



unison
The Powerlines People

Statement of Corporate Intent 2007
(covering periods ending 31 March 2008-2010)

STATEMENT OF CORPORATE INTENT 2007

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 the 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 Unison Networks Limited and subsidiaries ("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;
- Motivated and committed employees; and
- Commercial rate of return.

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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 Consolidated 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 consolidated 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

The Directors intend to distribute to the shareholder each year a dividend of approximately 50% of the prior year's Net Profit After Tax. At the time of approving the dividend the Directors will have due regard to the forecast economic conditions in which the Company is expected to be operating, the Company's efficient financial structure and future funding requirements, plus the ability to meet the statutory solvency provisions of the Companies Act 1993.

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, including the maximum dividend (if any) recommended to be payable by the Company in respect of its equity securities (other than fixed interest securities) for the financial year to which the report relates;
- 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.

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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, within the limitations of the Privacy Act 1993.

The Company will inform the Trustees at an appropriate time about new initiatives the Company is undertaking.

K. Projections

The financial information and assumptions, on which the Statement of Corporate Intent for the period 1 April 2007 to 31 March 2008 is based, are contained in Unison's approved Business Plan.

The financial forecasts in the Statement of Corporate Intent for the period 1 April 2008 to 31 March 2010 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.

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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.

Statement of Accounting Policies

1. GENERAL INFORMATION

Unison Networks Limited (Unison) provides electricity transmission services to consumers and businesses throughout the Hawke's Bay, Rotorua and Taupo regions.

Unison is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 1101 Omahu Road, Hastings, New Zealand.

These financial statements have been approved for issue by Unison's Board of Directors.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of Unison have been prepared in accordance with NZ generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Entities Reporting

The financial statements presented are for Unison and its subsidiaries including Unison Energy Limited (UEL) and Unison Contracting Services Limited (UCSL).

Statutory base

Unison is registered as a Company under the Companies Act 1993, and is an energy company in terms of the Energy Companies Act 1992.

The financial statements have been prepared in accordance with the relevant provisions of these two Acts and the Financial Reporting Act 1993.

Measurement base

These financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, electricity distribution network assets, and financial assets and financial liabilities (including derivative instruments) at fair value.

Adoption of New Zealand Equivalents to International Financial Reporting Standards

These financial statements are the first Unison financial statements to be prepared in accordance with NZ IFRS. NZ IFRS 1 First time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Until 31 March 2007 the financial statements of Unison had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing Unison's 2008 financial

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Appendix 1: Accounting Policies

statements, Management has amended certain accounting and valuation methods applied in the NZ FRS financial statements to comply with NZ IFRS. The comparative figures in respect of 2007 were restated to reflect these adjustments.

All standards adopted by Unison have been given retrospective application other than:

- NZ IAS 16 Property Plant and Equipment – for electricity distribution network assets Unison has elected to use its 31 March 2004 revaluation amounts as its deemed cost and has applied NZ IAS 16 prospectively from this date.
- NZ IFRS 3 Business Combinations – prospectively applied from 1 April 2006.
- NZ IAS 39 Financial Instruments – prospectively applied from 1 April 2006.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on Unison's equity and its net income are given in the notes to the Financial Statements.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Unison's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes to the Financial Statements.

2.2 Property, Plant and Equipment

Revalued Assets

The electrical distribution networks are shown at fair value, based on periodic, but at least three yearly, valuations less subsequent depreciation. Valuations are audited by external independent valuers. The basis of the valuations is Depreciated Replacement Cost (DRC). The electrical distribution networks will also be reviewed for impairment (see note 2.4 below).

Land and buildings not included in the electrical distribution network are stated at fair value based on periodic, but at least 5 yearly, valuations determined by an independent registered valuation company, and are adjusted for additions at cost and depreciation at appropriate rates.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus in the same asset in the asset revaluation reserve. In addition, upon disposal, any revaluation reserve relating to the particular asset being sold is transferred directly to retained earnings.

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Other Property, Plant and Equipment

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Unison and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 Income Statement 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 transferred to retained earnings.

Depreciation

Land is not depreciated. 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.....	45 - 80 Years
Zone substations, structures and equipment	15 - 60 Years
Distribution transformers	45 - 55 Years
Distribution switchgear	35 - 45 Years
Overhead lines	35 - 80 Years
Underground cables.....	30 - 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

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2.3 Intangibles*a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of Unison's share of the net identifiable assets of the acquired entity at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by Unison, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

c) Easements

Easements are initially recorded at cost plus the cost of registering the easement and any other directly attributable costs of preparing the easement for its intended use. Easements with a definite life are amortised over that period.

2.4 Impairment of Assets

The carrying amount of Unison's assets, other than inventories and derivative financial instruments, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of assets is estimated to determine the extent of any impairment loss. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement except impairment losses on revalued assets are first taken to the revaluation reserve if there is a surplus in respect of that asset.

Irrespective of any indications of impairment, goodwill acquired in a business combination and intangible assets that have an indefinite useful life are tested annually for impairment.

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For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of Unison's activities, net of goods and services tax, rebates and discounts. Revenue is recognised as follows:

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, based upon usage or volume throughput during that period.

Capital Contributions

Where Unison constructs assets at its own cost and receives a cash payment from a third party as part, or full, payment for the development of such assets, Unison recognises the asset at the cost incurred to construct the asset and recognises the cash received as revenue.

2.6 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Unison will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

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2.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case the income is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantially enacted at the reporting date, together with any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.9 Share Capital

Ordinary shares are classified as equity.

3. ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Unison designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction cash flow.

Unison documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. Unison also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and movements to the hedge reserve in shareholders' equity are disclosed in the Notes to

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the Financial Statements. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains – nets'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

3.1 Provisions

Provisions are recognised when Unison has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement.

3.2 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.3 Dividends

A dividend distribution to Unison's shareholders is recognised as liability in the financial statements in the period in which the dividend is approved.

3.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.5 Employee benefits*Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled in future periods are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave and gratuities

The liability for long service leave and gratuities is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations

Participating employees of Unison are entitled to benefits on retirement, disability or death from the DBP Contributors Schemes as part of the National Provident Fund. The scheme is a multi-employer defined benefit plan which provides a defined lump sum benefit based on years of service and final average salary. However, sufficient information is not available to use defined benefit accounting. Therefore the Unison accounts for the scheme as if it were a defined contribution plan.

Accounting for defined contribution plans requires that an expense is recognised for the contributions paid/payable during the year and any outstanding contributions are recognised as a liability.

Bonus plans

Unison recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.6 Goods and Services Tax

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

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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 2010. 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. These ratios reflect the adoption of International Financial Reporting Standards.

	Budgeted 2007/2008	Projected 2008/2009	Projected 2009/2010
FINANCIAL MEASURES			
EBITDA as a percentage of Average Assets employed	9.9%	9.8%	9.9%
EBIT as a percentage of Average Assets employed	5.9%	5.8%	5.9%
Net Surplus as a percentage of Average Shareholders' Funds	4.9%	4.9%	5.0%
Ratio of Shareholders' Funds to Total Assets	51%	50%	50%
Total Line Business Operating Costs per Customer			
Customer Numbers	106,821	107,889	108,968
Direct Line Business Costs per Consumer	\$100	\$104	\$106
Indirect Line Business Costs per Consumer	\$85	\$87	\$88
	\$185	\$190	\$194
<i>Regulatory costs per customer</i>	\$7	\$7	\$7
Total Line Business Cost Per Consumer	\$192	\$197	\$201
Total Operating Cost Per km	\$2,158	\$2,206	\$2,255
NETWORK PERFORMANCE			
SAIDI Planned	38.2	38.2	38.2
SAIDI Unplanned	114.5	114.5	114.5
Overall SAIDI	152.7	152.7	152.7
SAIFI Planned	0.2	0.2	0.2
SAIFI Unplanned	2.2	2.2	2.2
Overall SAIFI	2.4	2.4	2.4
<i>SAIDI - System Average Interruption Duration Index</i>			
<i>SAIFI - System Average Interruption Frequency Index</i>			
Faults Per 100km Line			
Underground	7.3	7.3	7.3
Overhead	10.0	10.0	10.0
Total System	9.8	9.8	9.8