

2019-2020 FINAL STATEMENT OF CORPORATE INTENT

30 June 2019

empowering



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Shareholder Agreement

ESSENTIAL ENERGY STATEMENT OF CORPORATE INTENT Year Ending 30 June 2020

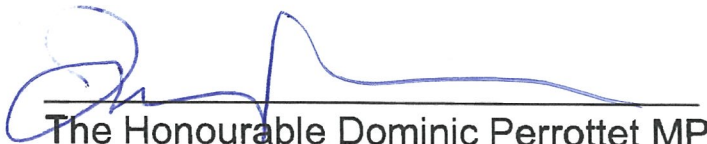
This Statement of Corporate Intent (SCI) has been prepared prior to the notice of intention by the Portfolio Minister to issue a Direction to Essential Energy under the State Owned Corporations Act 1989. The SCI does not include any assumptions or financial impacts from the proposed Direction. On this basis, the SCI has been agreed between:



John Cleland
Chief Executive Officer
Essential Energy



Robyn Clubb
Interim Board Chair
Essential Energy



The Honourable Dominic Perrottet MP
Treasurer



The Honourable Damien Tudehope MLC
Minister for Finance and Small Business

4/11/19

Company Objectives

Primary objectives for energy distributors under the *Energy Services Corporations Act 1995* are:

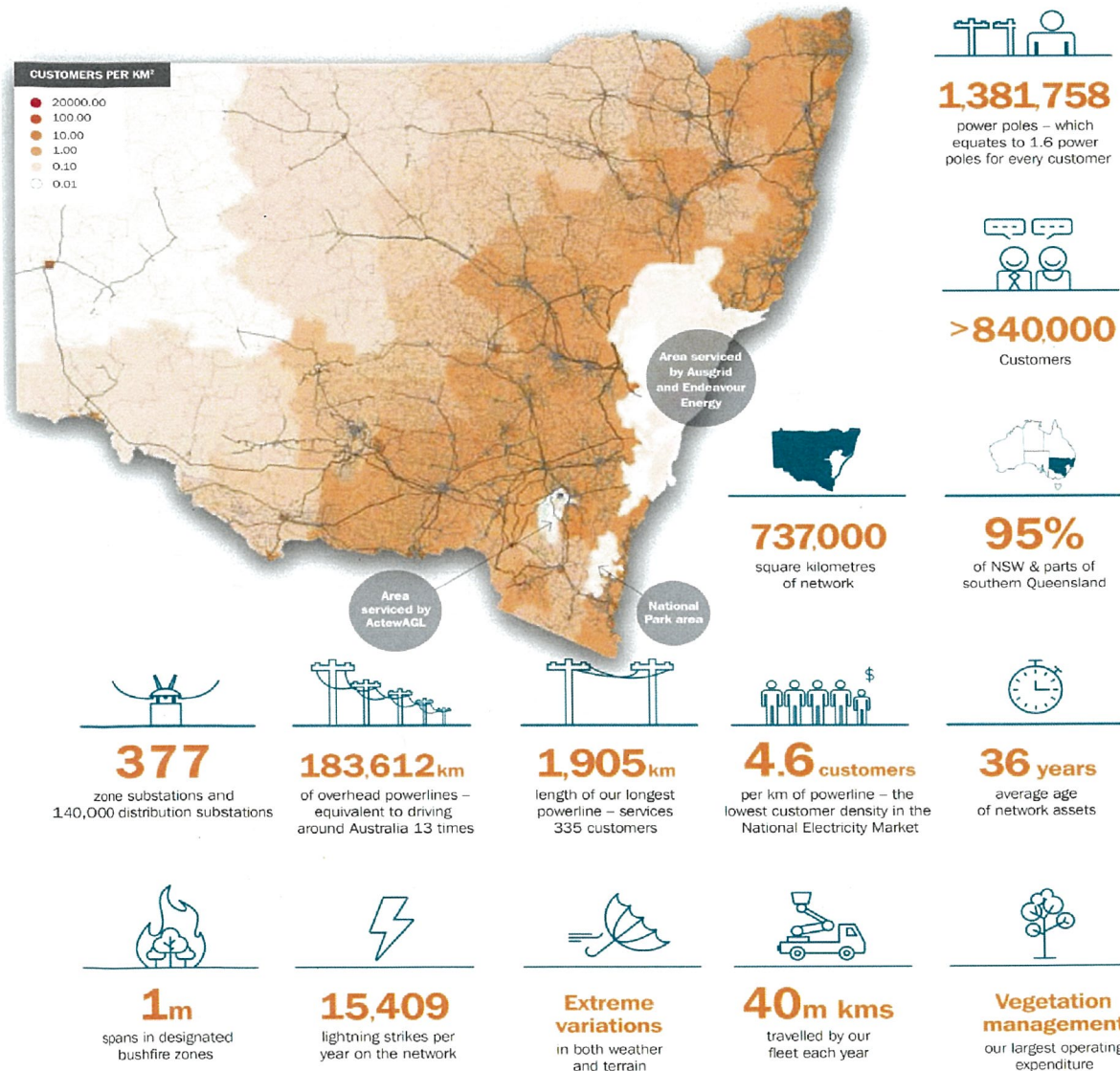
- > To be a successful business and, to this end:
 - Operate at least as efficiently as any comparable business;
 - Maximise the net worth of the State's investment in it; and
 - Exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
- > To protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development;
- > To exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates;
- > To operate efficient, safe and reliable facilities for the distribution of electricity and other forms of energy; and
- > To be an efficient and responsible supplier of electricity and other forms of energy and of services relating to the use and conservation of electricity and other forms of energy.

Each of these principal objectives is of equal importance.

Essential Energy continues to focus on four key objectives:

- > Continuous improvements in safety culture and performance;
- > Operate at industry best practice for efficiency, delivering best value for customers;
- > Deliver real reductions in customers' distribution network charges; and
- > Deliver a satisfactory Return On Capital Employed.

Essential Energy Overview



- Essential Energy operates and maintains one of Australia's largest distribution networks, delivering electricity to our customers safely, reliably and sustainably
- Everything we do is guided by our vision to empower communities to share and use energy for a better tomorrow
- We are continuously evolving in response to changes in how our customers want to use our network, including embracing new technologies such as solar, batteries, electric vehicles and energy exchange

Operating Environment Overview

The electricity distribution industry is in the midst of significant change:

- > Networks are changing from being largely one directional to a complex, interconnected, multi dimensional energy eco-system;
- > The industry is slowly becoming less reliant on centralised generation from the burning of fossil fuels and is moving towards more Distributed Energy Resources (DER) from renewable sources, such as solar or wind;
- > Improvements in solar and battery storage technologies and costs, and appliance energy efficiencies, are forecast to lead to reduced network volumes in the medium to long term; and,
- > Customers increasingly have more choice in the way that they use and source their electricity.

There is significant change in the regulatory environment:

- > Australian electricity distributors are increasingly facing greater levels of regulatory scrutiny;
- > Essential Energy received the 2019-24 Final Determination on 30 April 2019;
- > Power of Choice regulations introduced by the AEMC have given customers more choice and control over the way they use electricity; and
- > Ring fencing guidelines recently introduced by the AER provide the framework for competition in the new operating environment.

A combination of increasing regulatory scrutiny, stakeholder expectations and customer choice is putting downward pressures on electricity prices and distribution revenues



Strategic Summary

Essential Energy needs to respond to the changing energy environment by becoming more efficient, flexible and customer focussed. Development of appropriate responses to address the risks and opportunities posed by new technologies and market conditions are required.

Essential Energy's vision, purpose and values set the foundation and a number of key initiatives are designed to address our current capability gaps and meet the challenges in our operating environment.

The Essential Energy Corporate Strategy shown below is our plan for the coming five to ten years to deliver our vision of 'empowering communities to share and use energy for a better tomorrow'. It builds on our vision, purpose, values and business objectives. It is designed to address two main challenges:

1. The need to address energy affordability and bring down our network charges;
2. The ability to respond to a range of external challenges facing our business, including changing consumer preferences, rapid technological change, and a regulatory and political landscape that is in a constant state of flux.

Our Vision

Empowering communities to share and use energy for a better tomorrow

Our Purpose

To enable energy solutions that improve life

Our Values



Make safety your own



Be easy to do business with



Make every dollar count



Be courageous, shape the future



Be inclusive, supportive and honest

Our Customer Commitment



Listen



Respect



Deliver



1

STRENGTHEN THE CORE BUSINESS

Do what we do today, better

2

REALISE THE FULL VALUE OF OUR NETWORK RESOURCES

Do more with our existing assets and people

3

MAXIMISE THE VALUE OF BEING CONNECTED TO THE GRID

Make sure consumers connect to the grid, and stay connected

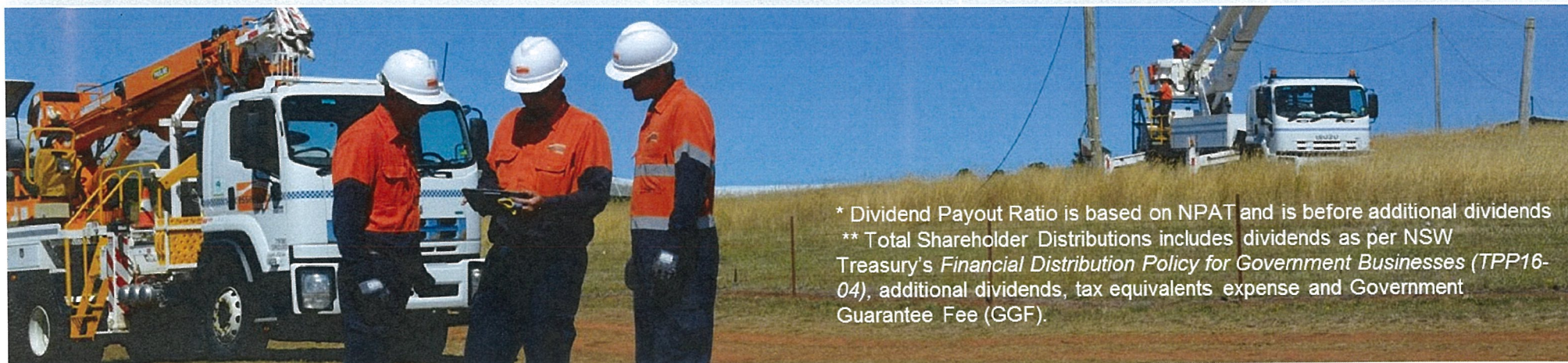
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DELIVER ENERGY TO CUSTOMERS IN NEW WAYS

Reinvent the way we deliver energy

Financial Summary

\$M Nominal	FY20	FY21	FY22
Revenue (Total Sales)	1,199	1,230	1,237
EBITDA	706	752	763
EBIT	305	353	355
Operating Profit Before Tax	(36)	23	24
Net Profit After Tax	(25)	16	17
Capital Expenditure	483	417	430
Dividend	0	11	12
Dividend Payout Ratio*	n/a	70%	70%
Total Shareholder Distributions**	136	152	159
Return on Assets	3.5%	4.0%	3.9%
Return on Equity	(1.1%)	0.7%	0.7%
Return on Capital Employed	3.8%	4.2%	4.2%



* Dividend Payout Ratio is based on NPAT and is before additional dividends
 ** Total Shareholder Distributions includes dividends as per NSW Treasury's *Financial Distribution Policy for Government Businesses (TPP16-04)*, additional dividends, tax equivalents expense and Government Guarantee Fee (GGF).

Dividend Policy

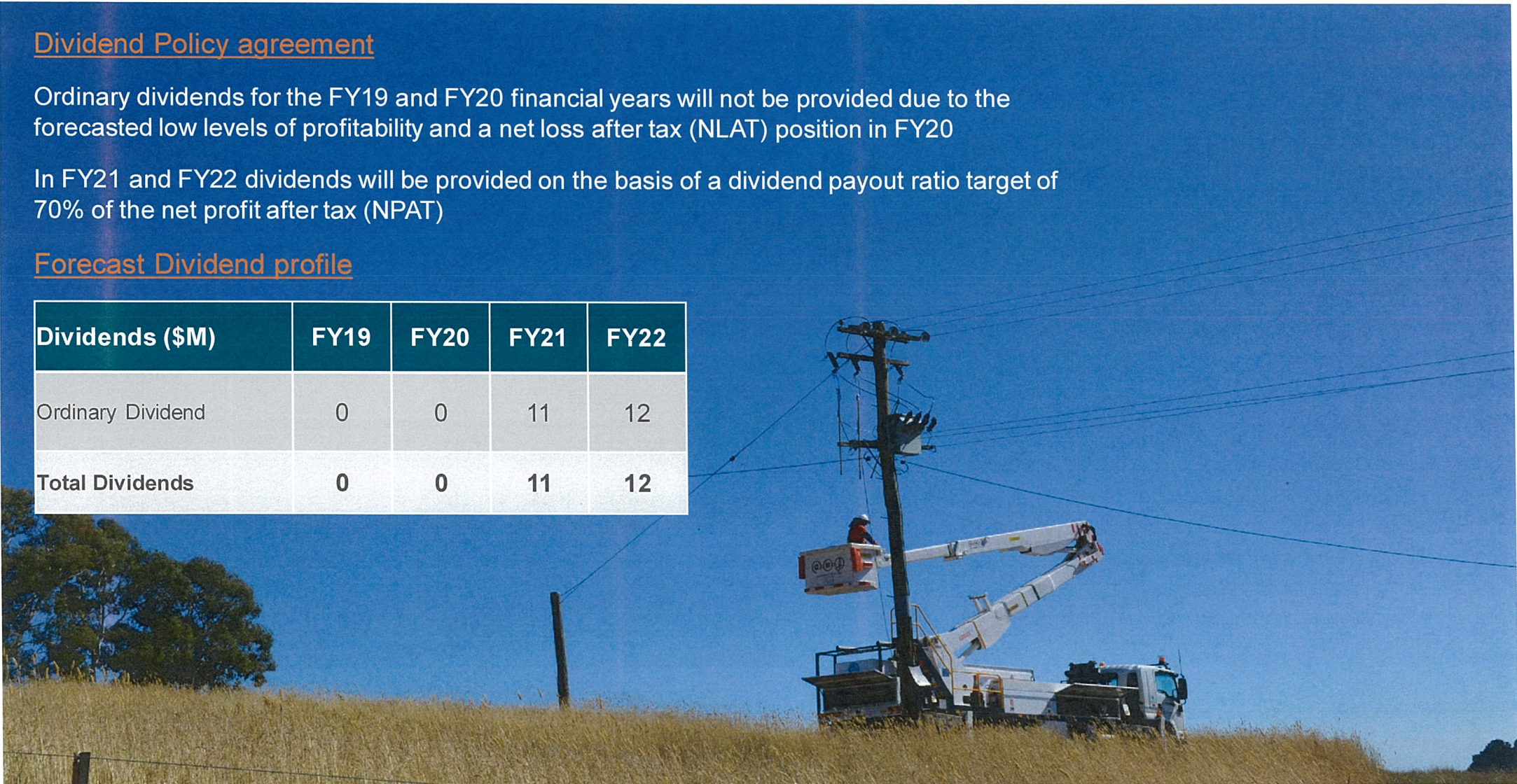
Dividend Policy agreement

Ordinary dividends for the FY19 and FY20 financial years will not be provided due to the forecasted low levels of profitability and a net loss after tax (NLAT) position in FY20

In FY21 and FY22 dividends will be provided on the basis of a dividend payout ratio target of 70% of the net profit after tax (NPAT)





Forecast Dividend profile

Dividends (\$M)	FY19	FY20	FY21	FY22
Ordinary Dividend	0	0	11	12
Total Dividends	0	0	11	12



Performance Target Summary

Essential Energy tracks its performance across a number of areas. The key measures that are used to track CEO and Executive performance in the four key areas of safety, customer & community, people, and financial performance are shown below:

Area		Measure	FY19 Actual [^]	FY20 Target
	Safety	Serious Claim Frequency Rate	2.2	≤2.0
		Total Recordable Injury Frequency Rate (TRIFR)	17.3	≤15.0
	Customer & Community	Customer Satisfaction Index	84.4	≥84.0
	People	Cultural Index (Quarterly Gallup)	3.71	3.91
	Financial	Operating Costs (Opex) \$M	453	≤493
		Earnings Before Interest and Tax (EBIT) \$M	332	≥305
		Return on Capital Employed (ROCE) %	4.6%	≥3.8%

[^] May 2019 YTD actual results

Representation and Commitment Statement

The Board of Essential Energy confirms that:

- a. Key performance indicators within the 2019-20 SCI are based on and supported by the Corporation's Business Plan;
- b. The Voting Shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business;
- c. Asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets;
- d. All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of Essential Energy for the coming year have been disclosed;
- e. Internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in *Internal Audit and Risk Management Policy (TPP15-03)* for the NSW Policy Sector; and
- f. The Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for July 2019. The contract is evergreen.

Essential Energy adheres to *Commercial Policy Framework* policies, as listed in *State Owned Corporations: Applicable TPPs under the Commercial Policy Framework*.

- > Essential Energy complies with NSW Treasury accounting circulars and policies applicable for SOCs, as listed in the *State Owned Corporations Mandatory Accounting Policies – NSW Treasury Circulars and Treasury Policy Papers*
- > Essential Energy agrees to provide information during the year to Treasury, as the representative of the Voting Shareholders, as specified in the *State Owned Corporation Reporting Obligation Requirements*
- > Essential Energy has agreed to comply with the requirements of *Premier's Memoranda M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations* and further guidance contained in the Treasurer's January 2015 letter
- > Essential Energy will apply the principles of:
 - Premier's Memoranda M2012-08 Application of Biofuels
 - Premier's Memoranda M2013-04 Implementation guidelines for procurement of publicly funded construction services