

28 February 2025

Dear Shareholder

Draft Statement of Intent 2025-2028

Please find attached a copy of our draft Statement of Intent (SOI) for 2025-2028.

LGFA continues to focus on delivering strong results for both our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by

- Achieving savings in borrowing costs
- Providing longer dated funding and
- Providing certainty of access to markets

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality
- Enhancing our approach to treasury and risk management, and
- Ensuring we have the correct governance framework and capital structure in place.

For our guarantors we are focused on

- Minimising the risk of a call upon the guarantee through actively monitoring and managing the business risks faced by LGFA including operational, credit, liquidity, interest rate, and funding risk.

The following points regarding the draft SOI 2025-28 are worth noting:

- This draft SOI, including financial forecasts covers the financial years 2025-26 (“FY26”), 2026-27 (“FY27”) and 2027-8 (“FY28”).
- The SOI forecasts assume that in the outer two years (FY27 and FY28), LGFA will commence lending to water CCOs as the Local Water Done Well Programme is implemented. There is a high level of uncertainty regarding the amount and timing of any lending as the water CCOs have yet to be established.
- Profitability is expected to be strong with projections for Net Profit of \$23.5 million, \$19.7 million, and \$23.4 million for the next three years. However, we remain cautious in placing too much emphasis on the second year (FY27) and third year (FY28) forecasts given we have \$7.9 billion of LGFA bonds and \$11.9 billion of council and CCO loans maturing over the three-year SOI forecast period. This is because assumptions regarding the amount and timing of loan refinancing and interest rates have a material impact on financial projections.

- Our forecasts for council loans (short and long term) outstanding are lower compared to last year's SOI with loans of \$24.8 billion as at 30 June 2026 and \$26.8 billion as at June 2027 (from \$26.5 billion and \$29 billion in the previous SOI) and \$28.5 billion as at June 2028.
- We are assuming gross bond issuance of \$5.1 billion (FY26), \$5.00 billion (FY27) and \$5.0 billion (FY28) based on council gross borrowing of \$4.90 billion (FY26), \$6.1 billion (FY27) and \$6.0 billion (FY28).
- Issuance and operating expenses including Approved Issuer Levy ("AIL") are forecast to be approximately \$1.9 million higher in FY26 and \$4.2 million higher in FY27 compared to the previous SOI. This is due to increased AIL paid to the New Zealand Government on our increased foreign currency issuance. AIL is expected to be our largest expense as we borrow more in offshore markets over the 3 year forecast period.
- The proposed SOI performance targets are similar to the previous SOI. The focus remains on sustainability, assisting councils to implement Local Water Done Well, stakeholder engagement, meeting the financial targets, and monitoring the credit quality of the sector.

If you have any questions or wish to provide comments by 1 May 2025 then please feel free to contact myself or any member of the Shareholders Council. The LGFA board will consider any feedback received and provide a final version of the SOI to shareholders by 30 June 2025.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Butcher', with a stylized flourish at the end.

Mark Butcher
Chief Executive