

Statement of Corporate Intent
2017/18



POWERED BY UNISON
**ELECTRIC
VEHICLE
CHARGING
STATION**

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**ROTORUA
LAKES COUNCIL**
Te kaunihera o ngā roto o Rotorua



#EVC3



WORK
SAFE

1. PURPOSE

This Statement of Corporate Intent sets out the Unison Group's scope of activities and strategic aims as well as the key performance targets for the financial years from 1 April 2017 to 31 March 2020, and also meets the requirements of the Energy Companies Act 1992.

2. UNISON GROUP

2.1. GROUP OVERVIEW

The Unison Group consists of specialist companies delivering critical network and energy solutions, including the electricity networks of Hawke's Bay, Taupo and Rotorua (see Figure 1-1), a niche fibre optic network across the same regions and New Zealand's leading distribution transformer manufacturing company.

2.2. OWNERSHIP AND GOVERNANCE

The Unison Group is wholly owned by the Hawke's Bay Power Consumers' Trust (HBPCT) on behalf of Unison's Hawke's Bay electricity consumers. The Unison Group's Board of Directors is appointed by the HBPCT.

2.3. ELECTRICITY DISTRIBUTION BUSINESS

Electricity distribution businesses (EDBs) are an integral part of New Zealand's electrical infrastructure, forming the physical link between the transmission network and electricity consumers. Unison owns, manages and operates the distribution network that serves Hawke's Bay, Rotorua and Taupo consumers, as shown in Figure 1-1.

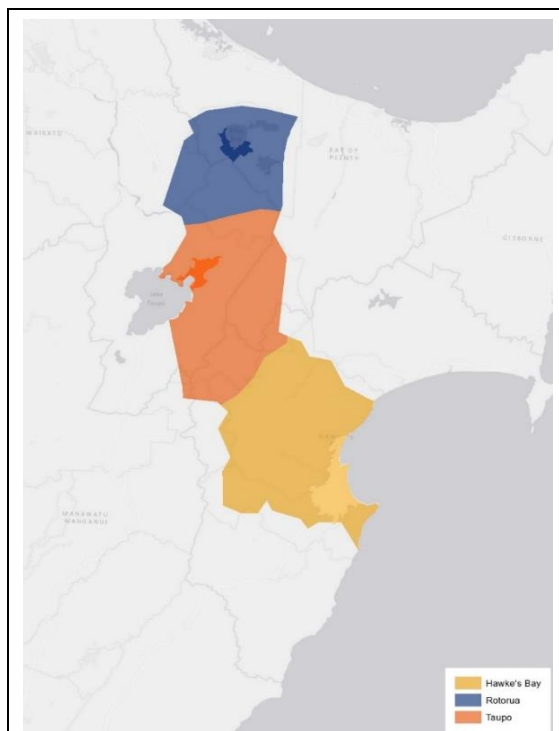
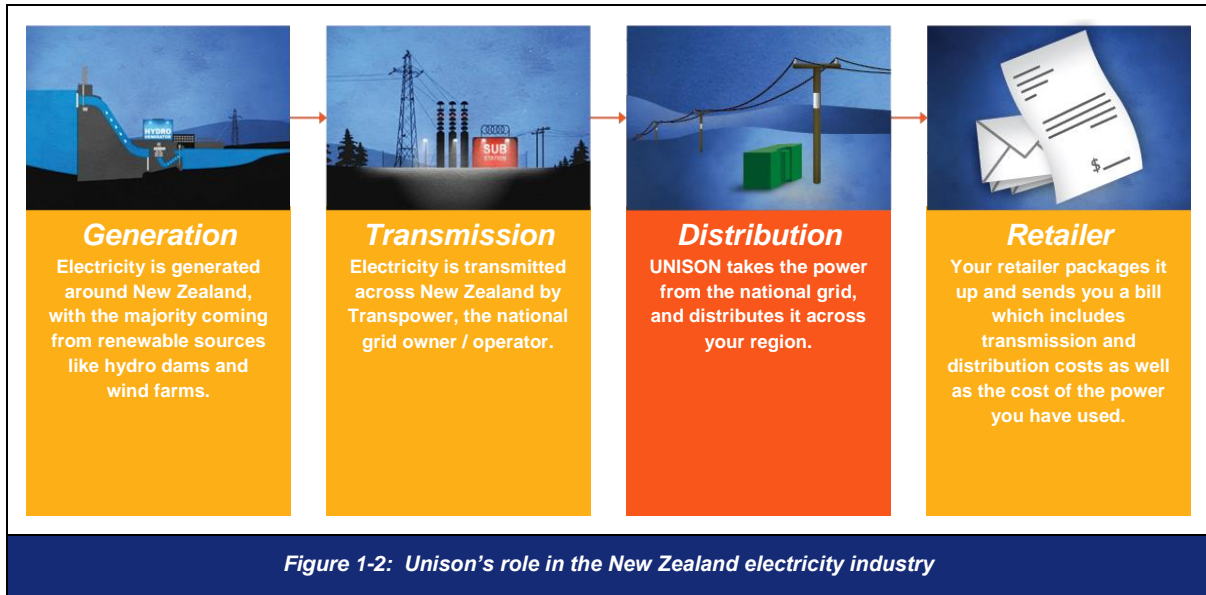


Figure 1-1: Map of Regions in Unison's Network

Electricity supply is provided to Unison predominantly at 33kV from Transpower's Grid Exit Points (GXPs) and is connected by Unison's sub-transmission network to zone substations. At zone substations, the voltage is converted to 11kV for distribution. Over 9,000 distribution transformers throughout the network then reduce the voltage to 400V for end use. Unison's role in the New Zealand electricity industry is shown in Figure 1-2.



The Unison network is comprised of over \$580m worth of assets, is 9,000km in length, and supplies around 112,000 connection points, making Unison the fifth largest EDB in New Zealand.

2.4. GROUP STRUCTURE

In addition to our core electricity network business, Unison owns and manages a number of other businesses.

2.4.1. UNISON FIBRE LIMITED

Unison Fibre Limited (UFL) is focused on delivering a high quality telecommunications network. UFL is the wholesale provider of ultra-fast broadband to key commercial, industrial and residential customers of Hawke's Bay, Taupo and Rotorua, via an extensive open access fibre optic network which is constructed using world-class equipment.

2.4.2. UNISON CONTRACTING SERVICES LIMITED

Unison Contracting Services Limited (UCSL) provides specialist contracting services to Unison Networks, as well as other customers. UCSL offers electrical, civil and vegetation services, in addition to working alongside UFL to build the fibre networks in Hawke's Bay, Rotorua and Taupo.

2.4.3. ETEL LIMITED

ETEL Limited is New Zealand's largest transformer manufacturing company, specialising in the design and manufacture of electrical distribution transformers. Founded in 1956, ETEL has a long and successful history, and thanks to their unwavering commitment to innovation and quality, has continued to experience growth that now sees the Company exporting distribution transformers to Australia and the Pacific Islands. In 2016 ETEL bought Pt Lucky Light Globalindo (LLG), a distribution transformer manufacturing business located in Indonesia.

2.4.4. UNISON INSURANCE LIMITED

Unison Insurance Ltd is Unison's captive insurer, providing self-insurance cover for Unison's primary uninsured risk, being its non-substation electrical assets. By establishing Unison Insurance, Unison is safeguarding the future of the network, so that should a major disaster such as an earthquake cause substantial damage to underground cables, overhead power lines and other power equipment, Unison can access funds to cover the cost of repairing or rebuilding the network and restoring supply to customers quickly.

2.4.5. FACILITIES MANAGEMENT

Since October 2002, Unison has provided facility management services to Centralines Limited - the EDB that supplies electricity consumers in Central Hawke's Bay. The facilities management service includes asset management, network planning, design, and operation of the control room.



2.5. SCOPE OF ACTIVITIES

The scope of the Group's activities may extend to the provision of other energy and infrastructure services, such as:

- Asset management services
- Distributed generation and back up supply
- Telecommunication Services, and
- Supply of related energy infrastructure products.

3. STRATEGIC OBJECTIVES

3.1. PURPOSE

Our Purpose is the reason we exist, and signals Unison's intent.

“We enable communities to prosper”

This links us inextricably with the fortunes of our communities by supporting people in their daily lives, and the competitiveness of businesses in our regions.

How do we achieve this purpose?

“by providing cost-effective, reliable and safe asset management services that employs advanced technologies and great people”

In so doing we will be creating an increasingly sustainable, respected and profitable enterprise.

3.2. VISION

Our vision defines where we are going.

“NZ's most progressive Asset Management Company.”

Our winning aspiration, recognises that we want to be advanced in our field and leaders in our industry. Our vision is underpinned by core competencies, which become central to our future competitive advantage.

3.3. VALUES

Our values are the behaviours and attitudes we need to foster to successfully achieve our vision.

Safety & Wellbeing

We care for the safety and wellbeing of our people, families and communities.

Excellence

We take pride in what we do and always look for opportunities to be the best.

Customer Service

We create great customer experiences by understanding and meeting our customers' needs.

Integrity

We do what we say, earning respect by being honest, fair and doing the right thing.

Teamwork

We work together as “one team”.

3.4. STRATEGIC INTENT

Our strategic intent represents our top level approach to achieve the vision, which we have simplified as follows:

- i. Continuously improve the effectiveness and efficiency of the core business by building excellence in our core competencies.
- ii. Create new value by nurturing and mobilising our core competencies to exploit a competitive advantage.

3.5. GOALS

Our goals are the primary outcomes we will deliver through the execution of our strategy

Goal	Description
Improve and then sustain network performance	We will improve our network reliability as a consequence of optimising our investment in the Smart Grid Initiative. We will then efficiently sustain this level of performance through delivery of excellent asset management.
Spend less by doing things smarter	A key aspect of enabling our communities to prosper is continually improving the effectiveness of what we do and the efficiency of how we do things. We will prudently manage expenditure and the way we run the business by doing things smarter.
Increase shareholder value	Shareholder value will be driven through the collective achievement of our goals and objectives which aim to deliver a great service to our customers and an appropriate commercial return for our shareholder. We will also explore new areas where Unison has a competitive advantage to create genuine value.
Improve our management of risk	A more mature risk management lens will increasingly be applied to how we operate in key areas of the business, leading to more informed decision-making and embedding risk awareness across the Unison Group.

4. COMMITMENT TO OUR SHAREHOLDER

4.1. RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

To provide the Group with the capacity to grow and enhance value to the shareholders, whilst maintaining an efficient capital structure that minimises risk, the Group 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 Group, 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.

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“**Total Assets**” means all the recorded tangible and intangible assets of the Group 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.

4.2. ACCOUNTING POLICIES

The Group’s accounting policies comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013, and are consistent with generally accepted accounting principles (NZ GAAP). The Group’s financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as applicable to for-profit oriented entities. They also comply with international Financial Reporting Standards (“IFRS”).

4.3. PERFORMANCE TARGETS

The Group 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 1**.

4.4. DIVIDEND

The Group’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 Group as determined by Directors, subject always to:

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

The target dividend pay-out for the period is set out in Appendix 1.

In measuring the Group’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, which 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.

4.5. INFORMATION TO BE PROVIDED TO SHAREHOLDERS

Financials

Summary monthly financial statements for the Group 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 Group 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 Chairman of the Parent company covering the operations for the period 1 April to 30 September each year, and
- ii. Unaudited financial statements in respect of the Group for that period.

Annual Reports

Annual Reports for the Group 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 Chairman of the Parent 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 Group 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 Group for the period.
- iii. The Auditor's Report on the financial statements, the performance targets and any other information by which the performance of the Group can be judged in relation to its objectives and goals.

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

Further Information

The Group 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.

4.6. ADDITIONAL SHAREHOLDER BENEFITS

In agreement with the Hawke's Bay Power Consumers' Trust the Group undertakes a long term OHUG programme to underground urban overhead structures. The programme is prioritised and subject to periodic review in consultation with the Hawke's Bay Power Consumers' Trust.

4.7. PROCEDURES FOR ACQUISITION OF SHARES IN OTHER COMPANIES OR ORGANISATIONS

No acquisition by the Group 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.

5. TRANSACTIONS BETWEEN THE GROUP AND LOCAL AUTHORITIES (THAT ARE SHAREHOLDERS) OR RELATED COMPANIES

There are no local authorities that are shareholders of the Parent. 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.

6. OTHER MATTERS AGREED BY THE SHAREHOLDERS AND DIRECTORS

The Group will assist the Hawke's Bay Power Consumers' Trust to carry out the separate roles of Shareholder in the Group 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 Group will keep the Trustees informed in a timely manner about new initiatives the Group is undertaking.

7. PROJECTIONS

The financial information and assumptions, on which the Statement of Corporate Intent for the period 1 April 2017 to 31 March 2018 is based, are contained in the Group's approved Business Plan.

The financial forecasts in the Statement of Corporate Intent for the period 1 April 2018 to 31 March 2020 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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APPENDIX 1: PERFORMANCE TARGETS

The following are the budgeted and projected performance targets for the next three years ending 31 March 2020. 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.

Group Financial Measure	Budgeted 2017/2018	Projected 2018/2019	Projected 2019/2020
Earnings before interest, taxation, depreciation, amortisation and financial instruments as a percentage of average assets employed	12.5%	12.6%	12.8%
Earnings before interest and taxation as a percentage of average assets employed	8.5%	8.3%	8.6%
Profit as a percentage of average shareholders' funds	8.3%	8.2%	8.4%
Ratio of shareholders' funds to total assets	53%	54%	56%
Dividend target (cents per share) ¹	19.84	20.30	20.77

Electrical Lines Business Performance Measures ²	Budgeted 2017/2018	Projected 2018/2019	Projected 2019/2020
<u>Operating Costs</u>			
Total Line Business Cost per Consumer ³ (nominal \$'s)	\$335	\$335	\$335
<u>Network Performance</u>			
SAIDI - System Average Interruption Duration Index ⁴	105.4	104.5	103.7
SAIFI - System Average Interruption Frequency Index ⁵	1.91	1.88	1.86
<u>Health & Safety Performance</u>			
Medical Treatment Injuries in Focus Areas <i>(these are injuries from falling from height, electric shock and crushing injuries relating to plant/machinery or poor traffic management)</i>	Nil	Nil	Nil
Number of Public Accidents <i>(either harm to the public or significant damage to public property from Unison's operation of the electricity infrastructure).</i>	Nil	Nil	Nil

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.

² The Electrical Lines Business includes Unison Networks Limited and Unison Contracting Services Limited.

³ This excludes the Transmission charges from Transpower New Zealand Limited

⁴ This represents the average number of minutes per annum that a customer was without power.

⁵ This represents the average number of interruptions per annum that a customer experiences.