



Statement of Corporate Intent
2015/16



(Covering periods ending 31 March 2016-2018)

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 2015 to 31 March 2018, and also meets the requirements of the Energy Companies Act 1992.

2. 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, a niche fibre optic network across the same regions and New Zealand's leading distribution transformer manufacturing company.

Unison Networks, trading as Unison, is wholly owned by the Hawke's Bay Power Consumers' Trust. Unison owns, manages and operates the electricity network that serves the Hawke's Bay, Taupo and Rotorua regions. Spanning over 9,000 kilometres and supplying over 110,000 connected customers with approximately 1,550 GWh of electricity per annum, making us one of the larger electricity distribution businesses in New Zealand.

In addition to our core electricity network business, Unison's subsidiary company, Unison Fibre Limited, is focused on delivering a high quality niche telecommunications network. Unison Fibre is the wholesale provider of ultra-fast broadband to key commercial and industrial areas of Hawke's Bay, Taupo and Rotorua, via an extensive open access fibre optic network which is constructed using world-class equipment.

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

ETEL 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.

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.



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

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

3. STRATEGIC OBJECTIVES

Vision

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

We know our customers rely on us every day to provide them with essential services, whether that is by delivering power through our electricity networks, or communications and data through our fibre networks.

And we also know we can't just stand still in how we deliver our services or in what we deliver, because the world is changing and our communities need us to be cost effective, but at the same time be able to deliver quality, reliable and innovative services.

That's why we want to be world-class.

Being “world class” means that we will embrace new ways of doing things, like our commitment to building a Smart Network, and have passion and commitment to delivering our service to our customers efficiently, effectively, using the right solutions.

The delivery of “energy solutions” is part of our vision because there are increasingly cost effective alternatives to electricity delivered over a network. That's why we are looking at solar PV and other technologies, as part of our ongoing research and development programme.

We also believe that world-class organisations achieve that status because of their commitment to working as a team, to developing their people, through a single aspiration and dedication to living their values.

World-class isn't about trying to be the best in the world or gold-plating our services, but being able to consistently and persistently say we're 'right up there' in delivering to our customers and our communities.

Values

Our vision is our common goal and we are dedicated to achieving it by living our values of Safety & Wellbeing, Excellence, Customer Service, Integrity and Team Work.

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".

Strategy

To achieve the vision, we have simplified our key strategies as follows:

- i. Continuous drive to deliver a more effective and efficient core business.
- ii. Growing value for our customers and shareholder.

Objectives

The objectives Unison sets itself to deliver on its key strategies are:

- To deliver a great service to our customers at a competitive price;
- To enable a high performing, engaged team of people working towards a single aspiration with dedication to living the values;
- To continuously improve the effectiveness and efficiency of processes and systems, pursue innovative solutions, and enhance organisational resilience; and
- To achieve a commercial return on investments and grow shareholder value.

Unison’s Vision, Values & Strategy



Outcomes

The key operational outcomes that Unison 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.

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.

"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 appropriate for profit oriented entities.

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; and

- 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 2015 to 31 March 2016 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 2016 to 31 March 2018 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 2018. 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 2015/2016	Projected 2016/2017	Projected 2017/2018
Earnings before interest, taxation, depreciation, amortisation and financial instruments as a percentage of average assets employed	12.0%	11.9%	12.2%
Earnings before interest and taxation as a percentage of average assets employed	7.7%	7.7%	8.0%
Profit as a percentage of average shareholders' funds	7.8%	7.8%	8.0%
Ratio of shareholders' funds to total assets	50%	50%	52%
Dividend target (cents per share) ¹	15.11	15.53	15.97

Electrical Lines Business ²	Budgeted 2015/2016	Projected 2016/2017	Projected 2017/2018
<u>Operating Costs</u>			
Operating expenditure per customer ³ (nominal \$'s)	\$328	\$328	\$328
<u>Electricity Network Performance</u>			
SAIDI - System Average Interruption Duration Index ⁴	99.1	96.3	93.5
SAIFI - System Average Interruption Frequency Index ⁵	1.94	1.89	1.84
<u>Health & Safety Performance</u>			
Medical Treatment Injuries	<14	<14	<14
Number of Public Accidents (either harm to the public or significant damage to public property).	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.