



Statement of Corporate Intent 2005

[covering periods ending 31 March 2006-2008]

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 manage the 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.

The following therefore are the primary goals to achieve the Company's Mission:

- Achieve excellence in system and operational performance;
- Achieve excellence in stakeholder management and customer service;
- Achieve excellence in employee commitment, motivation and performance;
- Build and grow an efficient and profitable business.

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 and to achieve its mission, Unison will need to:

- 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 its customers;

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- 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 through its primary goals are as follows:

- Reliable, efficient network;
- Satisfied customers and stakeholders;
- Safe and healthy workplace;
- Motivated and committed employees;
- 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;
- 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**.

F. Dividend Policy to Shareholders

The Board of Directors determines dividend and discount policies of the Company in consultation with the Trustees. In recommending dividends to be paid to shareholders, the Board of Directors will follow procedures generally adopted by Directors of publicly listed companies to ensure the financial well-being of the Company.

It is the intention of the Directors that, where a dividend is to be paid, the Company will provide a minimum annual cash dividend to the Trust equivalent to \$50 per consumer in the Hawke's Bay region, together with such other benefits that reflect value to consumers, as agreed with the Shareholder from time to time.

The definition of consumer is one who is directly connected to the Company's lines network within the District, which is defined in the Electricity Act 1968 as being within the greater Hawke's Bay region, and who either is liable to pay for those services directly to Unison or is a customer of a retailer who pays Unison for those services.

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:

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- 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.

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 or assets 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.

Provided further if such investment dilutes or reduces the discount distribution below the minimum annual discount specified in Clause F then Shareholder approval is required prior to any acquisition proceeding.

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 2005 to 31 March 2006 is based are contained in the approved Business Plan for Unison.

The information on which the Statement of Corporate Intent for the period 1 April 2005 to 31 March 2008 is based has been prepared solely 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.

The achievement of the projections is predicated on there being no claw-back of revenue as a result of the Commerce Commission investigation into Unison's breach of the price threshold regime. In the opinion of the Directors, Unison's position in respect of the price increases should be upheld.

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.

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 the Company, 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 owned 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 valued at fair value based on Optimised Deprival Replacement Cost (ODRC).

Land and Buildings not included in the Electrical Distribution Network are stated at valuation, as determined by an independent registered valuer and have been adjusted for subsequent additions at cost and depreciation at appropriate rates. The basis of valuation was fair value as defined under the Financial Reporting Standard 3 – Accounting for Property, Plant and Equipment.

All other items of Property, Plant and Equipment are initially stated at cost and depreciated as outlined in note (b).

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 5 yearly intervals.

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Appendix 1: Accounting Policies

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 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.

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.

The carrying values of Property, Plant and Equipment do not exceed their estimated recoverable value. On disposal of an item of property, plant or equipment, any revaluation surplus in respect of that class of assets 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 - 15 Years
Plant and Equipment	5 - 10 Years
Office Furniture and Equipment	4 - 10 Years
Information Technology	3 -10 Years

c. Investments

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

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Appendix 1: Accounting Policies

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 on 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.

Associate companies are reflected in the financial statements on an equity accounting basis, which shows the Company's share of profits in the Statement of Financial Performance and its share of post acquisition increases or decreases in net assets in the Statement of Financial Position.

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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 increased 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. Liabilities for annual and long service leave are calculated on an entitlement basis at current rates.

Retirement gratuity liability is 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. A discount rate of 6.95% and an inflation factor of 2.5% were used.

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 expenses 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 2008. 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 2005/2006	Projected 2006/2007	Projected 2007/2008
FINANCIAL MEASURES			
EBITDA as a percentage of Average Assets employed	11.4%	11.8%	12.0%
EBIT as a percentage of Average Assets employed	7.2%	7.5%	7.6%
Net Surplus as a percentage of Average Shareholders' Funds	6.7%	6.9%	6.8%
Ratio of Shareholders' Funds to Total Assets	55%	57%	59%
Total Line Business Operating Costs per Customer			
Customer Numbers	104,100	105,195	106,302
Direct Line Business Costs per Consumer	\$100.98	\$102.95	\$102.37
Indirect Line Business Costs per Consumer	\$68.03	\$68.80	\$69.45
	\$169.01	\$171.75	\$171.82
<i>Regulatory costs per customer</i>	\$6.90	\$6.98	\$7.05
Total Line Business Cost Per Consumer	\$175.91	\$178.73	\$178.87
Total Operating Cost Per km (using 2004 base lengths)	\$1,996	\$2,050	\$2,073
NETWORK PERFORMANCE			
SAIDI Planned	68.2	68.2	68.2
SAIDI Unplanned	84.5	84.5	84.5
Overall SAIDI	152.7	152.7	152.7
SAIFI Planned	0.75	0.75	0.75
SAIFI Unplanned	1.64	1.64	1.64
Overall SAIFI	2.39	2.39	2.39
CAIDI Planned	89.8	89.8	89.8
CAIDI Unplanned	51.6	51.6	51.6
Overall CAIDI	63.8	63.8	63.8
<i>SAIDI - System Average Interruption Duration Index</i>			
<i>SAIFI - System Average Interruption Frequency Index</i>			
<i>CAIDI - Customer Average Interruption Duration Index</i>			
Faults Per 100km Line			
Underground	7.5	7.5	7.5
Overhead	11.0	11.0	11.0
Total System	10.6	10.6	10.6