



**Statement of Corporate Intent 2006**  
**[covering periods ending 31 March 2007-2009]**

STATEMENT OF CORPORATE INTENT 2006

**A. Objectives**

**VISION**

To be the service provider of choice for energy infrastructure solutions.

**MISSION**

To be a successful business through excellence in customer service, innovation, growth and leadership.

**GOALS AND OUTCOMES**

Unison is a primary provider of infrastructure services for the conveyance of energy to consumers in Hawke's Bay, Taupo and Rotorua districts. The quality and efficiency in which these services are provided has a significant impact on the economic and social wellbeing of these areas.

**Key Objective**

The key objective of the Company is to operate as a successful and sustainable business for the benefit of its shareholders. This will be achieved by ensuring shareholder value is enhanced while meeting the needs of consumers by providing a quality and efficient service.

While excellence in performance across the business remains a key focus, the Company will continue to expand the business in ways that will enhance the value and returns to shareholders.

In order to operate as a successful and sustainable business, Unison must:

- continue to meet customer demands for quality and reliability using innovative technological solutions;
- remain cost-efficient in its operations;
- achieve a commercial rate of return (see Clause L);
- invest in additional lines business assets only where those assets are needed to meet the demands of consumers; and
- continue to look for investment opportunities both within its core business and outside its core business. The Company will ensure that such investments can obtain a satisfactory return commensurate with the risk of the investment.

The key operational outcomes that Unison aims to achieve are as follows:

- Reliable, efficient network;
- Satisfied customers and stakeholders;
- Safe and healthy workplace;

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- Motivated and committed employees; and
- Commercial rate of return.

**B. Scope of Activities**

The Company currently owns and operates the electricity distribution network in Hawke's Bay, Taupo and Rotorua. The scope of activities may extend to the provision of other energy infrastructure services, such as:

- Distributed generation and back up supply;
- Electricity generation;
- Network management services; and
- Contracting services.

**C. Ratio of Shareholders' Funds to Total Assets**

To provide the Company with the capacity to grow, whilst maintaining an efficient capital structure that minimises risk, Unison will target the ratio of shareholders' funds to total assets for each year at not less than forty per cent (40%).

**"Shareholders' Funds"** means the total issued capital, the balance of undistributed profits and all revenue and capital reserves of the Company.

**"Total Assets"** means all the recorded tangible and intangible assets of the Company at current book values.

**D. Accounting Policies**

The Company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

Details of the accounting policies, their application and prospective changes are contained in **Appendix 1**.

**E. Performance Targets**

The Company has determined objective targets against which its performance can be measured. The performance targets that have been set for the period are detailed in **Appendix 2**.

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**F. Dividend**

Subject to the requirement to meet the solvency test under the provisions of the Companies Act 1993, it is intended that the Company will distribute to shareholders the greater of:

Fifty percent of the Available Operating Surplus:

The Available Operating Surplus is calculated by taking the Net Surplus after Tax adding back Depreciation and Amortisation and deducting budgeted capital and renewal expenditure, and such other allocations as is agreed with the shareholder from time to time.

or

\$50 net cash minimum per ICP and such other benefits that reflect value to the consumers of the Hawke's Bay network as is agreed with the shareholder from time to time.

**G. Information to be provided to Shareholders**

▪ **Financials**

Summary monthly financial statements for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within five days after the Board has considered them during the ensuing month.

▪ **Interim Reports**

Half yearly reports for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within three months of the end of September each year. These reports will comprise:

- i. A report from the Directors of the Company covering the operations for the period 1 April to 30 September each year; and
- ii. Financial statements in respect of the Company for that period.

▪ **Annual Reports**

Annual Reports for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within three months of the end of March each year. These reports will comprise:

- i. A report from the Directors of the Company covering the operations for the period 1 April to 31 March of each financial year;
- ii. Audited financial statements in respect of the Company for the period; and
- iii. The Auditor's Report on the financial statements, the performance targets and any other information by which the performance of the Company can be judged in relation to its objectives and goals.

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The Company's audited financial statements will comprise not less than the information required by Section 44 of the Energy Companies Act 1992.

**Further Information**

The Company will provide such additional information or reports to the Hawke's Bay Power Consumers' Trust as it may require in order to properly undertake its duties and to act as a diligent shareholder as prescribed in the Trust Deed.

**H.    Procedures for Acquisition of Shares in Other Companies or Organisations**

No acquisition by the Company of shares in another company or organisation, the value of which exceeds 5% of the Shareholders' Funds of the Company (other than in the course of a re-organisation, reconstruction, merger etc, as defined in Clause 9.9 of the Trust Deed), shall be undertaken without prior Shareholder approval. Any such acquisition will necessitate modifying this Statement of Corporate Intent.

**I.    Transactions between the Company and Local Authorities (that are Shareholders) or Related Companies**

There are no local authorities that are shareholders of the Company and the Company does not contemplate any material transactions between the Company (or any member of the Group) and any related companies.

**J.    Other Matters Agreed by the Shareholders and Directors**

The Company will assist the Hawke's Bay Power Consumers' Trust to carry out the separate roles of Shareholder in the Company and Trustees under the Trust Deed by making any consumer information from existing databases available to the Trust.

**K.    Projections**

The financial information and assumptions on which the Statement of Corporate Intent for the period 1 April 2006 to 31 March 2007 is based are contained in the approved Business Plan for Unison.

The financial forecasts in the Statement of Corporate Intent for the period 1 April 2007 to 31 March 2009 have been prepared for the purposes of this document and may not be appropriate for other purposes. The actual results achieved for any period are likely to vary from the information presented and the variations may be material.

Achievement of the projections is subject to a favourable outcome of the Commerce Commission investigation into Unison's breach of the price threshold regime.

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**L. Commercial Rates of Return**

Unison will assess appropriate commercial rates of return for its activities based on the Capital Asset Pricing Model methodology. The rates will vary from time to time based on prevailing market conditions and the regulatory environment. The effect of price control regulations may be to limit Unison's ability to achieve a full commercial rate of return on its electricity lines business over the forthcoming period.

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## Appendix 1: Accounting Policies

**Statement of Accounting Policies****MEASUREMENT SYSTEM**

The general accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis is followed by Unison, with the exception that certain property, plant and equipment have been revalued.

**SPECIFIC ACCOUNTING POLICIES**

The following particular accounting policies, which materially affect the measurement of profit and the financial position, have been applied:

**a. *Property, Plant and Equipment*****Owned Assets**

All items of Property, Plant and Equipment are initially recorded at cost and, except for land, depreciated. These costs include the purchase consideration plus, where appropriate, site preparation costs, installation costs and all relevant overheads. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to its intended location and condition are complete.

The electrical distribution network is independently valued at fair value based on Depreciated Replacement Cost (DRC).

Land and Buildings not included in the electrical distribution network are stated at valuation, determined by an independent registered valuation company, and are adjusted for additions at cost and depreciation at appropriate rates. The basis of valuation is fair value as defined under the Financial Reporting Standard 3 – Accounting for Property, Plant and Equipment.

**Revaluations**

The electrical distribution network is revalued on a cyclical basis with no components being recognised at a valuation undertaken more than three years previously.

Land and Buildings are revalued on a cyclical basis at no more than five yearly intervals.

Any revaluation surplus arising on the revaluation of a class of property, plant or equipment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the

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## Appendix 1: Accounting Policies

class of property, plant or equipment is recognised in the Statement of Financial Performance in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recognised in the Statement of Financial Performance are recognised as revenue in the Statement of Financial Performance.

The carrying values of property, plant and equipment do not exceed their estimated recoverable value.

**Disposal of Property, Plant and Equipment**

When an item of property, plant or equipment is disposed of, any gain or loss is recognised in the Statement of Financial Performance and is calculated as the difference between the sale price and the carrying value of the asset.

On disposal of an item of property, plant or equipment, any revaluation surplus in respect of that class of asset is reduced or increased by the amount applicable to that item.

**b. Depreciation**

Depreciation is provided on a straight line basis on all tangible items of property, plant and equipment other than freehold land, at rates calculated to allocate the assets' cost or valuation less any residual value, over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

**Electrical Distribution Network**

|  |               |
|--|---------------|
| 33kV Sub Transmission .....                      | 35 - 70 Years |
| Zone Substations, Structures and Equipment ..... | 15 - 60 Years |
| Distribution Transformers .....                  | 40 - 55 Years |
| Distribution Switchgear .....                    | 35 - 40 Years |
| Overhead Lines .....                             | 35 - 70 Years |
| Underground Cables .....                         | 45 - 70 Years |
| Other Distribution Equipment .....               | 10 - 45 Years |

**Other Property, Plant and Equipment**

|                                      |               |
|--------------------------------------|---------------|
| Freehold Buildings .....             | 60 -100 Years |
| Land .....                           | Indefinite    |
| Motor Vehicles .....                 | 5 - 10 Years  |
| Plant and Equipment .....            | 5 - 10 Years  |
| Office Furniture and Equipment ..... | 4 - 10 Years  |
| Information Technology .....         | 3 -10 Years   |

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## Appendix 1: Accounting Policies

**c. Investments**

Investments are stated at the lower of cost or net realisable value.

**d. Receivables**

Receivables are stated at their estimated realisable value, after providing for doubtful debts.

**e. Inventories**

Inventories are stated at the lower of weighted average cost and net realisable value.

**f. Capital Work in Progress**

Capital Work in Progress includes the cost of materials and other direct and indirect costs incurred as at balance date.

**g. Income Tax**

Unison adopts the liability method of accounting for deferred taxation.

The taxation charge against the surplus for the period is the estimated liability in respect of that surplus after allowance for all the permanent differences and timing differences not expected to reverse in the foreseeable future. This is the partial basis for the calculation of deferred tax.

A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation. The subsequent realisation of such income tax benefits is subject to the requirements of income tax legislation being met.

**h. Financial Instruments**

Unison has financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates.

Financial instruments entered into as hedges of an underlying exposure are accounted for on the same basis as the underlying exposure. Accordingly, hedge gains and losses are included in the Statement of Financial Performance when the gains or losses arising from the underlying exposures are recognised in the Statement of Financial Performance.

Financial instruments such as bank balances, bank investments, receivables, accounts payable and term debt are included in the accounts at their estimated fair value.

**i. Associate Companies**

These are companies in which Unison holds significant shareholdings and in whose commercial and financial decisions it participates.

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## Appendix 1: Accounting Policies

**j. Capitalisation**

Capital expenditure is defined as all expenditure incurred in the creation of a new asset, replacement of an asset that has reached the end of its economic life, or the increase in service potential of an existing asset. Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

**k. Cash Flows**

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held on call with banks, and investments in money market instruments.

**l. Employee Entitlements**

A liability for annual leave, long service leave and retirement gratuities is accrued and recognised in the Statement of Financial Position. Liability for annual leave is calculated on an entitlement basis at current rates.

Retirement gratuity liability and long service leave are calculated using current rates and appropriate probabilities for all qualifying staff. The calculations are based on the net present value of the estimated future cashflow.

**m. Goodwill Arising on Acquisition**

Goodwill arising on acquisition of subsidiaries/businesses/assets is amortised on a straight-line basis over the period of expected benefit or 20 years, whichever is the lesser. Goodwill is tested annually for impairment.

**n. Borrowings**

Borrowings are stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest are amortised to interest expense on a yield to maturity basis over the period of the borrowing.

**o. Goods and Services Tax**

The financial statements have been prepared with revenue and expense items exclusive of GST. In the Statement of Financial Position, accounts receivable and accounts payable are inclusive of GST. All other assets and liabilities are exclusive of GST.

**p. Operating Leases**

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased assets.

**Changes in Accounting Policies**

There have been no changes to accounting policies.

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Appendix 2: Performance Targets

The following are the budgeted and projected performance targets for the next three years ending 31 March 2009. The financial projections have been prepared based on certain assumptions and are subject to the outcome of the Commerce Commission investigation into Unison's breach of the price threshold regime.

|  | Budgeted<br>2006/2007 | Projected<br>2007/2008 | Projected<br>2008/2009 |
|--|-----------------------|------------------------|------------------------|
| <b>FINANCIAL MEASURES</b>                                  |                       |                        |                        |
| EBITDA as a percentage of Average Assets employed          | 9.5%                  | 9.7%                   | 9.8%                   |
| EBIT as a percentage of Average Assets employed            | 5.4%                  | 5.5%                   | 5.6%                   |
| Net Surplus as a percentage of Average Shareholders' Funds | 4.1%                  | 4.3%                   | 4.4%                   |
| Ratio of Shareholders' Funds to Total Assets               | 64%                   | 65%                    | 65%                    |
| <b>Total Line Business Operating Costs per Customer</b>    |                       |                        |                        |
| Customer Numbers   | 105,740               | 106,875                | 108,025                |
| Direct Line Business Costs per Consumer                    | \$103                 | \$106                  | \$109                  |
| Indirect Line Business Costs per Consumer                  | \$73                  | \$74                   | \$75                   |
|  | <b>\$176</b>          | <b>\$180</b>           | <b>\$184</b>           |
| <i>Regulatory costs per customer</i>                       | \$9                   | \$9                    | \$9                    |
| <b>Total Line Business Cost Per Consumer</b>               | <b>\$185</b>          | <b>\$189</b>           | <b>\$193</b>           |
| <b>Total Operating Cost Per km</b>                         | <b>\$2,075</b>        | <b>\$2,129</b>         | <b>\$2,176</b>         |
| <b>NETWORK PERFORMANCE</b>                                 |                       |                        |                        |
| SAIDI Planned  | 38.2                  | 38.2                   | 38.2                   |
| SAIDI Unplanned  | 114.5                 | 114.5                  | 114.5                  |
| <b>Overall SAIDI</b>                                       | <b>152.7</b>          | <b>152.7</b>           | <b>152.7</b>           |
| SAIFI Planned  | 0.2                   | 0.2                    | 0.2                    |
| SAIFI Unplanned  | 2.2                   | 2.2                    | 2.2                    |
| <b>Overall SAIFI</b>                                       | <b>2.4</b>            | <b>2.4</b>             | <b>2.4</b>             |
| <i>SAIDI - System Average Interruption Duration Index</i>  |                       |                        |                        |
| <i>SAIFI - System Average Interruption Frequency Index</i> |                       |                        |                        |
| <b>Faults Per 100km Line</b>                               |                       |                        |                        |
| Underground  | 7.3                   | 7.3                    | 7.3                    |
| Overhead   | 10.0                  | 10.0                   | 10.0                   |
| <b>Total System</b>  | <b>9.8</b>            | <b>9.8</b>             | <b>9.8</b>             |