

Statement of Corporate Intent
2014/15



(Covering periods ending 31 March 2015-2017)

A. OBJECTIVES

VISION

To deliver world-class network and energy solutions to our customers.”.

VALUES

Unison has a set of values developed and refined with the input of all employees. These values underpin our 'One Vision, One Team' culture. Our vision is our common goal and by living our agreed values of Safety & Wellbeing, Excellence, Customer Service, Integrity and Teamwork, we are dedicated to achieving it.

GOALS AND OUTCOMES

Unison Networks Limited is primarily a provider of essential infrastructure services to consumers in the Hastings, Napier, Taupo and Rotorua districts; delivering their power through our electricity networks, and communications and data through our fibre networks. 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 its 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 develop the business in ways that will enhance the value and returns to shareholders.

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

- Continue to meet customer demands for quality and reliability using innovative technological solutions;
- Be cost-efficient in its operations;
- Achieve a commercial rate of return (see Clause L);
- Invest in the network to the extent necessary to meet the needs and demands of consumers;
- 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; and
- Conduct its business in a manner which is consistent with that of a responsible corporate citizen.

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

- Reliable, and sustainable network performance;
- Satisfied customers and stakeholders;
- Safe and healthy workplace;
- Engaged, committed and high performing employees; and
- Commercial rate of return

B. SCOPE OF ACTIVITIES

The Company currently owns and operates the electricity distribution and fibre optic networks in the Hastings, Napier, Taupo and Rotorua districts. The scope of activities may extend to the provision of other energy and infrastructure services, such as:

- Distributed generation and back up supply;
- Network management services;
- Contracting services;
- Telecommunication Services; and
- Supply of related energy infrastructure products.

C. RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

To provide the Company with the capacity to grow and enhance value to the shareholders, whilst maintaining an efficient capital structure that minimises risk, the Company 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, provided that if any Debt denominated in a currency other than New Zealand Dollars shall be the subject of a Foreign Currency Hedge, Shareholder's Funds shall be calculated from time to time by disregarding the asset and liability balances related to such Foreign Currency Hedge at such time.

"Total Assets" means all the recorded tangible and intangible assets of the Company at current book values, provided that, if any Debt denominated in a currency other than New Zealand Dollars shall be the subject of a Foreign Currency Hedge, Total Assets shall be calculated from time to time net of any asset balance related to such Foreign Currency Hedge at such time.

D. ACCOUNTING POLICIES

The Company's accounting policies comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards, and are consistent with New Zealand generally accepted accounting principles (NZ GAAP).

A summary of the Company's significant accounting policies is 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

The Company's policy is to distribute to the shareholder, by way of a dividend each financial year, funds surplus to the investment and operating requirements of the Company as determined by Directors, subject always to:

- the solvency provisions of the Companies Act 1993;
- any banking or other funding covenants by which the Company is bound from time to time;
- the forecast economic conditions in which the Company is expected to be operating; and
- the Company's efficient capital structure and future funding requirements.

The target dividend pay-out for the period is set out in Appendix 2.

In measuring the company's performance against the target dividend pay-out, the parties acknowledge that Directors shall seek to maintain a healthy and growing dividend from year to year. Any significant variations in profitability, that may be due to one off gains or losses in individual years, will be taken into consideration in order to minimise the volatility in dividend pay-out between years.

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.

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▪ 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. Unaudited 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 trustee shareholder as prescribed in the Trust Deed acting collectively in the best interests of the Trust Fund and of the Consumers as beneficiaries.

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 \$10 million (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.

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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. Material transactions (excluding transactions which constitute normal trading activities), between the Parent (or any member of the Group) and any related companies would be disclosed to the shareholder in a timely manner.

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 keep the Trustees informed in a timely manner 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 2014 to 31 March 2015 is based, are contained in the Company's approved Business Plan.

The financial forecasts in the Statement of Corporate Intent for the period 1 April 2015 to 31 March 2017 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.

L. COMMERCIAL RATES OF RETURN

The Company 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 the Company's ability to achieve a full commercial rate of return on its electricity lines business over the forthcoming period.

M. ADDITIONAL SHAREHOLDER BENEFITS

In agreement with the HBPCT the Company undertakes a long term OHUG programme to underground urban overhead structures. The programme is prioritised and subject to periodic review in consultation with the HBPCT.

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APPENDIX 1:**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

The consolidated financial statements of the Group are prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards, as appropriate for profit orientated entities.

Statutory base

The consolidated financial statements are prepared in accordance with the requirements of the Financial Reporting Act 2013, Companies Act 1993 and Energy Companies Act 1992.

The consolidated financial statements are prepared on the basis of historical cost, except for the revaluation of certain financial instruments and property, plant and equipment. Cost is based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

Principles of consolidationSubsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Unison Networks Limited and the results of all subsidiaries for the reporting period. Unison Networks Limited and its subsidiaries together are referred to in the financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting judgements are made in respect of the hedge designation of certain financial instruments, assessment of hedge effectiveness, determination of useful lives of Property, Plant and Equipment and the impact of tax rate changes on deferred tax balances.

Fair Value Estimation

The fair value of financial assets and financial liabilities, including derivative instruments, must be estimated for recognition and measurement, or for disclosure purposes. The fair value of instruments traded in active markets (such as equities and bonds) is based on closing market prices at balance date.

The fair value of instruments that are not traded on an active market (Interest Rate Swaps (IRS's), Cross Currency Interest Rate Swaps (CCIRS's), Foreign Exchange Contracts (FEC's)) is determined using various valuation techniques which include assumptions on observable data when such data is available. The fair value of IRS's, CCIRS's, and FEC's is based on the discounted value of future cash flows. Assumptions on the determination of future cash flows are based on publicly available forecast prices.

The fair value of FEC's is determined using forward exchange market rates at balance date discounted to present value. The fair value of financial liabilities in a fair value hedge relationship and for the purpose of disclosure is estimated by discounting the future designated cash flows at current market interest rates applicable to the risks being hedged.

The valuations determined for instruments not traded on an active market can vary significantly based on assumptions in relation to the interest rates and foreign exchange rates. The sensitivity to changes in assumptions for foreign exchange and interest rates is quantified in the notes to the financial statements.

Property, Plant and Equipment

The Group uses judgement to determine the estimated remaining useful lives of assets. They are detailed in the notes to the financial statements. The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date.

Intangible Assets

The Group uses judgement to determine the estimated remaining useful lives of intangible assets. They are detailed in the notes to the financial statements. The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date.

The recoverable amount of goodwill is calculated using value in use (the net present value of expected future cash flows) of the cash generating units. Key assumptions used in the value in use model that require the Group's estimation and judgement include revenue forecasts (including volumes and pricing), costs and discount rates.

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OTHER SIGNIFICANT ACCOUNTING POLICIES

Details of other accounting policies, their application and prospective changes are contained in the Company's Annual Report.

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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 2017. The financial projections have been prepared based on certain assumptions and are subject to changes in the economic and regulatory environment in which the Company operates and would be subject to further discussion with the Shareholder.

	Budgeted 2014/2015	Projected 2015/2016	Projected 2016/2017
Group Financial Performance Targets			
Profit before interest, taxation, depreciation, amortisation and financial instruments as a percentage of average assets employed	11.4%	10.4%	10.4%
Profit before interest and taxation as a percentage of average assets employed	7.3%	6.3%	6.3%
Profit as a percentage of average shareholders' funds	7.2%	5.6%	5.6%
Ratio of shareholders' funds to total assets	49%	49%	49%
Electrical Lines Business Performance Targets			
1. Operating Costs			
Consumer Numbers	110,344	110,896	111,450
System Length (km's)	8,115	8,147	8,180
Total Lines Business Cost Per Consumer	\$328	\$330	\$335
Total Lines Business Cost Per km	\$4,460	\$4,492	\$4,564
2. Electricity Network Performance			
SAIDI - <i>System Average Interruption Duration Index</i>	123	119	114
SAIFI - <i>System Average Interruption Frequency Index</i>	2.3	2.2	2.0
Underground Faults Per 100km	6.2	6.0	<5.9
Overhead Faults Per 100km	7.6	7.5	7.4
Total System Faults Per 100km	7.4	7.3	7.2
3. Health & Safety Performance			
Medical Treatment Injuries	30	29	28
Number of Public Accidents (either harm to the public or significant damage to property) from Unison's operation of the electricity infrastructure.	Nil	Nil	Nil
Public Safety Management Systems (PSMS) target: Number of school visits for electricity safety education (measure number of children presented)	2,500	2,500	2,500
Dividend Targets			
Dividend target (cents per share) ¹	15.22	15.67	16.14

¹ The dividend target is the dividend expected to be paid in relation to that financial year and hence paid out during the following financial year. This includes forecasted assumptions of CPI.