performance was compiled by Deloitte, a consultant with significant experience in the energy sector, and their report is attached.

An overview of Customer and Community performance was compiled by Management, as this information is not widely available for external review.

5.0 Financial and Operating performance (Deloitte report)

Deloitte concluded that the Company is performing reasonably consistently from a financial perspective and performing well against the peer set of similar companies on a range of operating metrics. Deloitte concluded that on balance the potential theoretical benefits of a change in ownership structure could be outweighed by the costs and disadvantages of doing so, particularly given the current positive financial and operational performance of the Company.

Summary of Financial and Operating Performance – Deloitte observations

Deloitte have summarised their analysis of performance measures as follows,

When assessing Network Waitaki against a peer set of regional EDBs with similar density, Network Waitaki performs above average in most categories.

Network Waitaki has good financial efficiency (when comparing operational and support expenditure to system length and ICPs) and Network Waitaki has above average reliability measures (in the top quartile in both SAIDI and SAIFI).

Comparison of capital expenditure spend to system length over the past 5 years shows that Network Waitaki has spent relatively more than it's peers, possibly to achieve the higher reliability and efficiency.

On a leveraged ROI basis, Network Waitaki has performed close to average however on an unleveraged basis (when taking account of debt financing advantages), Network Waitaki has performed below average partially due to being 100% equity funded. This ROI performance is not surprising as the peer set is not limited to consumer-owned EDBs; Trust owned EDB's focus more strongly on service levels than profit, hence the rate of return on the value of a trust owned company's assets is often lower (as the consumers directly benefit from lower prices)

Deloitte noted that there are four factors that strongly favour continued Trust ownership:

- **Regulation** – Wholly consumer owned lines companies currently have limited regulation by the Commerce Commission under Part 4 of the Commerce Act (Information Disclosure, rather than full Price-Quality Regulation). Most of the alternative ownership structures considered have the potential to compromise this position and lead to price regulation being imposed on the company or network operation which adds significant additional complexity, cost and may limit future options for growth and development.

- **Contracting out of operations or other expertise** – The benefits of being part of a larger or more commercially structured organisation could be achieved through contracting out arrangements, rather than a change of ownership structure. Such an arrangement could provide Network Waitaki with access to expertise, systems, and resources of a much larger organisation without losing local control of the network assets.
- **Trust Elections** – The Trust election process provides a very direct means whereby the local consumer owners have the opportunity to express their views on the performance of the Trust and any changes they consider desirable. Between elections, Trustees can also gauge community and customer sentiment towards the business and address issues with the Board and Management.
- **Inter-generational considerations** – The network assets are long life in nature and, depending on owner’s priorities and objectives, have the potential to suffer from under-investment that only manifests itself as an issue many years into the future when the costs to remedy can be beyond the reach of the company (and therefore the consumers of the network at the time). Trust ownership is inherently capable of making long term inter-generational network investment decisions which can reduce the risk of longer term under-investment (for the benefit of the current owners).

6.0 Customer and Community performance

In addition to Financial and Operating performance, which is able to be benchmarked against our peers, our performance in the community we serve and to our connected customers (electricity consumers) is equally important.

Network Waitaki is proud to be 100% locally owned by the Waitaki Power Trust and together we are dedicated to sharing the benefits of trust ownership with our community. This has been reflected in a revised strategic plan for the period 2020-2030, including an updated Vision and Mission.

Our Vision

Powering a Vibrant Waitaki

Our Mission

Promoting regional growth and wellbeing through the provision of innovative and sustainable energy solutions for our customers

Being a local employer of choice

The company employs around 80 local staff involved in management of the company, the management and operation of the network, and in our contracting business. We also contract local businesses to undertake a range of services or supply goods to Network Waitaki. In the year ended 31 March 2021, we made payments of \$11.8 million to local staff and suppliers.

Local ownership and management of Network Waitaki retains both skilled tradespeople and professional workers in Oamaru which has a flow on effect into the wider community, both financially and socially.

We have continued to promote scholarships for local students wishing to pursue tertiary training in engineering and technology, and in recent years provided five engineering scholarships, of which three recipients currently work for Network Waitaki.

Trades training has been another focus area which benefits the local community, with regular (now annual) intakes of apprentice Line Mechanics (we currently have six trainee Line Mechanics), and in 2021 the first female apprentice Electrician joined the company. This provides local opportunities for trades training which benefits our community in the long term as these people will remain in Oamaru and not leave to seek other opportunities.

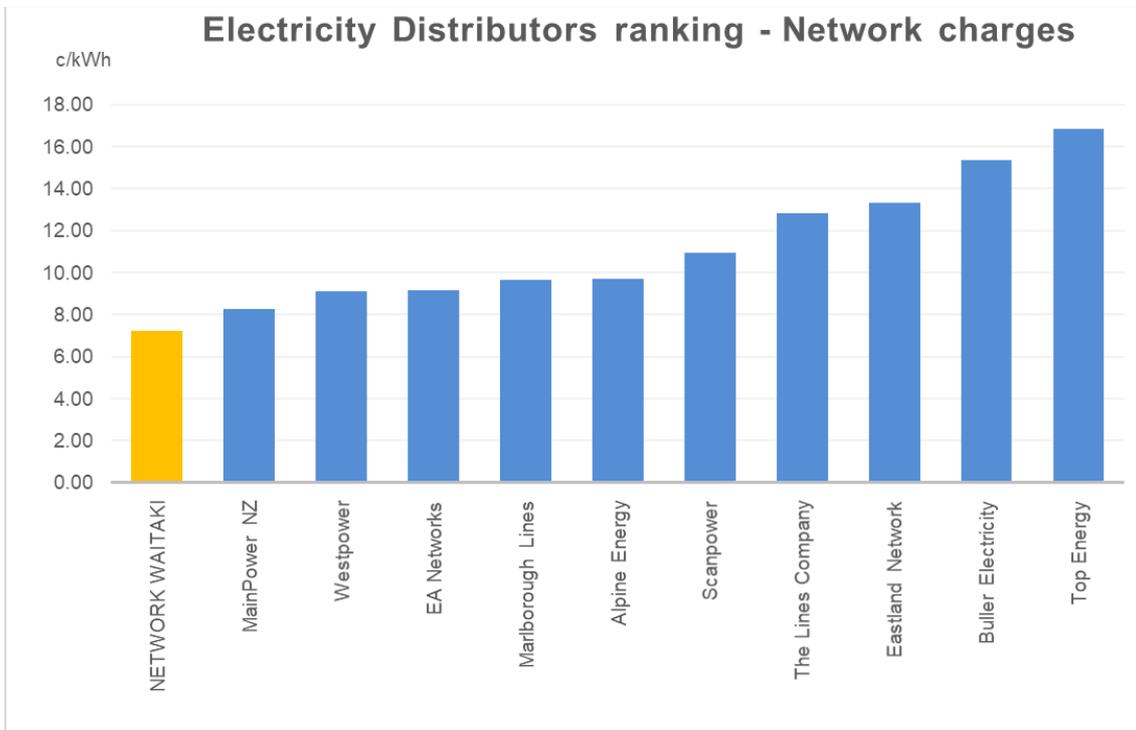
Consumer Discount Payments

One of the more substantial ways in which we share the benefit of trust ownership is through the allocation of our discount payment to connected customers (electricity consumers) on our network that is paid as a credit on their electricity bill in March or April each year. Discounts are one way in which we can help to keep the cost of electricity reasonable and is a way of sharing the success of the business with local consumers.

In the year ended 31 March 2021, we returned over \$1.7 million (incl GST) in discounts, and over the past 10 years, we have returned \$19.0 million in discounts to our connected customers.

Relative pricing for customers

Network Waitaki's lines charges have consistently remained relatively low for connected consumers in the region. Even with recent modest increases in anticipation of increased network investment, Network Waitaki's FY20 charges are the lowest in its peer group as selected by Deloitte.



Source: PwC Information Disclosure Compendium FY20

Community sponsorships

Each year we provide Community sponsorships to sports and recreation, education, health, science, art and cultural community groups that contribute to the wellbeing, economic growth and development of our community. We provide around \$130,000 per annum to local groups through this sponsorship programme, with an approximately 45 groups benefitting each year.

Over the past 10 years, we have returned \$1.0 million to our community through the sponsorship programme.

Energy initiatives

Trust ownership gives us a means to engage with our local community to promote energy efficiency, raise awareness of electrical safety and educate people on matters regarding electricity.

In 2020, we collaborated with the Waitaki Power Trust and ran a highly successful EcoBulb promotion which distributed over 30,000 energy efficient LED lightbulbs to homes and businesses across the district, which will lead to long term energy savings.

In 2021, Network Waitaki and the Waitaki Power Trust will partner with Safer Waitaki and Fire and Emergency New Zealand in a campaign to raise awareness of being safe around electricity, energy efficiency and saving money on your power bill. This is an excellent opportunity to continue to develop the already trusted relationships we have within the community and to extend that depth of engagement to groups that Network Waitaki has not worked with in the past.

Corporate sponsorships that benefit the community

Trust ownership has allowed Network Waitaki to extend its support and engagement within the community in the form of corporate sponsorships that provide significant benefits to the community it serves. Two recent projects have included formalising a silver sponsorship agreement with the Otago Rescue Helicopter Trust that provides a vital link in the wellbeing of our community and provides access to much needed medical support.

We also have a five-year agreement with the Waitaki District Council to sponsor district Christmas trees in Kurow and Omaru that bring Christmas cheer to the region and will be used to help convey the message around tree safety and managing vegetation near powerlines.

Customer Survey Feedback

Customers are at the very heart of our business and the community. We are committed to engaging with our customers to gain feedback on all aspects of the customer experience from awareness and recognition, quality of service, to delivery, price and quality of interaction with Network Waitaki.

In our most recent customer survey, completed in March 2021, we engaged Key Research who surveyed over 425 customers to gain insight to their view of the service Network Waitaki provided to them.

Highlights of the survey results include:

Urban/rural residential and small commercial:

- More than seven out of 10 customers (71%) are satisfied with the overall performance of Network Waitaki, with satisfaction being lowest amongst commercial rural customers.
- Network Waitaki scored a 71% satisfaction rate in overall image and reputation with the highest attribute in this area (79%) as being a leader in safety, followed by being a leader in delivery (76%) and efficiency as well as caring about the community (75%).
- Nine out of ten (88%) of our customers are satisfied with the overall reliability of power supply with residential urban customers being more satisfied than residential rural customers.

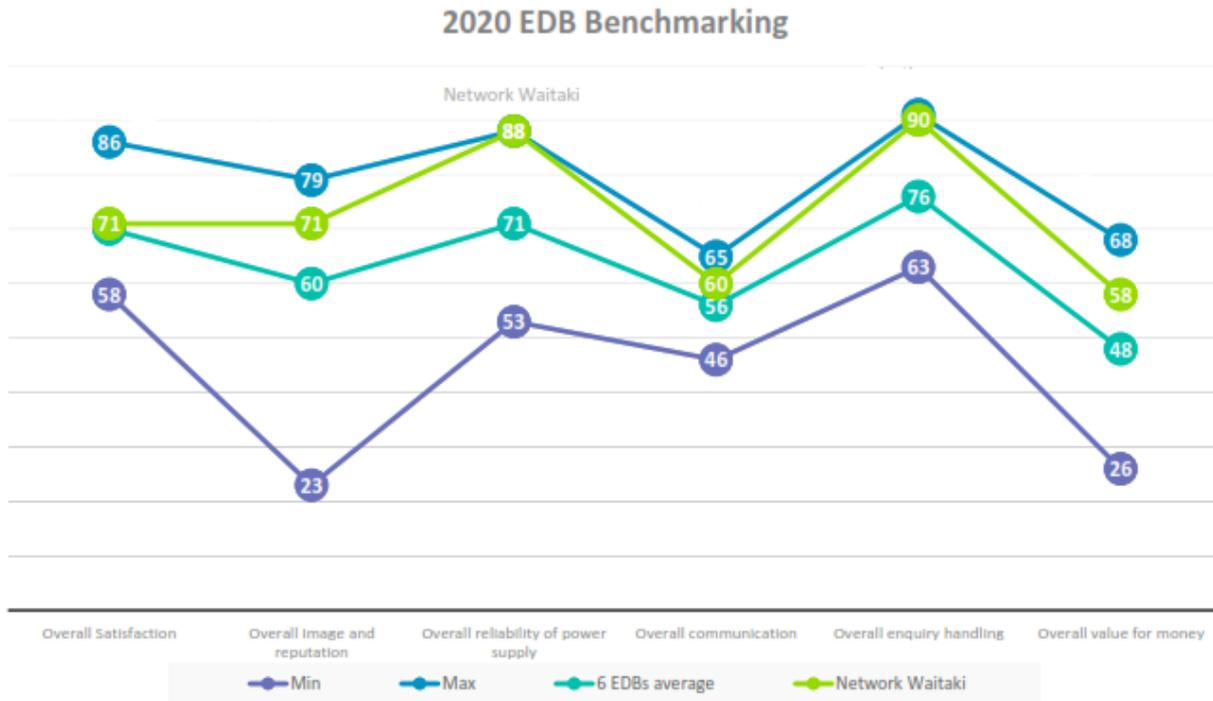
Commercial:

- 93% of the commercial customers surveyed are satisfied with the overall performance of Network Waitaki – this is significantly higher compared with the respondent's telecommunications provider, energy retailer and local council.
- All respondents agree that Network Waitaki has the best interests of its customers at heart.
- The respondents cited Network Waitaki as being professional, reliable, good communicators. Responsive, and active in the local community.
- All respondents are satisfied with the overall reliability of power supply.

Network Waitaki has also participated in an Electricity Distribution Business (EDB) Benchmarking project that is based on the Annual Customer Satisfaction surveys conducted by Key Research. The report outlines the average across six similar EDBs and the position of Network Waitaki relative to our peers. The report includes areas such as: value for money, reputation, core deliverables, reliability of power supply.

The report shows Network Waitaki scores above average on every one of the six measures and is close to the highest score on overall reliability of power supply, overall inquiry handling and overall image and reputation.

Overall measures



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7.0 The role of electricity in our economy and a low carbon future

Electricity currently plays a huge role in the local economy, powering large local industry as well as area wide irrigation schemes and intensive on-farm use such as pumping and milking sheds, all of which contribute to the prosperity of the region.

As New Zealand looks to meet its objectives in lowering carbon emissions, and to meet government objectives of a net carbon zero economy, electricity will play an increasingly important role as part of the energy mix in our economy. Increasing electrification of transport and process heat provides a huge opportunity, along with emerging energy technology, to deliver a wider range of customer solutions on existing networks. The role of an electricity network will remain relevant and evolve over time.

The economic importance of safe, reliable and well managed electricity networks means the ownership and management of distribution networks has to be reflective of local requirements.

8.0 Community feedback on ownership structure

Directors have not actively sought feedback from the community on whether the ownership structure should change for the purposes of this 2021 review as this is part of the process which the Trust undertakes. However, through the course of normal business operations and through our various community initiatives, the company receives a range of formal and informal positive feedback on the benefits of local ownership.

9.0 Ownership Options

The Directors of Network Waitaki have considered the following ownership options, with support from Deloitte:

- 100% Trust owned (the status quo)
- Joint venture
- Merger
- Distribution or sale of minority stake
- 100% distribution or sale
- Asset sale and conversion of Trust to community trust.

The detailed analysis has been completed by Deloitte on pages 20 to 31 of their report attached.

The Directors concur with this analysis and note that retaining Trust ownership scores well when compared to the alternative ownership structures considered. In particular, it is the most effective ownership structure for balancing community outcomes and the commercial performance of the business which is more difficult to achieve under the alternative ownership structures.

There are four factors which strongly favour continued Trust ownership:

Regulation

Wholly owned consumer owned lines companies are regulated by information disclosure. Most of the alternative ownership structures considered have the potential to compromise this position and lead to price regulation being imposed on the company / network which adds significant additional complexity and cost.

Contracting out of operations or other expertise

The benefits of being part of a larger or more commercially structured organisation could be achieved through contracting out arrangements. Such an arrangement could provide Network Waitaki with scale in management and operating expertise of a much larger organisation if it was desired.

Trust elections

The election process provides a very distinct means whereby the local consumer owners have the opportunity to express their views on the performance of the Trust and any changes they consider desirable.

Inter-generational considerations

The network assets are long life in nature and can suffer from under investment that only manifests itself as an issue many years into the future when the costs to remedy can be beyond the reach of the company. Trust ownership is inherently capable of making long term inter-generational network investment decisions which can reduce the risk of longer term under investment.

10.0 Discussion and Conclusions

Network Waitaki has continued to perform well for the benefit of consumers, and the wider community, under Trust ownership.

The reliability and overall performance of our network has consistently remained at or below target levels and compares favourably to peer Electricity Distribution businesses.

Network Waitaki has generated healthy profits which has allowed the company to continue to reinvest into its Network to maintain these operational standards whilst also returning significant financial benefits to the community through discounts, sponsorships and scholarships. This dual focus on operational and commercial performance has been, in no small part, enabled by the current ownership structure.

Previous polls of consumers have overwhelmingly shown that Trust ownership is preferred by the community and more recent surveys of customers indicate continued strong support from our consumer owners.

The independent review of Network Waitaki by Deloitte has also concluded that continued Trust ownership delivers the best outcome for Network Waitaki consumers.

11.0 Recommendation and Approval

The Directors of Network Waitaki recommend that the current consumer trust ownership of Network Waitaki is the most appropriate ownership structure and should continue.

This report was approved unanimously by Directors at the Board meeting held on 28 June 2021.



Chris Dennison (Chairman)



Chris Bailey (Director)


Michael de Buyzer

Michael de Buyzer (Director)



Jonathan Kay (Director)



Mike Underhill (Director)



Tony Wood (Director)

Appendices

Appendix 1 Trust Deed – Clause 4 Review

4. Review

- 4.1 Within 3 years of the date of this Deed the Trustees shall require the Directors of the Company to prepare a report considering proposals and available options for the future ownership of the shares. Such report shall contain the following detail:
- (a) an analysis of the recent performance of the Company to the date of the report together with a discussion of the advantages and disadvantages of trust ownership;
 - (b) an analysis of the various ownership options considered including, without limitation, a share distribution to Consumers, a sale of shares to the public, a sale of shares to institutional investors and retention of shares by the Trust;
 - (c) a comparison of the performance by the Company with the performance of other energy companies;
 - (d) the conclusions of the Directors as to the most appropriate form of ownership together with an indication of whether the conclusions are unanimous and if the decision is not unanimous, a summary of the conclusions of the dissenting Directors shall be included;
 - (e) the matter contained in Clause 4.7 (of the Waitaki Power Trust Deed) if a distribution of shares is recommended;
 - (f) a summary of the professional advice (if any) obtained in respect of the preparation of the report; and
 - (g) a statement as to whether or not the Directors have had regard to any views expressed by the public with respect to ownership.
- 4.2 The Trustees shall comment on the report to the Directors of the Company and upon completion of their review of the report, the Trustees shall make the report available to the public in accordance with Clause 13 of the Trust Deed together with a summary of their comments.
- 4.3 The Trustees shall in respect of the report and no later than 1 month after the date of the report, implement the Public Consultative Procedure.
- 4.4 Following completion of the Public Consultative Procedure and in any event not later than 6 months after the report required by Clause 4.1 of the Waitaki Power Trust Deed is completed, the Trustees and the Directors shall meet and, taking due account of the views expressed by the public and Directors, the Trustees shall decide whether to:-
- (a) retain the shares in the Trust; or
 - (b) dispose of a portion of the shares and retain the remainder in the Trust; or
 - (c) dispose of all of the shares.
- 4.5 If the shares are to be retained by the Trust the Trustees shall notify the public in accordance with Clause 13.
- 4.6 If the Trustees decide that the shares or any portion of them are to be distributed, no such distribution shall be effected unless the Trustees have held a postal vote of Consumers and 75% of Consumers who vote on the question approve the distribution. The Trustees may in their discretion determine the method and procedure for carrying out the postal vote provided that:-

- (a) the Trustees shall give written notice to all the Consumers of the postal vote and of the method or procedure adopted by the Trustees for carrying out the postal vote;
- (b) a period of not less than 21 days shall be allowed between the date the Consumers are notified of the postal vote and the date by which the votes of Consumers will be disallowed if not received by the Trustees;
- (c) each Consumer shall be entitled to one vote;
- (d) the Trustees shall give notice of the vote to Consumers through the post directed to the address of each Consumer in the records of the Trust, or if there are no such records then the records of the Company;
- (e) the notice referred to in clause 4.6(d) of the Waitaki Power Trust Deed shall be deemed to have been duly received 2 days after the date of posting of the notice by the Trustees.

4.7 If the postal vote carried out in accordance with clause 4.6 of the Waitaki Power Trust Deed confirms that the shares or any portion of them are to be distributed, the Trustees shall request the Directors of the Company to prepare a Distribution Plan and if the Directors fail to prepare a plan the Trustees shall prepare the Distribution Plan. The Distribution Plan shall contain the following details:-

- (a) to whom the shares are to be distributed;
- (b) the time and manner in which the shares are to be distributed; and
- (c) whether the shares are to be distributed without consideration, at a concessionary consideration or for proper consideration.

The Trustees shall consider any distribution plan prepared and make such amendments to it as they consider shall be necessary after consultation with the Directors of the Company.

4.8 The Distribution Plan shall be notified to the public in accordance with Clause 13 of the Waitaki Power Trust Deed and following notification the Trustees shall be obliged to comply with the requirements of and ensure that the Distribution Plan is implemented unless the Trustees are unable to do so as a result of matters beyond the reasonable control of the Trustees.

4.9 If the Directors of the Company have failed to produce a report within 6 months of being required to do so by the Trustees, the Trustees shall prepare the report required by Clause 4.1 of the Waitaki Power Trust Deed.

4.10 The Company shall be entitled to be paid out of the Trust Fund all reasonable costs incurred in connection with the ownership review carried out pursuant to Clause 4 of the Waitaki Power Trust Deed.

4.11 The Trustees shall conduct successive reviews in accordance with Clause 4 until the Termination Date as to whether any or all of the shares of the Company are retained by the Trustees. A review shall be conducted at either five yearly or ten yearly intervals as follows:

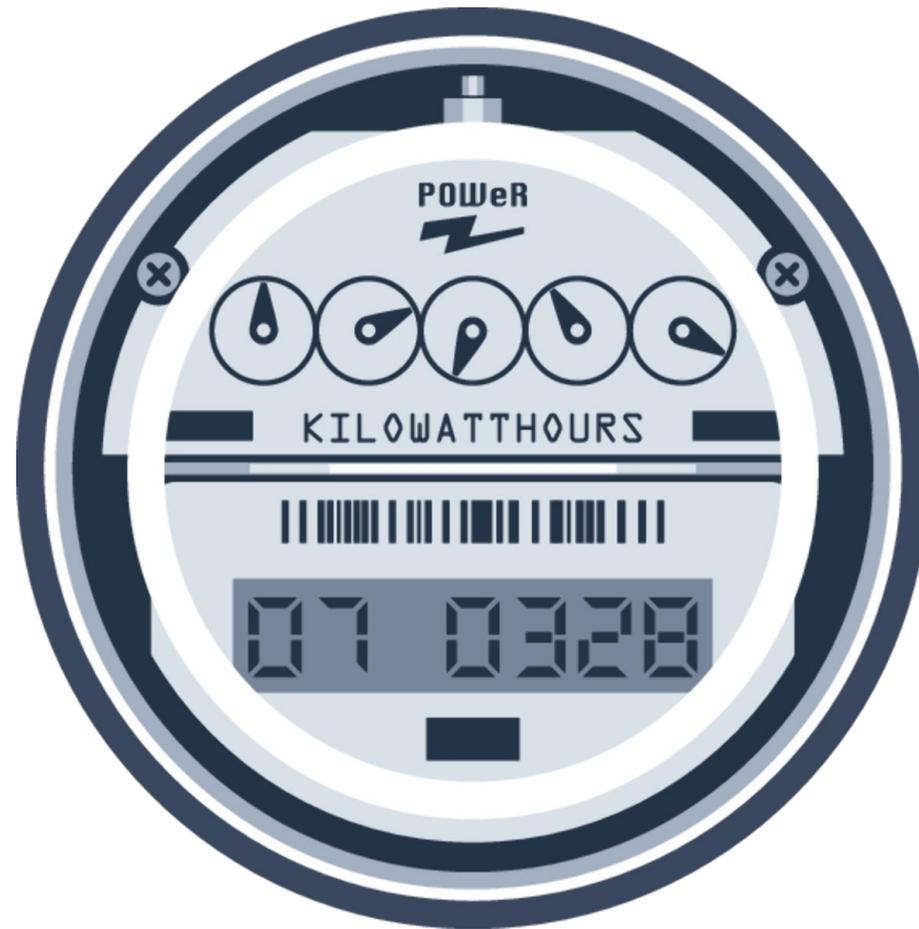
- (a) Trustees shall, in the fifth year, and prior to the end of a five yearly interval following a review of ownership of the shares, consult with Consumers following the Consultative Procedure process in Schedule 2 attached to this Deed, as to whether there should be a ten yearly or five yearly interval until the next review.
- (b) Should a majority of Consumers making written submissions not approve a ten yearly interval before the next review, then Trustees shall, in their discretion, determine whether or not a ten

yearly review rather than a five yearly review shall be proposed having regard to all submissions received and all other circumstances the Trustees consider relevant.

- 1.12 For the purposes of Clause 4 of the Waitaki Power Trust Deed any Debt Securities held by the Trust in the Company shall be deemed to be shares so that they may not be sold, transferred or otherwise disposed of unless the procedure in Clause 4 of the Waitaki Power Trust Deed has been implemented in relation to such Debt Securities, provided however that if the debt is repaid by the Company, Clause 4 of the Waitaki Power Trust Deed shall not apply.

Appendix 2 Deloitte Ownership Review Report

Separate document attached



Network Waitaki Limited Ownership Review

Final Report

Financial Advisory Services | 31 May 2021

Strictly Private and Confidential

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The Directors
Network Waitaki Limited
PO Box 147
OAMARU 9444

31 May 2021

Dear Directors

Ownership Review

We enclose our report (the Report) prepared in relation to the ownership review of Network Waitaki Limited as required by Clause 4 of the Waitaki Power Trust Trust Deed.

Our report is provided in accordance with our letter of engagement dated 12 April 2021 (the Engagement Letter).

Our review has found that Network Waitaki is performing reasonably consistently from a financial perspective and performing well against a peer set of similar EBDs.

On balance we believe that the potential theoretical benefits of a change in ownership structure could be outweighed by the costs and disadvantages of doing so, particularly given the current positive financial and operational performance of Network Waitaki.

This is a summary of our review findings. It should be read in conjunction with the attached detailed report and is subject to the restrictions and caveats contained in the detailed report.

Yours faithfully



Scott McClay
Partner

Deloitte Limited (as trustee for the Deloitte Trading Trust)

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Background Information | Summary

Network Waitaki is a electricity distribution company annually delivering approximately 300 GWh to approximately 13,000 ICPs. Network Waitaki is 100% owned by a trust for the benefit of it's consumers. The Trust's deed requires an ownership review be completed every 10 years.

Profile

- Network Waitaki Limited (Network Waitaki) is an electricity distribution company that distributes electricity from the national grid to consumers' properties within the Waitaki District.
 - This includes the area inland from Shag Point in the south, following the coast line to the Waitaki River, then following the river to the west incorporating the land to the north from the Stone Wall including the Hakataramea Valley through to Lake Ohau.
- Network Waitaki annually delivers approximately 300 GWh of electricity to approximately 13,000 consumer connections across a network of approximately 1,900 km of power lines.
- Over the past 5 years, turnover has been \$23m-\$29m which has resulted in an operating profit before tax which has ranged from \$4m to \$8.4m.
- Network Waitaki has grown net assets from \$86m in FY17 to \$103m in FY21 (19% growth over the period). We understand that the apparent reduction in total system length between FY18 and FY20 is a result of data cleanses to correct errors within Network Waitaki's GIS.

Ownership

- Network Waitaki is owned 100% by Waitaki Power Trust (WPT), ultimately for the benefit of Network Waitaki's consumers.
- As Network Waitaki is 100% consumer trust owned, the company is exempt from regulatory price control by the Commerce Commission, and instead is subject to Information Disclosure regulation under Part 4 of the Commerce Act.
- The WPT was settled on in April 1993. The objectives of the WPT are set out in the Trust Deed and are:
 - to hold the shares of Network Waitaki on behalf of Consumers and distribute to the Consumers in their capacity as Beneficiaries, the benefits of trustee ownership of the shares in the Company; and
 - to carry out future ownership reviews involving consultation in accordance with the terms of the Trust Deed.
- This report has been prepared in connection with the current ownership review process.

Summary Information

	FY17	FY18	FY19	FY20	FY21
System Length (km)	1,879.5	1,896.5	1,890.4	1,871.0	1,879.0
Consumers (ICPs)	12,710.0	12,814.0	12,933.0	13,040.0	13,092.0
Electricity Delivered (GWh)	230.7	252.3	245.1	267.2	307.3
Revenues (\$000)	22,782.0	23,888.5	22,905.4	25,654.1	29,119.6
Profit before Tax (\$000)	4,643.7	5,158.3	3,994.3	5,758.2	8,430.3
PP&E at NBV (\$000)	89,168.6	95,180.9	98,913.1	103,267.4	110,759.7
Net Assets (\$000)	86,160.7	89,794.4	92,575.4	96,784.1	103,033.6

Source: New Zealand Commerce Commission 2020, Draft FY21 Annual Report

Background Information | Summary

Network Waitaki is a electricity distribution company annually delivering approximately 300 GWh to approximately 13,000 ICPs. Network Waitaki is 100% owned by a trust for the benefit of it's consumers. The Trust's deed requires an ownership review be completed every 10 years.

Requirements

- The required content of the ownership review is set out in Clause 4.1 of the WPT Trust Deed, the analytical aspects of which are:
 - An analysis of the performance of the Company to the date of the report together with a discussion of the advantages and disadvantages of trust ownership;
 - An analysis of the various ownership options considered including without limitation, a share distribution to Consumers, a sale of shares to the public, a sale of shares to institutional investors and retention by the Trust;
 - A comparison of the performance of the Company with the performance of other energy companies.
- The Directors of Network Waitaki are then required to draw a conclusion and report back to WPT.

Approach

- In accordance with the requirements of the Trust Deed we have structured this report with the following sections:
 - Company performance analysis
 - Comparator performance analysis
 - Ownership options analysis
- We note that under the Trust Deed the Network Waitaki Directors are responsible for preparing a report considering proposals and available options for the future ownership of the Network Waitaki shares.
- In this context, whilst our report is addressed to Network Waitaki, we also considered it appropriate to have some interaction with the WPT Trustees which involved a phone conversation with the Chair of the WPT to ensure that any views or objectives held by WPT are factored into our ownership options analysis within this report.



Company Performance Analysis

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Company Performance Analysis | Financial Performance

Over the 5 years from FY17 to FY21, Network Waitaki revenue (before customer discounts) has ranged from \$22.8m to \$29.1m. In FY21 profit before tax was \$8.4m.

Summary

- We have presented the financial performance of Network Waitaki and considered the trends in its performance measures over the FY17 to FY21 period.

Profitability

- Network Waitaki's profit before tax has increased reasonably steadily from \$4.6m in FY17 to \$8.4m in FY21.
- The exceptions to the steady growth profile are FY19 (which had lower external contracting revenues and a higher level of internal contracting activity on Network Waitaki's network) and FY21 which has reported a more pronounced increase following higher lines revenues (due to a dry summer and higher irrigation demand) and higher external contracting activity.
- Adjusted profit before tax is before the deduction of customer discounts, which is important for the market participant comparisons made later in the report.

Revenue

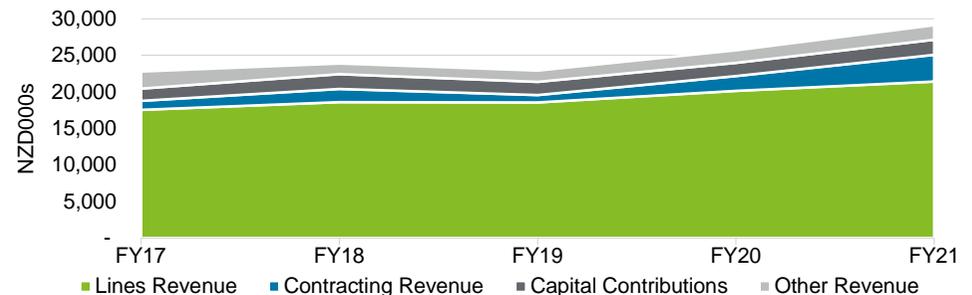
- The table on the right shows that Network Waitaki revenue (before customer discounts) has ranged from \$22.8m to \$29.1m over the FY17-FY21 period.
- Lines Revenue is the main contributor to total revenue and has trended up from \$17.5m in FY17 to \$21.4m in FY21, generally following weather patterns which impacts irrigation demand.
- Capital Contributions have ranged between \$1.7m and \$2.1m while Contracting Revenue (external) has increased from \$1.2m to \$3.6m. We understand that previously external contracting revenue was a function of utilising available capacity after prioritising Network Waitaki's network needs, however more recently there has been a deliberate strategy to grow external revenue (as experienced in FY21).

Financial Performance Summary

NZD000s	FY17	FY18	FY19	FY20	FY21
Lines Revenue	17,520	18,577	18,549	20,148	21,408
Contracting Revenue	1,262	1,808	1,019	1,999	3,640
Capital Contributions	1,668	2,035	1,791	1,829	2,075
Other Revenue	2,332	1,469	1,547	1,678	1,997
Customer Discount	(1,741)	(1,580)	(1,479)	(1,167)	(1,482)
Operating Revenue	21,041	22,309	21,427	24,487	27,638
Overhead Expenses	(16,397)	(17,150)	(17,432)	(18,729)	(19,208)
Profit before Tax	4,644	5,158	3,994	5,758	8,430
Add back Customer Discounts	1,741	1,580	1,479	1,167	1,482
Adjusted Profit before Tax	6,384	6,738	5,473	6,925	9,912
Profit before Tax Ratios					
Adjusted PBT / Adj. Op. Revenue	28%	28%	24%	27%	34%
Lines Revenue and Efficiency Ratios					
Lines Revenue \$ / ICP	1,378	1,450	1,434	1,545	1,635
Lines Revenue cents / kWh	7.60	7.36	7.57	7.54	6.97

Source: Annual Reports (2016-2020), Draft FY21 Annual Report

Operating Revenue (before Customer Discounts)



Source: Annual Reports, Draft FY21 Annual Report



Company Performance Analysis | Financial Performance

With the exception of Transmission Costs overheads have increased over the 5 year period, largely in line with revenue.

Customer Discounts

- Alongside dividends to the WPT, customer discounts are used by Network Waitaki to return benefits to the ultimate consumers/trust beneficiaries. The value of customer discounts has decreased over the period, decreasing from \$1.7m in FY17 to \$1.5m in FY21. We understand that the discounts are 'paid' once a year via a discount on the consumer retail electricity bill and generally target approximately one months worth of network distribution charges.

Overhead Expenses

- As shown by the summary table opposite, overhead expenses have increased from \$16.4m in FY17 to \$19.2m in FY21.
- All categories of overheads (with the exception of Transmission Costs) have increased over the 5 year period, largely in line with revenue.
- Transmission costs (which are essentially a pass through to Network Waitaki) have fallen over the 5 year period.
- As an aggregate level Operating Expenses are distorted by the Contracting business, as all of the direct costs of Contracting (raw materials, field staff etc) are captured within Operating Expenses and are offset by the internal recovery from contracting work performed on Network Waitaki's network. As such net Operating Expenses is influenced by the mix of internal and external contracting revenue.

Financial Performance Summary

NZD000s	FY17	FY18	FY19	FY20	FY21
Operating Expenses	(4,349)	(4,815)	(4,443)	(6,058)	(6,351)
Transmission Costs	(4,974)	(5,054)	(4,841)	(4,525)	(4,083)
Employee Costs	(2,975)	(3,153)	(3,759)	(3,440)	(3,760)
Depreciation and Amortisation	(4,099)	(4,129)	(4,390)	(4,706)	(5,015)
Overhead Expenses	(16,397)	(17,150)	(17,432)	(18,729)	(19,208)

Cost Ratios

Opex / Lines & Contracting Rev.	23%	24%	23%	27%	25%
Transmission Costs / Lines Rev.	28%	27%	26%	22%	19%
Empl. Costs / Lines & Contracting Rev.	16%	15%	19%	16%	15%

Source: Annual Reports (2016-2020), Draft FY21 Annual Report

Breakdown of Operating Expenses

Network Maintenance

Service interruptions & emergencies	398	484	470	500	757
Vegetation management	498	441	536	690	501
Routine and correct maintenance	787	732	904	809	834
Asset replacement and renewal	503	528	617	423	438
	2,186	2,185	2,527	2,422	2,530

Contracting

Direct Costs	3,790	4,212	3,742	4,491	5,402
Recoveries	(4,399)	(4,558)	(4,931)	(4,530)	(5,352)
	(609)	(346)	(1,189)	(39)	50

Other operating expenses

	2,772	2,976	3,105	3,675	3,771
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Total Operating Expenses

	4,349	4,815	4,443	6,058	6,351
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Source: Management Information



Company Performance Analysis | Contracting Division

Contracting delivered a material contribution to the total Network Waitaki profit in FY21.

Contracting Division

- The table opposite summarises Network Waitaki's contracting division financial performance over the past 5 years.
- The contracting division performs work for Network Waitaki and for third party customers. The summary below includes the profit from internal work and external customers.
- Network Waitaki operate a different labour charge out rate for internal and external works. The internal rate is lower and excludes any profit. This ensures that when work is capitalised as new distribution assets within Network Waitaki it is at cost.
- Network Waitaki determine this cost charge out rate for labour at budget time by considering the entire financials for the contracting division and set the rate to achieve a net profit of nil in contracting (after appropriate attribution of all overheads) for all internal works. This then partially understates the actual financial performance of this business unit but results in correct and appropriate consolidated financials. In essence, the profitability reported for the contracting division represents the profit generated from external contracting revenues.
- This net profit has been negligible across FY17 to FY20, but increased to \$1.1m in FY21 on the back of significantly higher external contracting revenue.
- We understand that previously external contracting revenue was a function of utilising available capacity after prioritising Network Waitaki's network needs, however more recently there has been a deliberate strategy to grow external revenue and in FY21 contracting delivered a material contribution to the total Network Waitaki profit.

Contracting Division Financial Performance

NZD000s	FY17	FY18	FY19	FY20	FY21
Contracting Revenue	1,262	1,808	1,019	1,999	3,627
Contracting Recoveries	4,399	4,558	4,931	4,530	5,352
Other Income	69	28	34	24	61
Total Revenue	5,729	6,394	5,985	6,553	9,040
Direct Cost	(3,790)	(4,212)	(3,742)	(4,491)	(5,402)
Gross Profit	1,940	2,182	2,243	2,062	3,638
Total Indirect Cost	(1,785)	(1,980)	(2,234)	(2,211)	(2,546)
Net Profit before Tax	155	202	9	(150)	1,092

Source: Management information



Company Performance Analysis | Operational Performance

Since FY18 Network Waitaki has performed as expected relative to its SAIFI SCI target and outperformed the SAIDI SCI target.

Summary

- We have assessed the operational performance of Network Waitaki over the FY17 to FY21 period with reference to SAIDI and SAIFI. Where specific targets for the measures have been set by Network Waitaki in their Statement of Corporate Intent (SCI) we have looked at performance against these targets.

SAIDI

- The unplanned System Average Interruption Duration Index (SAIDI) has ranged between 34 and 58 minutes between FY17 and FY21, and consistently been around 46 minutes between FY19 and FY21.
- Planned interruptions from FY17 to FY21 ranged from 77-100 minutes. This is higher than the planned interruption level typically reported prior to FY17 (e.g. 36 minutes in FY16) and reflects a change in policy in FY17 restricting work on live equipment.
- Since FY18 Network Waitaki has performed well relative to its SAIDI target.

SAIFI

- The unplanned System Average Interruption Frequency Index (SAIFI) has ranged between 0.64 to 1.39 interruptions over the past 5 periods.
- Since FY18, Network Waitaki has performed as expected relative to its SCI target.

Operational Performance Summary

	FY17	FY18	FY19	FY20	FY21
SAIDI (minutes)					
Planned Interruptions	92	77	100	80	100
Unplanned Interruptions	34	58	48	44	46
Aggregate	126	135	148	124	147
Normalised	128	135	148	124	147
Forecast per SCI	117	150-250	150-250	150-250	150
Variance	11.3	below range			(3)
SAIFI					
Planned Interruptions	0.37	0.31	0.48	0.35	0.38
Unplanned Interruptions	0.64	1.39	1.20	0.86	0.80
Aggregate	1.02	1.70	1.68	1.21	1.18
Normalised	1.23	1.70	1.68	1.21	1.18
Forecast per SCI	1.54	1-2	1-2	1-2	1.20
Variance	(0.31)	w ithin range			(0.02)

Source: Annual Reports (2017-2020) and New Zealand Commerce Commission 2020, SCIs, Draft IDs (2021)



Company Performance Analysis | Financial Position

Network Waitaki has reinvested profits over the past 5 years into property, plant and equipment. The Balance sheet has remained unleveraged and in a strong position.

Summary

- The table on the right summarises the financial position of Network Waitaki over the past 5 years.
- The Company's net assets have grown by approximately 19% over the period, reflecting the reinvestment of annual profits into ongoing investments in property, plant and equipment (PP&E) to improve the network.
 - Since FY17 PP&E has grown by \$20.4m.
 - During this time, Network Waitaki have maintained a stable level of working capital in the business and paid a relatively small amount of dividends (in addition to the consumer discounts provided).
- The summary also highlights the unleveraged nature of Network Waitaki. Network Waitaki does not have any debt. As a result, Network Waitaki has significant capacity to borrow for new investments if required.

Returns

- In the period from FY17 to FY21, Network Waitaki has achieved returns on shareholder funds ranging from 4.3% to 8.2%.
- Network Waitaki is not a regulated entity and therefore specific targets are not set by the Commerce Commission. Instead, as Network Waitaki is a consumer owned entity, the company needs to balance the rate of return; firstly to ensure that there is sufficient future ability to maintain and reinvest in required infrastructure; secondly to ensure that the consumer shareholders are charged a fair price for the service they receive from Network Waitaki.

Financial Position Summary

NZD000s	FY17	FY18	FY19	FY20	FY21
Cash and Short Term Deposits	7,435	8,156	6,830	8,114	9,537
Trade and Other Receivables	2,655	2,400	2,938	3,360	3,210
Other Current Assets	1,846	1,437	1,714	1,947	2,199
Current Assets	11,937	11,994	11,482	13,420	14,946
Trade and Other Payables	(2,210)	(2,345)	(2,620)	(2,443)	(3,995)
Other Current Liabilities	(663)	(666)	(872)	(1,329)	(2,287)
Current Liabilities	(2,873)	(3,011)	(3,492)	(3,772)	(6,282)
Property, Plant & Equipment	90,351	95,181	99,906	103,267	110,760
Other Non-current assets	1,024	647	503	1,435	1,343
Non-current Assets	91,376	95,828	100,409	104,702	112,102
Deferred Tax	(13,129)	(13,867)	(14,673)	(15,456)	(15,842)
Other non-current Liabilities	(1,150)	(1,150)	(1,150)	(2,110)	(1,891)
Non-current Liabilities	(14,279)	(15,017)	(15,823)	(17,567)	(17,733)
Shareholders Equity	86,161	89,794	92,575	96,784	103,034
Return metrics					
Actual NPBT / Shareholder Funds	5.4%	5.7%	4.3%	5.9%	8.2%
NPBT Earnings per Share in Cents	33.2	36.8	28.5	41.1	25.1
Act. Shareholder funds / Total Assets	83.4%	83.3%	82.7%	81.9%	84.2%

Source: Annual Reports (2017-2020), Draft FY21 Annual Report



Comparator Performance Analysis

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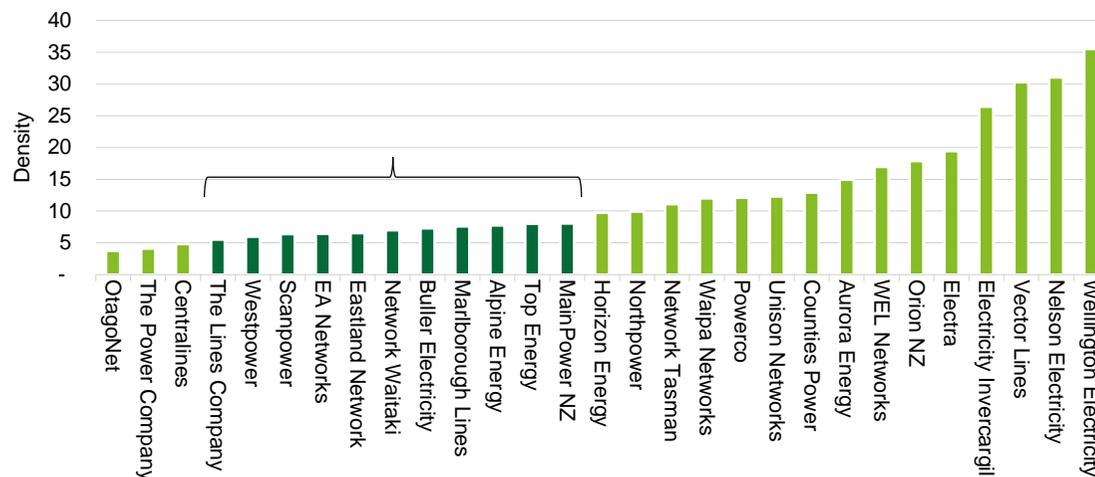
Comparator Performance Analysis | Peer Set

We have selected a peer group of primarily regional based locations with a similar relative density. The peer group is a mix of unregulated and regulated entities but does not include any large city EDBs.

Peer Set

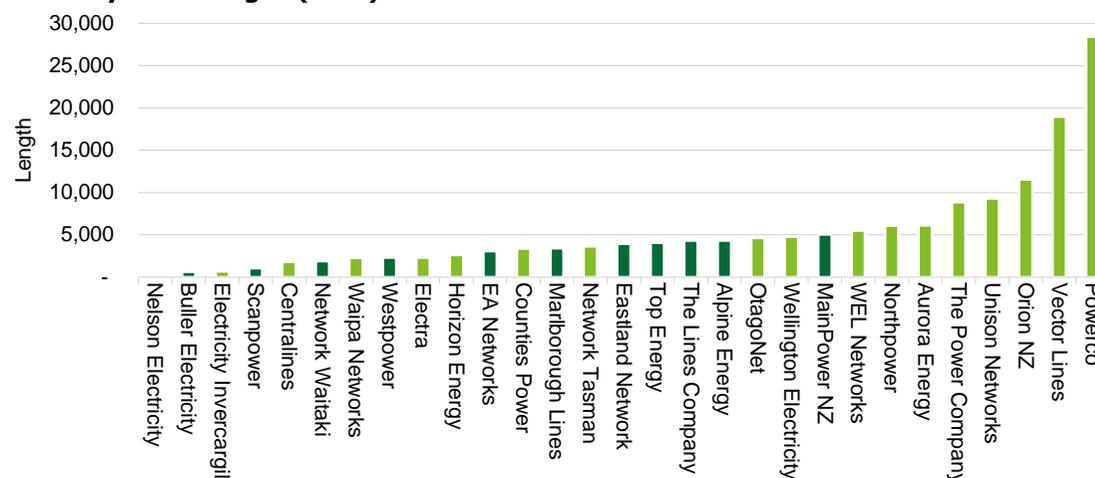
- In addition to the review of Network Waitaki's performance against company targets we have considered the company's performance against a group of its peers.
- Network Waitaki is one of New Zealand's shorter electricity distribution networks and its relative line density is low. It is important to consider these physical attributes when comparing the performance of the network against others. Consequently we have selected 10 peer group networks with similar characteristics to benchmark Network Waitaki against.
- The top graph shows the electricity lines businesses (EDB) across New Zealand, sorted by system length in kilometres. The lower graph shows the EDBs when ranked by customer density (ICPs/km). To define a peer group, we selected 10 EDBs which were comparable on urban/rural and density characteristics. These are shown as the dark green companies in the graphs.
- The ten companies, plus Network Waitaki, used in the following peer group analysis are:
 - Alpine Energy (Regulated)
 - Buller Electricity
 - EA Network (Regulated)
 - Eastland Network (Regulated)
 - The Lines Company (Regulated)
 - Mainpower New Zealand
 - Marlborough Lines
 - Scanpower
 - Top Energy (Regulated)
 - Westpower
- As the FY21 information disclosures for the various networks were not available at the time of this report we have performed the peer comparison over the 5 year period from FY16 to FY20.

EDB Relative Line Density (Circuit Length/ICPs)



Source: Commerce Commission

EDB System Length (Kms)



Source: Commerce Commission



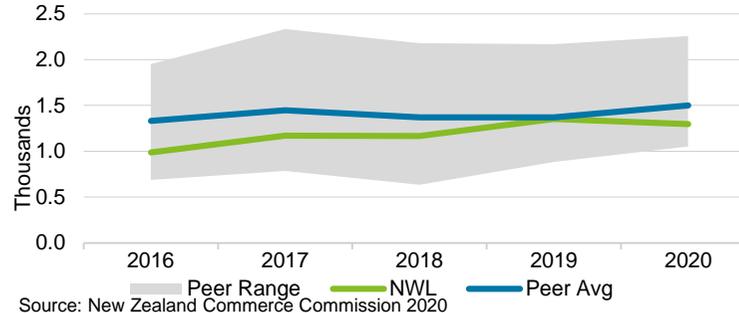
Comparator Performance Analysis | Operating Expenditure

Network Waitaki is favourable to average in the peer set when assessing operational efficiency on network opex spend per km basis and on a support opex per ICP basis.

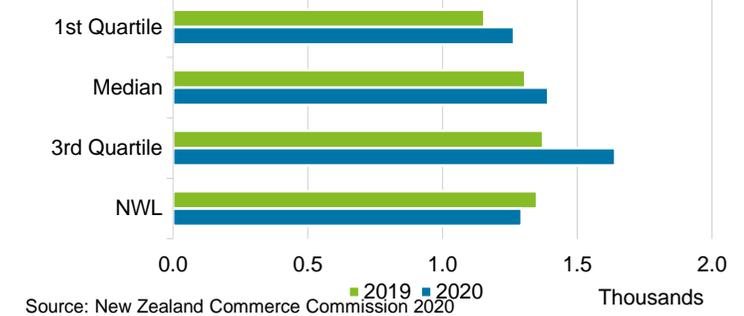
Operating Expenditure

- To provide a level of relativity, we have assessed Network Waitaki's network operating expenditure (opex) on a system length basis and support opex on a ICP basis.
- Over the past 5 years Network Waitaki has spent between \$1k and \$1.5k per km of system length on network opex. This spend places Network Waitaki favourable to the average when comparing Network Waitaki to the selected peers albeit Network Waitaki's per km spend has trended upwards over the past 5 years.
- With respect to support opex, Network Waitaki also ranks favourable to the average spend of the peer set spending between \$200 and \$330 per ICP per annum.
- These two measures indicate that on a operational expenditure basis, Network Waitaki is relatively efficient compared to the peer set, performing better than at least half of the other companies.

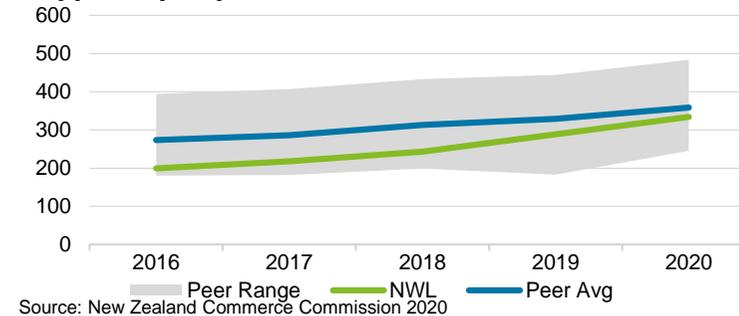
Network Opex per km



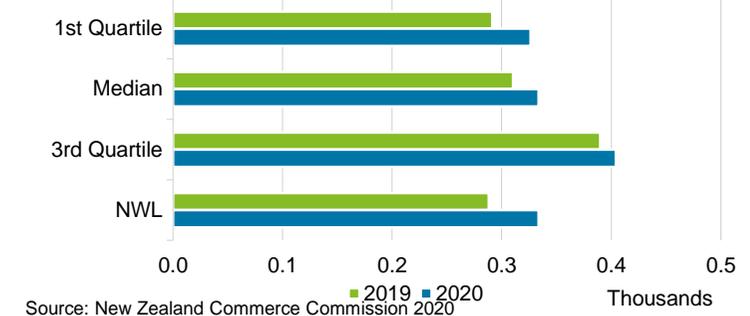
Network Opex per km



Support Opex per ICP



Support Opex per ICP





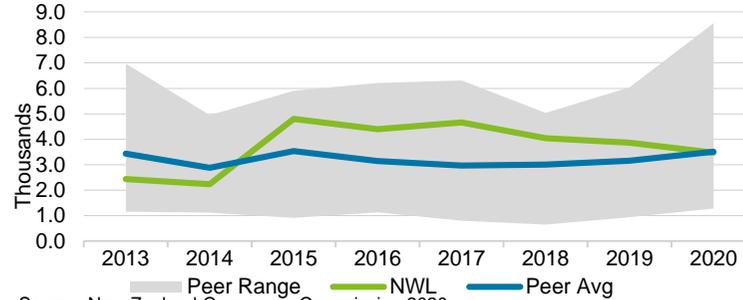
Comparator Performance Analysis | Capital Expenditure

Network Waitaki has generally invested more in its asset than its peers in recent years.

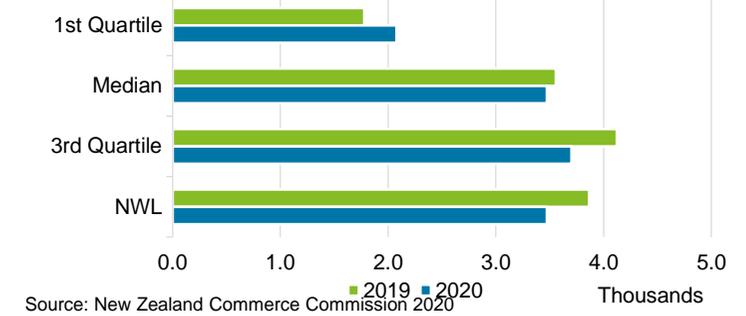
Capital Expenditure

- On a per km basis, Network Waitaki has generally invested more in its network assets than its peers over the past 8 years.
- This may be one of the drivers for the reduced maintenance opex that has been required over the last 5 years.

Network Asset Capex per km



Network Asset Capex per km



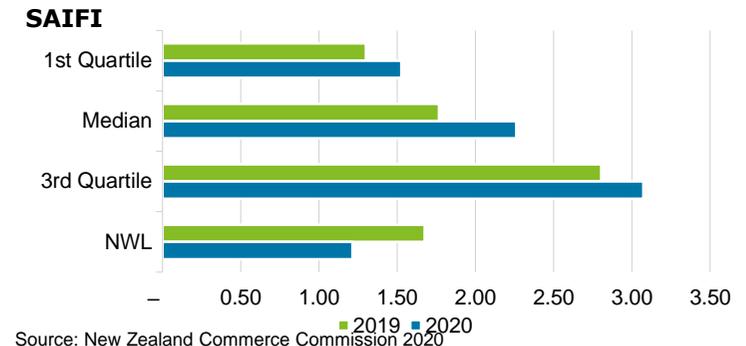
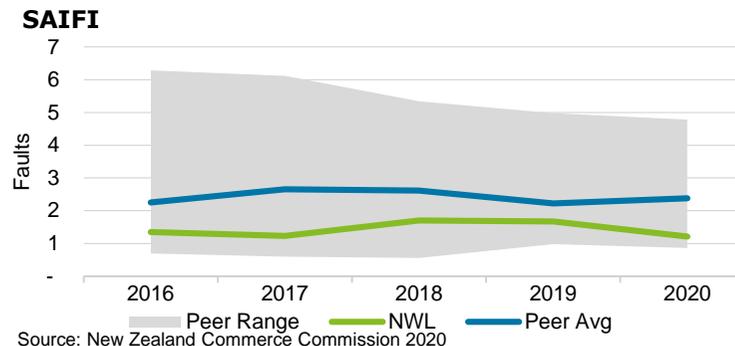
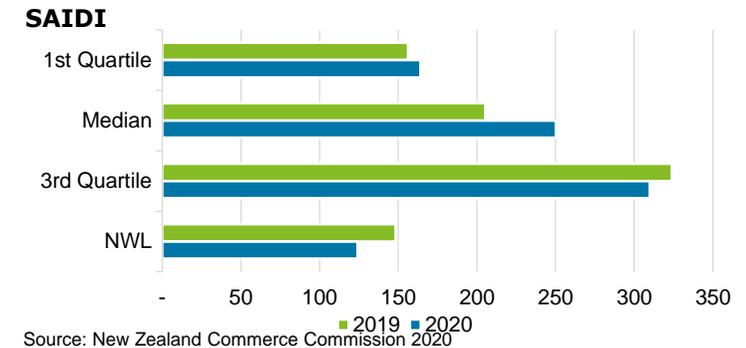
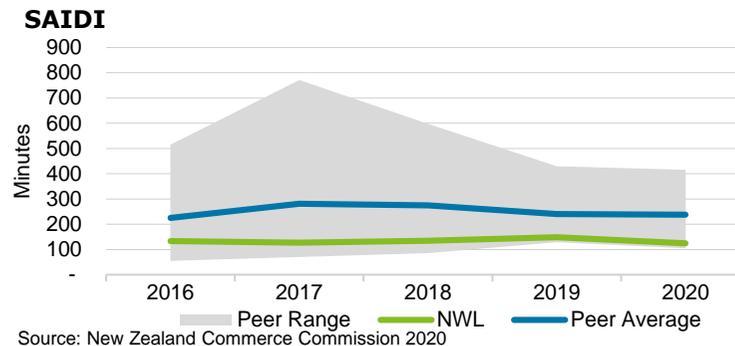


Comparator Performance Analysis | Reliability

Network Waitaki's network reliability measures, when compared with peer group companies, show good reliability.

Reliability

- Reliability amongst the peer group has been assessed using the SAIDI and SAIFI measures. These measures are normalised to limit the impact of major events outside of the EDBs control.
- Network Waitaki has performed highly in terms of reliability, ranked consistently in the first quartile amongst the peer group companies for normalised SAIDI over the last 5 years.
- Network Waitaki has also performed at a high level at the normalised SAIFI measure, moving from the second quartile to the first quartile in FY20.
- The analysis suggests that the company has a low number of faults and when they occur, Network Waitaki is providing good responses to these faults. This reliability assessment, when combined with the with operational spend efficiency assessment on the previous page, indicates that Network Waitaki is run relatively efficiently (when comparing to the peer group) whilst still providing a reliable service to the shareholder consumers.





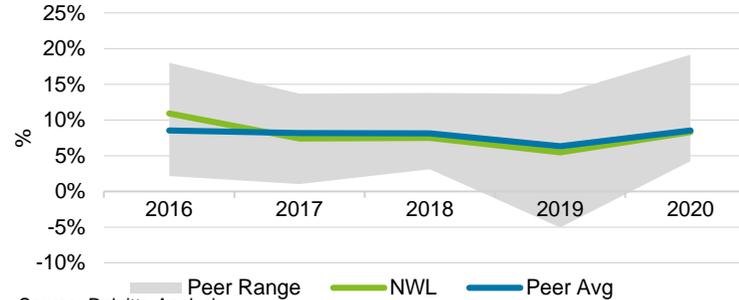
Comparator Performance Analysis | Return on Investment

Network Waitaki has averaged a return of 8% over the past 5 years, similar to the average of the peer group when comparing on a leveraged basis.

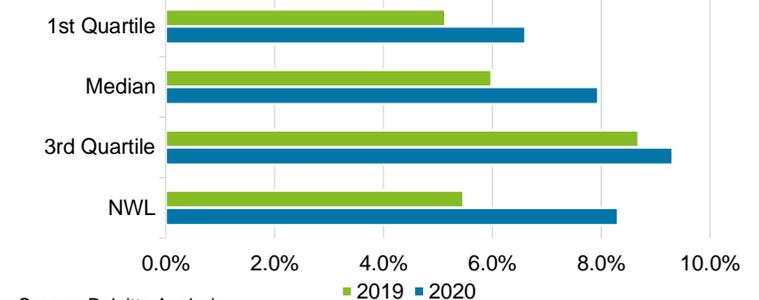
Return on Investment

- We have assessed Return on Investment (ROI) on two measures.
 - First, annual profit before tax and rebates over the total equity at the end of each year.
 - Second, annual profit before tax, rebates, and financing over the total equity at the end of each year.
- In each case we have removed any profit(losses) from Yealands in Marlborough Lines results and profit(losses) from associates (Pulse Energy Alliance LP) in Buller Electricity.
- Network Waitaki's average ROI (pre tax and rebates) over the past 5 years has averaged 8% but ranged between 5.5% and 11%. On this leveraged basis, Network Waitaki has performed close to average when compared to the peer set. On a ranked basis, Network Waitaki ranks 7/11 in 2019 and 5/11 in 2020.
- On an unleveraged basis (pre tax, rebates, and financing), and without having leveraged itself, Network Waitaki performs in the bottom quartile over 2019 and 2020. On a ranked basis, Network Waitaki ranks 10/11 in 2019 and 7/11 in 2020.

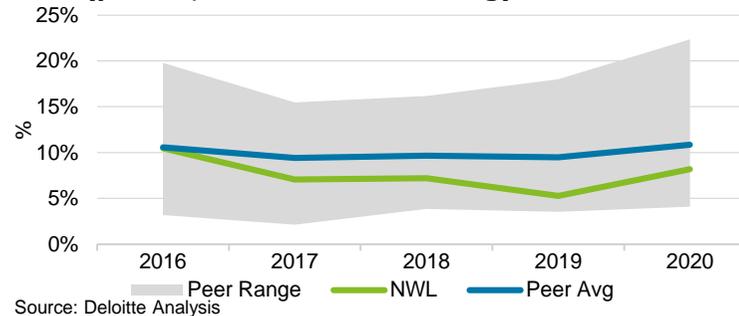
ROI (pre tax and rebates) %



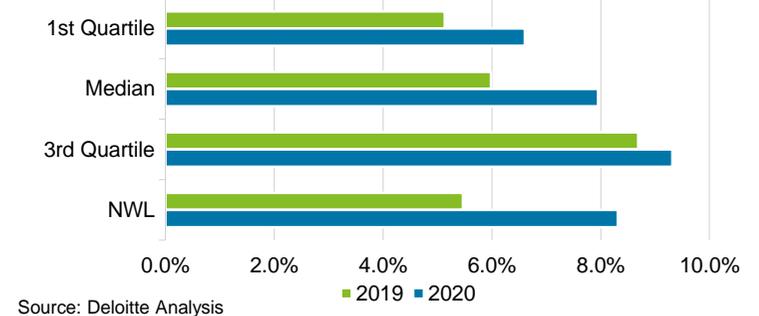
ROI (pre tax and rebates)



ROI (pre tax, rebates and financing) %



ROI (pre tax, rebates and financing)



When assessing Network Waitaki against a peer set of regional EDBs with similar density, Network Waitaki performs above average in most categories. Network Waitaki has good financial efficiency (when comparing operational and support expenditure to system length and ICPs) and Network Waitaki has above average reliability measures (in the top quartile in both SAIDI and SAIFI). Comparison of capital expenditure spend to system length over the past 5 years shows that Network Waitaki has spent relatively more than its peers, possibly to achieve the higher reliability and efficiency. On a leveraged ROI basis, Network Waitaki has performed close to average however on an unleveraged basis (when taking account of debt financing advantages), Network Waitaki has performed below average partially due to being 100% equity funded. This ROI performance is not surprising as the peer set is not limited to consumer-owned EDBs; Trust owned EDB's focus more strongly on service levels than profit, hence the rate of return on the value of a trust owned company's assets is often lower (as the consumers directly benefit from lower prices).



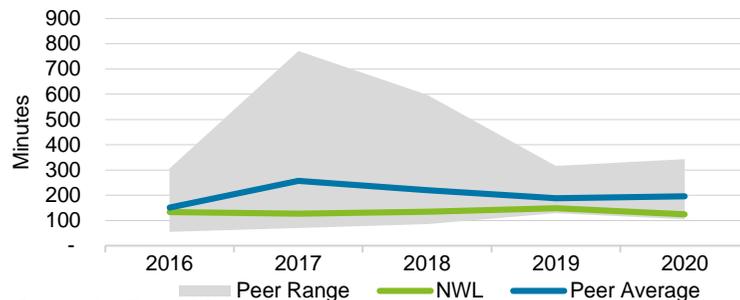
Comparator Performance Analysis | Unregulated Peers

Network Waitaki appears to be performing well when compared to unregulated peers.

Comparison to Unregulated Peers

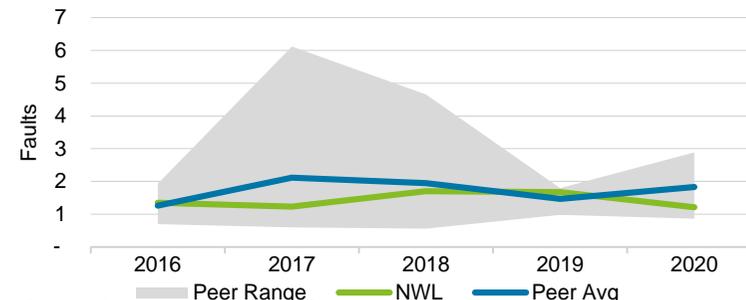
- For comparison, we have also compared Network Waitaki to those unregulated EDBs within the peer set (Buller Electricity, Mainpower New Zealand, Marlborough Lines, Scanpower, Westpower).
- The analysis shows a similar assessment when looking at the reliability and efficiency measures.
- When assessing the network asset capex spend, Network Waitaki is highest amongst its peers over the last 5 years.
- In contrast to the comparison against the full peer set, Network Waitaki performs above average when compared to those unregulated entities within the peer set.
- An assessment of these measures when compared to unregulated regional EDBs of a similar density indicate that Network Waitaki appears to be performing well.

SAIDI



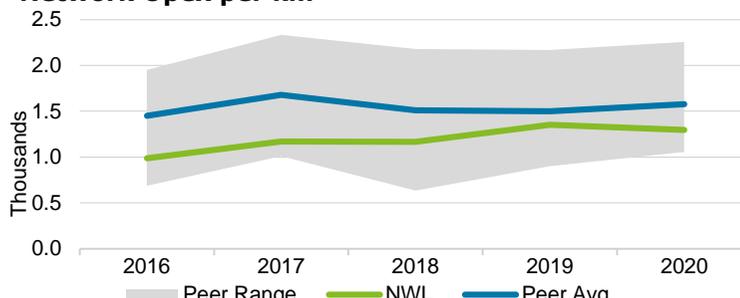
Source: New Zealand Commerce Commission 2020

SAIFI



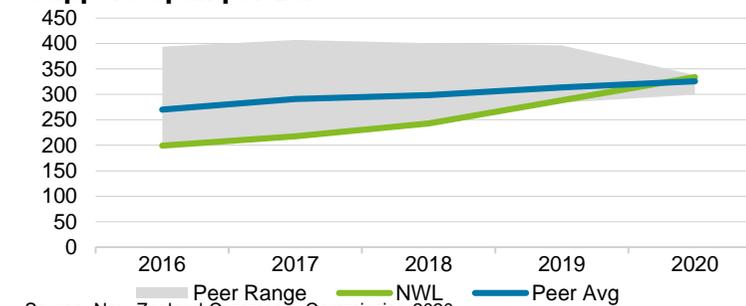
Source: New Zealand Commerce Commission 2020

Network Opex per km



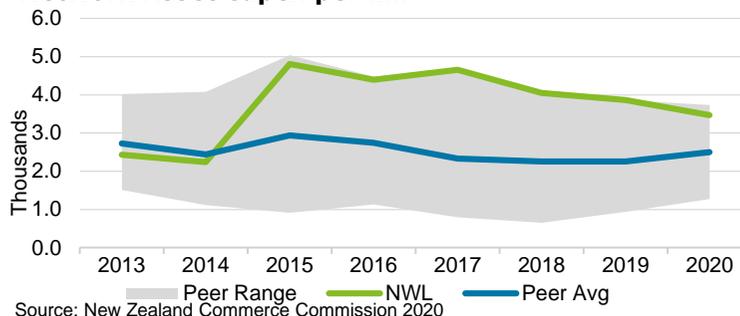
Source: New Zealand Commerce Commission 2020

Support Opex per ICP



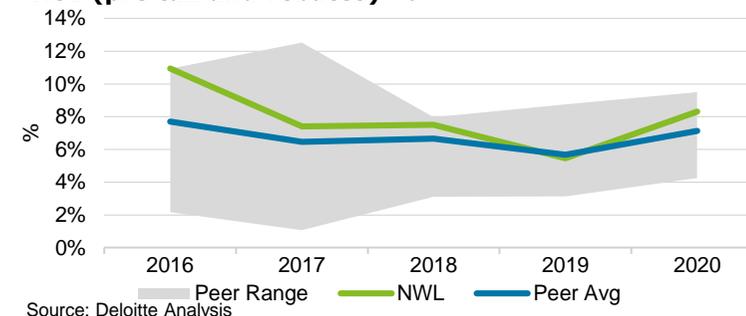
Source: New Zealand Commerce Commission 2020

Network Asset Capex per km



Source: New Zealand Commerce Commission 2020

ROI (pre tax and rebates) %



Source: Deloitte Analysis



Ownership Options Analysis

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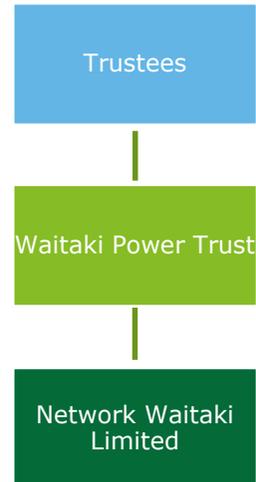


Ownership Options Analysis | Introduction

We consider the range of potential ownership structures for holding the shares in Network Waitaki and then consider the advantages and disadvantages of each option against defined assessment criteria.

Introduction to the Assessment

- Network Waitaki, trading as Network Waitaki, is a 100% consumer trust-owned company. It is owned by WPT for the benefit of electricity consumers.
 - The Trustees hold the shares in Network Waitaki on behalf of Consumers who are connected to Network Waitaki's electricity network.
- The Trust's beneficiaries are represented by five trustees, elected for a three year term on a rotational basis.
- It is the trustees' job to administer the Trust under the terms of the Trust Deed and Trustee law, and to act in the best interests of Consumers.
- Our approach to this review has been to consider the range of potential ownership structures for holding the shares in Network Waitaki and then to consider the advantages and disadvantages of each of these structures against a set of assessment criteria developed following discussions with Network Waitaki and WPT.
- The following pages summarise the ownership structures considered and the assessment criteria developed for comparing them.





Ownership Options Analysis | Ownership Options

We have considered the following 5 ownership options as well as presenting the status quo.

Ownership Options

- We have considered the following 5 ownership options as well as presenting the status quo.
- 100% Trust
 - This is the current ownership structure for Network Waitaki. The Trust provides a stewardship function over Network Waitaki, with five trustees, all whom are elected by the consumers. The consumers connected to the Network Waitaki network are the ultimate owners of Network Waitaki.
- Joint venture
 - The Trust would continue to own Network Waitaki, with the assets operated as a joint venture with another entity. The Trust could also enter into a joint venture with another entity for the purchase of other electricity lines businesses, keeping Network Waitaki separate from this joint venture whilst providing a vehicle for growth of the Trust's business overall.
- Merger
 - The Trust and another entity would combine to become one single operating entity. All of the assets would be combined under the new entity with WPT taking an ownership interest in proportion to its contribution.
- Distribution (to consumers) or sale (to third party) of minority stake
 - A distribution of a minority stake to current consumer owners would provide them with a direct ownership interest in Network Waitaki. If a minority stake is distributed, the Trust would remain in control of Network Waitaki. The minority shareholders could choose to sell their shares.
- 100% Distribution (to consumers) or sale (to third party)
 - This would involve the distribution or sale of all of the shares in Network Waitaki by the Trust. A distribution would be made to the consumer owners whilst a sale would be made to another lines business, trade buyer, or financial investor.
- Asset sale and conversion of Trust to Community Trust
 - The Trust would sell the assets it owns, and with the proceeds establish a Community Trust. This agency would be used to fund projects of benefit to the local community and could be managed to ensure only dividends or interest earned is spent each year, or that the underlying capital was used for larger projects.



Ownership Options Analysis | Assessment Criteria

We have assessed the ownership options against the following 9 criteria.

Assessment Criteria

- The following criteria have been developed as the basis for comparing the ownership options:
 1. Ability to balance commercial and social/community outcomes
 - The ability to balance commercial and social/community outcomes will differ for each ownership option. Commercial outcomes include increasing returns and profit maximisation. Community outcomes include social benefits such as providing sponsorship for local community groups and projects.
 2. Ability to grow business
 - Growth will require access to capital to fund network expansion, acquisition or diversification. Ease of access to capital and to growth opportunities will be influenced by the ownership structure adopted.
 3. Effective and efficient use of the network
 - An important factor in the ownership review is the incentives a particular structure provides to operate to high standards of safety, efficiency and network reliability.
 4. Governance
 - The different ownership options will drive different governance and management costs and provide different standards of accountability and decision making efficiency.
 5. Control
 - The overall control of the lines business assets is an important factor to consider due to the wide interests that different stakeholders have in the ongoing performance of Network Waitaki, including profit maximisation, long term security of supply, and short term versus long term investment in the lines business.
 6. Maximising financial returns/value
 - The different ownership options create different incentives to maximise short term financial returns and provide long term security of supply through investment in the network.
 7. Liquidity for consumers
 - The ownership structure will provide different levels of liquidity to the consumer owners for their investment in Network Waitaki. Consideration needs to be given to the value that they could place on this.
 8. Under-investment risk
 - The ownership structure will create different incentives for long term investment to provide a reliable and efficient network.
 9. Regional development and focus
 - The ability and incentives of the owners to provide sponsorship and other community benefits for the whole region to improve the economic prosperity of the Waitaki District.



Ownership Options Analysis | Evaluation of Options

Trust ownership has been assessed as providing the best balance of outcomes for the consumers of North Otago.

Trust Ownership

- This is the most popular ownership structure for lines businesses located in New Zealand and the status quo for Network Waitaki. Our analysis, which is outlined on the following pages, has assessed the status quo as providing the best balance of outcomes for the consumers of North Otago.

Advantages

Governance

- The governance of Network Waitaki is streamlined through the Trust entity. The Trustees can speak without needing direct communication with the ultimate owners (consumers) outside the election process.
- The Trust provides a channel for direct feedback from the community, providing a means of aligning the interests of the community with the short and long term goals of the lines business.
- The election process for the Trustees provides a clear and regular signal to the Trust from its consumer owners on its performance.
- Ability to balance commercial and community outcomes as the Trust is responsible to the same group of stakeholders for delivering both.
- High levels of public accountability through the three yearly election process.
- Provides control over the activities of the company with standards set through the SCI.

Community

- Ownership and Management remain in the District.
- The Trust is able to use profits to benefit the wider community, including for sponsorship and general community activity.
- Ability to deal with issues of intergenerational equity through distribution policy and application of surpluses to long term community good projects.

Network

- The Trust has less need to focus on short term returns and can focus on long term investment in the network for the benefit of the consumer owners and wider community. This is particularly critical given that under-investment in the network only becomes obvious many years in the future when the costs to remedy can be beyond the reach of the company.

Other

- Trust ownership allows Network Waitaki to continue to be subject only to information disclosure regulation.

Disadvantages

Governance

- The direct feedback with the community can cause some members of the community to have a disproportionate amount of influence on the Trust's future direction.
- The 3 year election cycle limits the ability of the community to change the Trust's direction outside the election cycle if this is required.

Network

- There is a risk that the Trust focuses on security of supply at the expense of other performance metrics and capital efficiency (noting that an appropriate focus on security of supply helps to mitigate the risk of under-investment which only becomes obvious many years in the future).
- The 3 year election cycle that Trustees face can be inconsistent with the 10 year plus timeframes that network investment decisions are being made on.
- More limited access to new capital may hinder ability to grow.
- May provide less strong commercial performance incentives on the company's management.

Other

- There is a lack of freedom for consumers to determine for themselves what to do with their capital entitlement.



Ownership Options Analysis | Evaluation of Options

A joint venture could create opportunities for Network Waitaki to grow but could result in reduced Trust control (and therefore put at risk Trust objectives).

Joint Venture

- A joint venture allows an entity to remain as the owner of a business, but allows the assets to be pooled with another entity, or for new business ventures to be undertaken jointly.

Advantages	Disadvantages
<p>Governance</p> <ul style="list-style-type: none"> • A joint venture allows for the ownership of key assets to stay in the original entity's control. <p>Community</p> <ul style="list-style-type: none"> • Local ownership and management remains in place. <p>Network</p> <ul style="list-style-type: none"> • A joint venture provides greater access to capital when compared to the Trust along with the ability to access larger growth opportunities. • A joint venture partner can provide additional management and operating expertise potentially from a larger organisation or could provide synergy benefits through economies of scale. • Joint ventures lower and share the risk for new business opportunities. 	<p>Governance</p> <ul style="list-style-type: none"> • The Trust would lose some control through a joint venture, particularly of new business venture projects. • Loss of or reduced control without necessarily achieving commensurate value through joint venture. • Potential for conflict to develop between the joint venture partners in the future particularly in relation to commercial/community balance. • Potentially cumbersome governance structure. <p>Community</p> <ul style="list-style-type: none"> • The interests of the community could be harmed by a joint venture's pursuit of short term benefits at the expense of long term investment. <p>Other</p> <ul style="list-style-type: none"> • A joint venture could bring Network Waitaki back into the regulatory net if not well structured. • One off establishment costs would accrue.



Ownership Options Analysis | Evaluation of Options

Whilst there is potential for greater focus on commercial outcomes and efficient use of capital, some merger benefits could be accessed without the loss of Trust control and potential regulatory control.

Merger

- The Trust and another entity would combine to become one single operating entity. All of the assets would be combined under the new entity with WPT taking an ownership interest in proportion to its contribution.

Advantages	Disadvantages
<p>Community</p> <ul style="list-style-type: none"> Local ownership remains but is diluted through the merged entity (i.e. the Trust would hold a smaller slice of a larger entity). <p>Network</p> <ul style="list-style-type: none"> A merger would provide improved access to capital for expansion and management expertise. Being part of a larger entity would reduce operating risk. Operating risk includes loss of key employees for the operation of the lines business. Ability of both entities to receive benefits through synergies. Potential for greater focus on commercial outcomes and efficient use of capital. 	<p>Governance</p> <ul style="list-style-type: none"> Additional governance and transition costs are likely to be created. Agreeing the relative value of contributions can be difficult and contentious. Loss of control and reduced ability to balance financial and community outcomes for current consumer owners. <p>Network</p> <ul style="list-style-type: none"> If desired the access to management and operational expertise could be achieved with a contracting out arrangement with other EDBs without the need for a merger. <p>Other</p> <ul style="list-style-type: none"> A merger could result in regulation of the Network Waitaki business, if the merged company was not wholly consumer owned.



Ownership Options Analysis | Evaluation of Options

A partial distribution could allow consumers to realise capital without the Trust losing effective control. This could result in higher ongoing costs and potential regulatory control.

Distribution (to consumers) or sale (to third party) of minority stake

- The distribution of a minority stake allows the current owners to remain in control of the business. By providing shares directly to the consumers, some owners may choose to sell these shares to other investors. A sale could potentially result in another lines business, or trade or financial investors, becoming minority owners of the business, with the current owners remaining in control.

Advantages	Disadvantages
<p>Community</p> <ul style="list-style-type: none"> A distribution or sale would provide a one off cash benefit to the consumers of the lines business. Community members may decide to keep their shares, providing direct ownership to consumers, potentially greater liquidity than the current Trust arrangement, and a democratic voice in the future direction of Network Waitaki. Sale would provide capital funds to the Trust for investment in the community or distribution to the consumer owners. <p>Network</p> <ul style="list-style-type: none"> Possibility of greater liquidity and financial discipline if minority stake is listed. 	<p>Governance</p> <ul style="list-style-type: none"> The Trust would need to consider the interests of minority shareholders with a potential loss of absolute control. However, the effective control of the lines business would remain with the Trust. More complex governance at the company level compared to 100% Trust. <p>Community</p> <ul style="list-style-type: none"> Low liquidity of shares for recipients if not listed. <p>Other</p> <ul style="list-style-type: none"> Network Waitaki could become regulated if consumers sold their shares to non-consumers. Implementation and ongoing management costs. A potential change of focus towards short term performance to meet the needs of the new minority shareholders (compounded by the increased compliance costs). A public listing would result in increased compliance costs which would reduce returns to the consumer owners. Potential negative impact on the value of the remaining interest held by the Trust and reduced ability to secure a premium for absolute control. More complicated process for disposal of the Trust's remaining interest if it chose to do so.



Ownership Options Analysis | Evaluation of Options

A full distribution or sale would provide either consumer owners or the Trust with capital which they could then sell or use. The future of the Company would no longer be in the control of the Trust.

100% Distribution (to consumers) or sale (to third party)

- A 100% distribution of the shares would result in the current Trust entity ceasing to exist or becoming a cashed up shell, and may result in outside investors purchasing some or all of the shares. The sale proceeds could be paid out or the Trust could remain in control of the financial assets for the benefit of the community. The distribution or sale could be achieved in parallel to a public listing.

Advantages	Disadvantages
<p>Community</p> <ul style="list-style-type: none"> • A distribution or sale would provide a one off cash benefit to the consumers of the lines business. • A distribution of shares to the community would provide a direct ownership interest to the consumer owners and choice as to whether they wish to remain owners. • Wider capital raising options to fund future growth and relieving the community of the obligation to fund capital expenditure for growth and renewals. • A sale of Network Waitaki to another lines business might result in a value transfer to the community due to synergies created by a combined entity which might be paid away by a purchaser. • Ability to invest capital in less risky, or diversified assets, to provide more consistent returns to the Trust. <p>Network</p> <ul style="list-style-type: none"> • A sale could allow another company with management expertise to take control of Network Waitaki, which could improve financial. An independent owner would want to maximise other key performance indicators and would likely increase the focus on financial performance and efficiency. 	<p>Governance</p> <ul style="list-style-type: none"> • The Trust would no longer control a strategic local asset for the good of the local community. • A distribution of shares to the consumer owners of Network Waitaki would remove the stewardship aspect of the Trust and would expose Network Waitaki to potential takeover by another investor less focussed on community benefits. <p>Network</p> <ul style="list-style-type: none"> • An independent owner may have different interests in the future direction of Network Waitaki and this may result in lower long term investment, higher costs or lower quality of supply. <p>Other</p> <ul style="list-style-type: none"> • A public listing would result in increased compliance costs which would likely reduce returns to the consumer (if the listed shares were retained by consumers). • Financial benefits of ownership may be greater but would be diverted away from the local community if 100% of the shares are sold in a trade sale. • Likely to result in exposure to more prescriptive regulation.



Ownership Options Analysis | Evaluation of Options

This option would require the Trust in the broadest sense to transform itself into a diversified fund manager and to seek a yield which is competitive with the return it currently receives from Network Waitaki.

Asset sale and conversion of Trust to a Community Trust

- The current entity would sell the assets it owns, and with the proceeds set up a Community Trust for the benefit of the community.

Advantages	Disadvantages
<p>Governance</p> <ul style="list-style-type: none"> Converting the Trust to a Community Trust agency could provide more liquidity to provide direct benefits to the community. The agency would be able to invest in a diversified portfolio of assets, reducing risk to the ultimate owners compared with owning an interest in a lines business. A sale of Network Waitaki to another lines business would likely result in a high purchase price due to synergies of a combined entity realising the full value of the asset for the benefit of the community. <p>Community</p> <ul style="list-style-type: none"> Provide a reliable income stream over time and pool of capital for community projects. 	<p>Governance</p> <ul style="list-style-type: none"> Loss of control over Network Waitaki. Much more active involvement of the Trust is likely to be required in managing the investment portfolio to ensure capital protection for the benefit of the community in the long term. Depending on the nature of the investment in the region, it has the potential for today's Trust beneficiaries to bear the cost of providing benefits to the community which will only be realised well into the future. <p>Community</p> <ul style="list-style-type: none"> New owner is unlikely to put community benefit as its most important goal. The new owner is likely to wish to maximise profit to reflect the investment made.



Ownership Options Analysis | Evaluation of Options

Based on our assessment below, the Status Quo scores the highest across the assessment criteria.

Ownership Options Summary

- The following table provides a summary of each ownership option and the assessment criteria we have used to assess each option. We have given a low, medium, or high ranking to each assessment criteria. The results have been colour coded to indicate whether the high, low, or medium rating is considered desirable. The assessments have been made based on the advantages and disadvantages of the various options presented on the preceding pages.

	100% Trust	Joint Venture	Merger	Distribution or Sale of Minority Stake	100% Distribution or Sale	Asset sale
• Ability to balance commercial and social/community outcomes	High	Medium	Medium	Medium	Low	Medium
• Ability to grow business through access to new capital	Low	Medium	High	Low/Medium	High	High
• Effective and efficient use of the network	Medium	High	Medium	Medium	High	High
• Governance efficiency	High	Medium	Medium	Low	Medium	Low
• On-going governance and management costs	Low	Medium	Medium	High	High	High
• Control	High	Medium	Medium	Medium	Low	Low
• Maximising financial returns/value	Low	Medium	Medium	Medium	High	High
• Liquidity for consumers	Low	Low	Low	Medium	High	High
• Under-investment risk	Low	Medium	Medium	Medium	Medium/High	Medium/High
• Regional development and focus	High	Medium	Medium	Medium	Low	High



Ownership Options Analysis | Conclusion

Conclusion

- On the preceding pages we have articulated the advantages and disadvantages of various ownership options, and assessment the options against a range of assessment criteria.
- Trust ownership scores well when compared to the alternative ownership structures available for Network Waitaki.
- In particular it is the most effective ownership structure for balancing community outcomes and the commercial performance of the business which is more difficult to achieve under the alternative ownership structures.
- There are four factors which strongly favour continued Trust ownership:
 - Regulation – Wholly consumer owned lines companies are regulated by information disclosure. Most of the alternative ownership structures considered have the potential to compromise this position and lead to price regulation being imposed on the company / network which adds significant additional complexity.
 - Contracting out of operations or other expertise – The benefits of being part of a larger or more commercially structured organisation could be achieved through contracting out arrangements. Such an arrangement could provide Network Waitaki with scale in management and operating expertise of a much larger organisation (if it was desired).
 - Trust Elections – The election process provides a very direct means whereby the local consumer owners have the opportunity to express their views on the performance of the Trust and any changes they consider desirable.
 - Inter-generational Considerations – The network assets are long life in nature and can suffer from under-investment that only manifests itself as an issue many years into the future when the costs to remedy can be beyond the reach of the company (and therefore the consumers of the network at the time). Trust ownership is inherently capable of making long term inter-generational network investment decisions which can reduce the risk of longer term under-investment (for the benefit of the current owners).
- There are however a number of areas where Trust ownership scores relatively poorly against the available alternatives. In particular:
 - Ability to grow the business
 - Maximising financial returns/value
 - Liquidity for consumers
- In this context we note that:
 - The company has built up approximately \$8.1m of cash and short term investments over the past three years and has no debt. This provides a strong balance to fund potential growth options without changing the ownership structure.
 - Network Waitaki performs favourably to its peers in relation to operational expenditure levels – indicating that the company appears to be operating efficiently under its current ownership structure – which is a key driver of maximizing financial returns.
- **On balance we believe that the potential theoretical benefits of a change in ownership structure could be outweighed by the costs and disadvantages of doing so, particularly given the current positive financial and operational performance of Network Waitaki.**



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Appendices | Disclaimer

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- We have evaluated that information through analysis, enquiry and examination for the purposes of completing this Report. However, we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audit on the accounting or other records of Network Waitaki Limited. We do not warrant that our enquiries have identified or revealed any matter which an audit, due diligence review or extensive examination might disclose.
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Appendices | Glossary

Glossary of terms

Capex	Capital Expenditure
EDB	Electricity Distribution Business
GWH	Giga Watt hours
ICP	Installation control point
km	kilometer
m	Million
NPBT	Net Profit before Tax
NWC	Net working capital
Network Waitaki	Network Waitaki Limited
Opex	Operating Expenditure
PP&E	Property, plant and equipment
SCI	Statement of Corporate Intent
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
k	thousand
WPT	Waitaki Power Trust
FYXX	Year ended 31 March 20XX

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