Ownership of the Shares in Unison Networks Limited

A Report by the Directors of Unison Networks Limited
to the Hawke's Bay Power Consumers' Trust

5 September 2023

CONTENTS

Appendix
Unison Networks Limited Ownership Review, 5 September 2023;
PricewaterhouseCoopers

1. INTRODUCTION

The Directors of Unison Networks Limited (Unison) have prepared this report as required by Clause 4 of the Hawke's Bay Power Consumers' Trust Deed.

The Trust currently owns 100% of the shares in Unison. The Trustees are required to initiate ownership reviews within five years of making a decision on any previous review and formally requested a report from the Directors of the Company on 8 March 2023.

This is the sixth review of the ownership of the shares of the Company. The last review was completed in 2017 following which the Trustees resolved that the shares in Unison should remain in the Trust's ownership.

In order to assist the Directors to fulfil the requirements of Clause 4.1 of the Trust Deed, the Directors sought a report from PricewaterhouseCoopers ("PwC"). PwC undertook an analysis of the performance of Unison under Trust ownership and relative to other Electricity Distribution Businesses ("EDBs"). The PwC report also provided Directors with an independent view of various ownership options available to the Company. The PwC report is attached as an appendix to this report from the Directors.

The Directors are required to act in the best interests of the Company. The Trustees are responsible for appointing the Directors and to ensure that the Company's board has the right mix of skills and experience to properly govern and oversee the management of the Company. The Unison Board believes that it currently meets that requirement and acknowledges that the Trustees have been proactive in refreshing the board and actively engaging with the Board on progress of the Company's activities since the last ownership review. The PwC report provides an objective view confirming that the Company has performed well as shown by consistent growth in earnings and value and as compared with its peers in the industry.

Given the significant changes in New Zealand's energy landscape over the last five years and current regulatory settings, it is timely to review the ownership of the Company's shares. As experienced directors, the Unison Board is aware of changes in the industry, the risks and challenges ahead and of the various ownership options available to the Company. These are outlined in some detail in the PwC report. The Board is also cognisant of the interests of its consumer shareholders and has continued to carefully balance the Company's ongoing need for funding with, where possible, a prudent annual return to those shareholders.

The ownership review is an opportunity for the Directors to consider whether there is a different form of ownership that might better serve the best interests of the Company. Having considered the views expressed in the PwC report alongside their own assessment of what is best for the Company and the requirements of the Trust Deed, the Directors' view of the ownership options is set out in section 4 of this report.

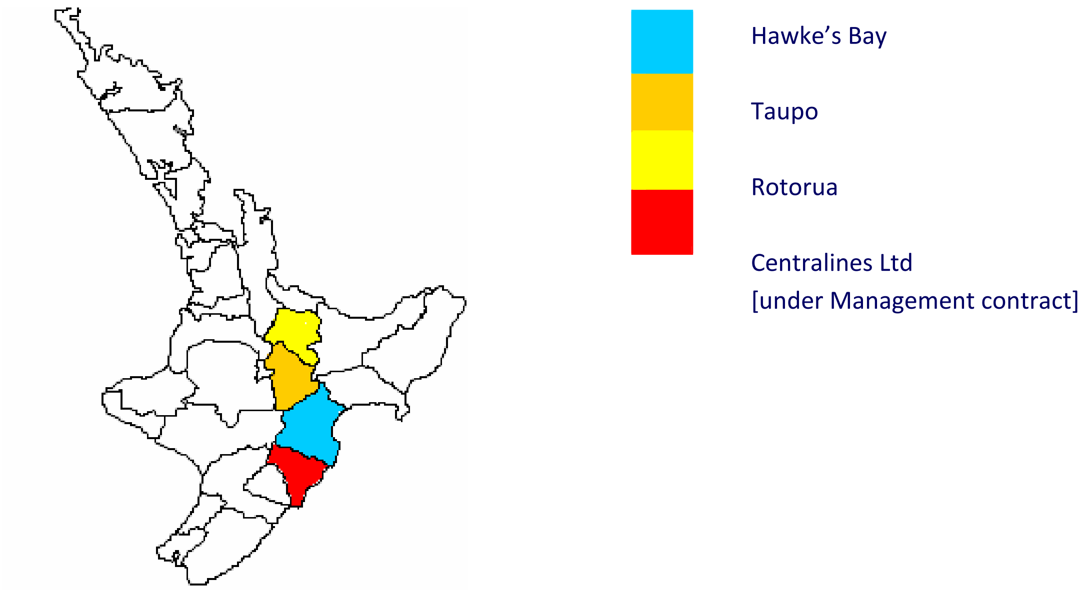
2. BRIEF COMPANY HISTORY

Hawke's Bay Power Distribution Limited was formed on 23 May 1993 in accordance with provisions of the Electricity Companies Act 1992. Hawke's Bay Power Distribution Limited and its subsidiary, Hawke's Bay Power Limited, traded as "Hawke's Bay Power." All the shares in the parent company were vested in the Hawke's Bay Power Consumers' Trust.

Due to requirements of the Electricity Industry Reform Act 1998 the electricity retail business was sold on 30 September 1998. This left the Company with the electricity network and energy related service activities. The name of the Company was subsequently changed to Hawke's Bay Network Limited in January 1999. The Company was further restructured in 1999 with the sale of non-core activities and the contracting out of some activities previously carried out internally.

The Company acquired the distribution network assets servicing consumers in the Rotorua and Taupo areas in November 2002. The Company was renamed Unison Networks Limited in April 2003.

Unison Networks Limited ("Unison" or the "Company") is an electricity distribution business (EDB) which owns and operates the regulated electricity distribution network covering three regions in the North Island: Hawke's Bay, Taupo and Rotorua. Unison also provides management services (including executive, financial, technical and managerial support) to Centralines Limited.



Since 2003, Unison has expanded its range of activities to include a number of subsidiary businesses aligned with the electricity sector. These add further scale to Unison and, being adjacent to Unison's network business, provide diversity of income streams from electricity related activities. Full details of Unison's current businesses are set out in the PwC report attached.

3. REQUIREMENTS OF THE TRUST DEED

The object of the Trust is to:

"hold the shares in the Company on behalf of the consumers and distribute to the consumers, in their capacity as owners, the benefits of ownership of the shares in the Company and to carry out future ownership reviews involving public consultation in accordance with the terms of [the Trust] Deed."

Under the Trust Deed the Trustees are required to undertake a review of the ownership arrangements of the Company. Clause 4 of the Trust Deed sets out the process to be followed for each five yearly review. Clause 4.8 requires that:

"… within five (5) years of the decision of Trustees on the initial review and at five (5) yearly intervals thereafter … the Trustees shall initiate a review, such review to be completed in accordance with the provisions of Clauses 4.1 to 4.7."

Clause 4.1 specifies among other things that:

"… the Trustees shall require the directors of the Company to prepare a report considering proposals and available options for the future ownership of the shares. If the directors of the Company have failed to produce such a report within six (6) months of being requested to do so by the Trustees, the Trustees shall prepare such report."

The detailed requirements of the report, as specified in clause 4.1 of the Trust Deed, are included in section 5 of this report, as are the Directors' responses to each of the specified requirements.

4. DIRECTORS' REVIEW OF OWNERSHIP OPTIONS

The Directors believe that the Company has prospered under consumer trust ownership. Nevertheless, given the rapidly changing energy landscape, it is timely to consider whether other ownership options would better serve the Company's interests now.

From relatively humble beginnings in 1993 (and previously as the Hastings and Napier Electric Power Boards respectively) the Company has grown to be one of the largest electricity distribution businesses in New Zealand. It has diversified its activities so as to be well-placed to meet the new energy future which will be driven by the Government's current decarbonisation focus.

It is the Board's view that the Company will need to continue to grow and develop to meet changing consumer needs. In an energy future that relies increasingly on a wider range of renewable electricity sources and flexibility in delivery of supply, the Company will need to invest even more heavily to maintain network reliability and resilience.

Networks are becoming more complex to operate and will need to respond to changes in government regulatory and policy settings as well as climate change. As an essential infrastructure business, particularly as communities become more heavily reliant on stable electricity supply, management of the Company's assets necessarily requires a long-life, intergenerational perspective. Infrastructure is expensive to build and to maintain. To ensure reasonable affordability and equity between generations costs need to be spread over time and the regulatory settings require this.

It is important that the business is able to expand and grow so as to fund increasing costs and, where prudent, to maintain for its consumer shareholders reasonable returns for a regulated business that holds some non-regulated interests. As a closely regulated business, the Company is restricted from generating the commercial returns that may be available in other markets. It has chosen, with the support of the Trustees, to invest in adjacent energy-related businesses that provide non-regulated income to support network growth and to enable an ongoing return to the consumer shareholders.

The decision as to ownership is, ultimately, a decision for the Trust as the current shareholder. From the Company's perspective, the Directors consider that what the Company needs as an owner of long-life intergenerational assets, alongside access to capital, is a stable shareholder able to understand and support the intrinsic strategic value of the assets to the communities they serve.

To date, the Trust has supported the Company's initiatives, allowed the Company to grow and develop while providing the Company with a consumer perspective on the balance needed between ongoing investment in the network and sharing returns with the shareholder consumers. This has met all of the Company's requirements and is reflected in the success of the Company to date and in the $91.3M in dividends paid by the Company to the Trust over the last five years. From the Company's perspective there are also seen to be significant benefits provided by the Company to the Hawke's Bay community (of which the consumers form an integral part) – such as, by way of jobs and career opportunities within Unison and its service provider businesses, the development of nationally-awarded innovative initiatives that reflect well on Hawke’s Bay, targeted sponsorships that support community involvement alongside safety and sustainability messages, local training opportunities and so on.

The Directors have had input to and considered the PwC report and have discussed with PwC the advantages and disadvantages (from the Company’s perspective) of the various ownership options outlined in the report. The Unison Board considers that the PwC report has properly identified options for the Trustees regarding ownership of the Company and notes that there are other permutations of the options raised. Recent local examples of some of those options are the sale of the Eastland electricity network to an overseas owned fund and the partial sale of Napier Port shares to investors. Unison has watched these with interest and the Unison directors have, in discussion with the Trustees, considered their relevance in the Unison context. It is worth noting that both of these examples resulted from the need for their owners to raise capital for reasons specific to their own activities.

As part of their obligation to act in the best interests of the Company, the Unison directors have evidenced over time an ongoing consideration of options for growth and various ownership structures. Examples are the acquisition by Unison of the Taupo and Rotorua electricity networks, the acquisition of the ETEL transformer business and, more recently, the acquisition of a range of smaller electricity-related businesses as part of a future-focused growth and sustainability strategy. Other business units have been developed by Unison itself to meet opportunities identified and the Board from time to time, as appropriate, reviews its business activities and how the Company can best work for its shareholders. The acquired businesses have performed well under Unison ownership and will over time contribute an increasing amount towards funding future dividends and investment in the network.

The Directors agree with PwC’s assessment of the ownership options that PwC identifies for Unison at pages 19 - 22 of the PwC report and the advantages and disadvantages of continued consumer trust ownership at pages 23 & 24.

The major disadvantage of consumer trust ownership is that the ability to fund sizable growth opportunities through additional equity capital may be constrained. However, it is worth noting that:

- Unison is able to meet its foreseeable capital requirements by raising additional debt funding to finance some of its growth opportunities/investment requirements and/or through a strategic divestment of a non-regulated subsidiary.

- PwC have noted a number of options that will be available to the Company to access additional capital as and when this is required. Some of these may not impact materially (if at all) on the ownership structure.

- Capital will be needed only when growth opportunities of a certain size arise. Such an opportunity will need to be supported by a compelling business case, including persuasive reasons for additional equity capital (if required). At that point, the Trust can reassess the Company's ability to access equity capital and the appropriateness of the ownership structure.

- From the Company's perspective, there is no need to sell down all or part of the Unison business in the short to medium term. As noted in the PwC report, a sale of shares and/or assets may not result in benefit to consumers or the community other than to those consumers registered at the time of sale or disposal. It should be noted that any sale of shares to meet material capital needs is likely to require some of the funds raised to be reinvested in the Company, diluting shareholders' interests and future associated returns. If the Company is able to self-fund those capital needs, this maintains long-term value growth for the shareholders (current and future).

The Directors agree with the following advantages of continued Trust ownership assessed by PwC in comparison to other alternative ownership structures:

- The Trust has direct influence over financial and non-financial objectives;
- Trust ownership allows the Company to focus on operating excellence initiatives rather than primarily shareholder returns;
- The Trust is able to focus on the investment in long-term assets for the benefit of current and future generations (including investments for network growth and investments for improved resilience and reliability);
- Direct financial benefits flow to consumers or community;
- The merits of retaining the trust structure so as to provide the Company with a consistent strategic majority shareholder.

5. SUMMARY OF DIRECTORS' RESPONSES TO CLAUSE 4.1

The Directors' specific responses to the matters specified on Clause 4.1, and which are to be contained within the report, are:

4.1.1 an analysis of the performance of the Company to the date of the report together with a summary of the benefits or otherwise of such ownership to Consumers

Directors' Comment:
An analysis of Company performance is included in the attached report from PwC, as are the benefits or otherwise of Trust ownership to Consumers. The Directors consider that the PwC report correctly identifies the benefits or otherwise of consumer trust ownership.

4.1.2 an analysis of other ownership options including, without limitation, share distribution to Consumers, sale of shares to the public, sale of shares to institutional investors, compared with retention of ownership by the Trust.

Directors' Comment:
Analysis of other ownership options is included in the attached PwC report. The Directors do not believe that other forms of ownership are preferable to Trust ownership at this time.

4.1.3 a comparison of the Company's performance with the performance of other companies engaged in energy distribution.

Directors' Comment:
The comparison of Company performance with the performance of other companies engaged in energy distribution is included in the attached report from PwC. The Directors consider that the Company compares well in relation to its EDB peers. The Directors note that PwC has identified a peer group of EDBs in order to put Unison's performance metrics in context. The peer group has diverse ownership structures, ranging from full investor control through to local government/community/consumer ownership. Ownership structure is not obvious from the comparison of performance metrics.

4.1.4 the conclusion of the Directors as to the most appropriate form of ownership together with an indication whether the conclusions are unanimous and, if the decision is not unanimous, a summary of the conclusions of the dissenting Directors.

Directors' Conclusion:
The Directors are unanimous in concluding that Trust ownership remains the most appropriate form of ownership at this time but note that other forms of ownership may need to be considered if circumstances change significantly in time. In this regard, the

Directors recommend that the Trust should confirm that it wishes the Directors to continue, over the next five-year period, to undertake further preliminary investigative work on sensible capital structure options required to meet any future material capital needs. A material capital raise process is costly and can take years to execute so requires careful planning and clear focus on the need being addressed.

4.1.5 if a distribution of shares is recommended the matters contained in paragraphs (a), (b) and (c) of Clause 4.6

Directors' Comment:
As the Directors unanimously support retention of Trust ownership at this time, a distribution of shares is not recommended.

4.1.6 a statement as to whether or not the Directors have had regard to any views expressed by the public with respect to ownership.

Directors' Comment:
The Directors have not specifically consulted with the public with respect to ownership options but have had regard to views expressed at the Trust's recent AGM and publicly in local media and correspondence. The Directors understand that the Trust Deed requires the Trust to undertake the consultation process to allow interested parties to express their views prior to the Trustees making a decision on the appropriate ownership option for the shares in Unison over the coming period.

4.1.7 a summary of the professional advice (if any) obtained in respect of the preparation of this report.

Directors' Comment:
The Directors sought advice from PwC and the full PwC report is attached to this report.

STRICTLY CONFIDENTIAL

Unison ownership review

pwc

SEPTEMBER 2023

5 September 2023

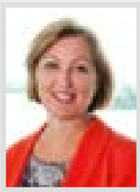
The Directors
Unison Group
1101 Omahu Road
PO Box 555
Hastings 4156

Unison Networks – ownership review

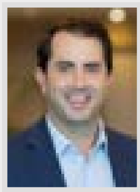
We are pleased to report to the directors of the Unison Group on options for the future ownership of the shares which the Hawke's Bay Power Consumers' Trust holds in the Group on behalf of its consumer beneficiaries.

This report is provided in accordance with our letter of engagement dated 18 May 2023 and is subject to the important notice on the following page.

The key contacts for this work are:



Lynne Taylor
Executive Director, PwC New Zealand
lynne.taylor@pwc.com
+64 21 779 088



James Harper
Partner, PwC New Zealand
james.f.harper@pwc.com
+64 22 012 9874

Important notice

This report has been prepared solely for the Directors of the Unison Group (Unison) to review alternative ownership options and report on the performance of Unison and the performance of Unison Networks relative to other electricity distribution network companies.

The document has been prepared solely for this purpose and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared. Our report is not intended for general circulation or publication and should not be reproduced, quoted in any public statement or document or used for any purpose other than set out above, without our prior consent.

We have not independently verified the accuracy of information provided to us and have not conducted any form of audit in respect of Unison. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this document and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise. The statements and opinions expressed in this report are based on information available as at the date of the report. We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

Summary

Introduction

Hawke’s Bay Power Consumers’ Trust (HBPCT, the Trust) holds 100% of the shares in the Unison Group (Unison) on behalf of consumer beneficiaries located in Hawke’s Bay. Every five years the Trust must review the performance of Unison and consult with consumer beneficiaries on the future ownership of the Group. Consistent with the Trust Deed, the Directors must first report to the Trust on these topics. This report has been prepared to assist the Directors.

The Unison Group (Unison or the Company) includes Unison Networks Limited, the parent company, and a number of subsidiary businesses which provide related services. Unison Networks owns and operates the electricity distribution network which services the Hawke’s Bay, Taupo and Rotorua districts. Unison also manages Centralines’ electricity distribution network located in Central Hawke’s Bay.

Context for the review

Climate change and the need to decarbonise New Zealand’s economy are driving increased electrification as energy users switch from carbon based fuels for household, transport and business needs, to electricity generated from renewable sources. This will require significant investment in renewable electricity generation, and transmission and distribution infrastructure over the next decade and beyond.

Electricity distributors, including Unison, are critical to the energy transition because it is demand led, and therefore distribution network connection, capacity and resilience investments as well as more complex network operating systems will be needed to accommodate changes in energy use and additional demand.

The next decade will require significant investment by Unison in electricity network infrastructure which will need to be funded by a combination of regulated revenue recovered from customers and other sources of funds, including borrowing. This is relevant to the ownership review as Unison’s current shareholders, Hawke’s Bay consumers, cannot provide additional capital. If Unison is cash constrained, it may not be able to maintain its dividend flow to the Trust.

Unison's performance as a consumer trust owned business

Unison has performed well as a consumer owned business, as demonstrated in this report. Unison's scale, capability, prudent investment in its network, financial management, and growth through acquisition of adjacent businesses means it is well positioned for the challenges of the energy transition over the next decade. The Trust has enabled this performance by:

- setting strategic and financial and non-financial performance objectives for the Company through the annual statement of corporate intent (SCI). The Trust brings a long term, community perspective to this process as evidenced by the Company's vision statement
- acknowledging that there is a balance to be struck between investing in capability, innovation and service performance which benefits current and future generations across the network, investing for growth, and annual dividend distributions which benefit current beneficiaries
- appointing the Board of Directors, including directors which reside in Hawke's Bay
- supporting the Company to grow through acquisition.

Ownership options assessment

Our assessment of ownership options focusses on the next five years, at which time the next ownership review is due to be undertaken.

We have considered three broad ownership options, acknowledging that there are alternative approaches within each of these:

- trust ownership – consumer or community trust
- distribution or sale of shares – minority or full distribution or sale
- third party arrangements – joint venture, merger, sale of regional networks, network lease.

We have assessed the pros and cons of each of these ownership options, relative to continuing with the consumer trust ownership model. We have focused on four key outcomes under each model, as follows:

- Consumer and community benefit – the impact on consumer beneficiaries located in Hawke's Bay and the local Hawke's Bay community.
- Operational excellence – the impact on the ability of the Group to achieve operational excellence and deliver good service outcomes for all electricity consumers connected to the network. Our assessment assumes that economic and industry regulation continues to apply under all options. These provide protection for all of Unison's consumers from deteriorating service levels and unreasonable prices.
- Growth and the energy transition – the potential to create shareholder value and to invest in network growth and resilience in response to the energy transition.
- Cost and complexity – the administrative cost and complexity of each ownership model.

A summary of our options assessment is presented on the following page. The narrative which supports this assessment is presented in section 4.

Summary of options assessment

OPTION	OUTCOME			
	Promotes consumer and community benefit	**Promotes operational excellence**	**Promotes growth and the energy transition**	**Minimises cost and complexity**
Consumer trust	Positive	Positive	Positive / Partly	Partly
Community trust	Positive	Positive	Positive / Partly	Does not promote
Minority distribution of shares to consumer beneficiaries	Partly	Positive / Partly	Does not promote	Does not promote
Full distribution of shares to consumer beneficiaries	Partly / Does not promote	Partly	Partly / Does not promote	Positive / Does not promote
Minority sale of shares to consumers or investors	Partly	Partly	Positive	Does not promote
Full sale of shares to consumers or investors	Partly / Does not promote	Does not promote	Does not promote	Positive / Does not promote
Merger with another large network company	Positive / Partly	Positive / Partly	Positive / Partly	Partly / Does not promote
Sale of the Rotorua/Taupo networks or a subsidiary to a third party	Positive / Partly	Partly / Does not promote	Positive / Does not promote	Positive / Partly
Joint ventures between subsidiaries and third parties	Positive / Partly	Positive	Positive / Partly	Partly / Does not promote
Long term lease of the network to a third party	Positive / Does not promote	Partly	Positive	Partly / Does not promote

● **Positively contributes to outcome** ● **Partly contributes to outcome** ● **Does not promote outcome**

Conclusion

Consumer trust ownership of Unison has served Hawke's Bay consumers well to date. Unison's scale and focus on performance excellence, innovation and investment mean the Group is well positioned for the energy transition, and to create future shareholder value. The Trust brings a community perspective to ownership as the elected trustees are tasked with representing the interests of local beneficiaries. This local consumer and community influence is diluted, or may be lost, if shares are distributed or sold.

Consumer beneficiaries located in Hawke's Bay benefit from annual distributions made by the Trust, funded by Unison's dividends. Distributing or selling shares would mean that current consumer beneficiaries would gain, but future Hawke's Bay consumer beneficiaries would miss out. If the Trust sells all of the shares in Unison to investors, it has no choice but to hold the proceeds until they are distributed and wind up the Trust. At that point, the Hawke's Bay region would likely lose the annual dividend distributions from Unison, as these would flow to the new owners who may reside outside of Hawke's Bay.

The biggest challenge with the consumer trust model is limited access to capital to fund further growth. Unison's prudent financial management, investment in non-regulated businesses and the FY26 regulatory reset mean that there is sufficient borrowing headroom for the current Group's activities to FY28, when the next ownership review is scheduled, and beyond. Given the investment required to respond to the energy transition over the next decade, Unison will be well served with a shareholder which supports the Group to make investments in long life infrastructure to provide essential services over the long term. If necessary, shareholder returns may need to be deferred to undertake network investment.

Distributing shares to consumer beneficiaries provides no additional funds for growth. With continued Trust ownership there are options for Unison to access additional capital or address capital constraints through third party arrangements, such as joint ventures or mergers, or the sale of part of the network or the subsidiaries, with shareholder approval.

While there are costs with administering the consumer trust, these are a small portion of the distributions to beneficiaries, and are consistent with the requirements of the Trust Deed for the trustees to execute their duties to represent the interests of consumer beneficiaries. Other ownership options would also incur shareholder costs, such as maintaining an equity listing and making shareholder disclosures, or processing applications for community grants. The more complex options may be more costly, such as a mixed ownership model, and incur significant establishment costs, such as issuing shares or merging with another entity.

In conclusion, the local consumer ownership of the Unison Group serves the Hawke's Bay community well through the flow of financial distributions to Hawke's Bay consumers, and influence on the strategic direction of the Group, including the focus on community outcomes. If the shares were sold or distributed to local consumers, current consumers would benefit financially, but future consumers would miss out and the community focus of the Unison Group may be lost if the shares are acquired by external investors.

In the future, 'trigger' events may occur which lead to further consideration of a change in ownership or other arrangements, such as a merger or joint venture or sale of part of the network or a subsidiary. Trigger events may be driven by a desire to achieve more scale across the business, to access more capital for growth or investment in core network infrastructure, or to access additional expertise.

SECTION 1

Introduction

HBPCT holds 100% of the shares in Unison on behalf of consumer beneficiaries located in Hawke's Bay. The trustees are elected by consumer beneficiaries and represent the interests of consumers consistent with the terms of the Trust Deed. Every five years, the Trust must review the performance of Unison and consult with consumer beneficiaries on the future ownership of the Group.

Consistent with the Trust Deed, the Directors must first report to the Trust on these topics. This report has been prepared to assist the Directors.

Structure of this report

SECTION 2

Overview of the Trust and Unison

HBPCT is a consumer trust which holds 100% of the shares in the Unison Group on behalf of consumer beneficiaries located in Hawke's Bay. HBPCT is one of 21 consumer or community trusts across New Zealand which own their local electricity network companies. Consumers located in the Rotorua and Taupo region of Unison's network are not beneficiaries of the Trust. This is because Unison purchased these networks in 2002 from their previous owners.

The Trust is governed by the Trust Deed which specifies how trustees are elected, the role of trustees and the process for distributing income to beneficiaries. The Trust Deed was established with a 80 year term, which reflects the long life nature of the assets owned by Unison, which serve past, current and future generations of electricity consumers. The trustees are elected by Hawke's Bay consumers and represent the interests of consumers by agreeing the strategic direction of Unison through the annual SCI and appointing the Directors.

The beneficiaries of the Trust are the current Hawke's Bay consumers connected to Unison's network. Beneficiaries change over time as people move in and out of Hawke's Bay, and new homes are built and new businesses are established. Each year the Trust distributes Unison's dividends to current beneficiaries.

The Unison Group includes Unison Networks Limited, the parent company, and a number of subsidiary businesses which provide related services. Unison Networks owns and operates the electricity distribution network which services the Hawke's Bay, Taupo and Rotorua districts. Unison also manages the Centralines' electricity distribution network located in Central Hawke's Bay.

Unison's network covers an area of 11,643 square kilometers. In 2022 the network delivered 1,647 GWh of electricity to 116,893 connections across 9,377 kilometers of line. Unison's electricity distribution business (EDB) is regulated by the Commerce Commission and the Electricity Authority. These regulations ensure that Unison's electricity network charges and network performance are reasonable, and that Unison operates its network consistent with the electricity market rules.

Unison's subsidiary businesses include:

Unison Contracting Services Limited (UCSL)
Provides electrical, civil and vegetation contracting services to Unison, Unison Fibre, and external customers.

ETEL Limited (ETEL)
Designs and manufactures electrical distribution transformers for customers in New Zealand and offshore.

RPS Switchgear Limited (RPS)
Manufactures electrical switchgear for customers in New Zealand and offshore.

PBA Limited (PBA)
Provides high voltage engineering services.

Unison Fibre Limited (UFL)
Provides wholesale ultra-fast broadband services to Unison's network and external customers.

Unison Insurance Limited (UIL)
Provides limited self-insurance cover for Unison's transmission and distribution electrical assets.

Unison's performance

The performance of Unison over the past five years is described more fully in section 5. Key highlights include the following.

Unison Group

Revenue and profitability

- The Group's revenue grew by 29.8% from FY18 to FY23, representing a compounding growth rate of 5.3% p.a. Notable increases were achieved in FY22 and FY23, largely as a result of higher operating revenues from UCSL and ETEL.
- Unison's EBITDA growth of 0.5% reflects a compounding growth rate of 0.1% p.a. Profitability of the regulated network reduced from FY21 due to revised limits imposed by the Commerce Commission on all electricity distributors.

Value

- Unison increased its equity by 22.5% over the review period, contributing to increased shareholder value.
- Unison increased its asset base by 36% between FY18 and FY23, reflecting $378m of capital investment.
- Over the review period Unison has generated $91.3m of dividends paid out to the Trust to fund distributions to beneficiaries. While there was only modest growth in dividends over the review period, Unison's dividend payout ratio has been within the range of other large electricity distribution companies.

Strategic acquisitions

- During the review period, the Unison Group expanded its non regulated services through acquisitions of RPS, ABB's Motor Generator Services and PBA. Subsequently PBA acquired Magnetic Power Services (MPS), who provide asset management and underground construction services.
- The acquisitions are aligned with the Group's strategic intent to support a sustainable energy future.

People

- During the COVID-19 pandemic Unison established health and safety protocols including pod structures, encouraged flexible working and increased technology funding to support staff to work more flexibly.
- Unison transitioned to an improved health and safety standard, achieving ISO45001 accreditation.
- Unison launched 'Te Tauira Pou Hiko' to promote wellbeing in the workplace.
- Unison has continued to focus on training, recruitment and development to ensure the Group has access to a competent workforce.
- The Board appointed Jaun Park as the new Group Chief Executive Officer in 2023, following the retirement of Ken Sutherland.

Community

- Over the review period Unison supported the river restoration charity, Maraetotara Tree Trust, the 'Safe Sparks' education programme and the 'Greatest Supporter' youth sport programme.

Unison Networks Limited

Revenue and profitability

- Regulated returns were reset in FY21, and the allowed return was reduced. Accordingly Unison Network's revenues and EBITDA reduced from FY21 onwards. EBITDA over the review period had a compounding average growth rate of negative 2.2%. The lower revenues were reflected in reduced line charges for customers.
- Unison Networks' average prices, regulated returns and operating costs per customer are similar to comparable EDBs. Average prices and operating costs are less than the average of all EDBs, while returns are higher than average.

Regulatory requirements

- Unison Networks has performed well in its core regulated network business, meeting all regulatory requirements except for a reliability breach in FY18 due to major storm events. An independent report into the breach concluded it was caused by factors outside of Unison's control and that Unison's asset management practices are consistent with good industry practice.
- Unison Networks has maintained service levels and improved operational performance through targeted investment in health and safety, smarter pricing, systems, people and data. Unison Networks was the first EDB in New Zealand to be certified ISO55001 compliant for its asset management processes.

Growth and resilience

- Over the review period Unison Networks' asset base increased by 32%, reflecting investment to improve resilience and to cater for regional growth.

Network reliability

- Unison Networks was within 10% of its interruption duration and interruption frequency targets over the review period except for FY18, which included 3 major weather events.
- Unison's average system interruption duration, excluding the impact of major storm events, is less than the average of comparable EDBs and the industry average.
- Following the widespread damage caused by Cyclone Gabrielle, Unison responded quickly to restore power to its affected customers. Unison's incident management system and co-ordination between the incident management team, UCSL's field crews and other agencies were critical to this response.

Innovation

- Unison Networks strengthened its asset management practices and invested in smart network technology over the review period.
- OneEnergy, a new enterprise resource management system, was implemented in FY21, improving asset management and business operations across the Group.

Subsidiaries

Revenue and profitability

- Over the review period, the contribution from Unison's subsidiaries has grown. UCSL reported an increase in EBITDA of 65% across the review period, with ETEL reporting an increase of 75%. This has helped to offset the reduction in Unison Networks' revenue and profit since FY21 when the regulatory settings changed.

SECTION 3

Context for the ownership review

Electricity distributors, including Unison, can expect to play a significant role in New Zealand's transition to net zero emissions by 2050. Sizable investments in energy sector infrastructure and capability will be required. There will be more demand on distribution networks and consumers will have access to more distributed energy resources including rooftop solar and batteries. Innovation, adoption of new solutions and competition are considered critical to achieving an affordable energy transition for customers. There is increasing focus on electricity distributors' capability and openness to new ways of meeting demand on their networks, network performance and funding of capital projects.

Accordingly, the energy sector transition is expected to change the landscape for Unison over the next decade, and Unison will need to respond to:

- changes to regulatory and policy settings
- increased operating complexity and investment in network capability
- climate change, including the longer term impacts of Cyclone Gabrielle
- consumer needs, including affordable electricity services, network reliability and resilience, and opportunities for demand side participation.

We have estimated that investment of ~$50 billion is required in New Zealand's electricity sector by 2035 to support the energy transition, of which approximately 50% will be undertaken by distributors. Unison's access to capital to fund future investments, and ability to maintain distributions to beneficiaries, while increasing shareholder value are considerations for assessing future ownership options.

Accordingly, Unison's strategy and the Trust's expectations of the Unison Group are important components of this review.

Responding to the energy transition

Climate change and the need to decarbonise New Zealand's economy are driving increased electrification as energy users switch from carbon based fuels for household, transport and business needs, to electricity generated from renewable sources. This will require significant investment in renewable electricity generation, and transmission and distribution infrastructure over the next decade and beyond.

Electricity distributors, including Unison, are critical to the energy transition because it is demand led, and therefore distribution network connection, capacity and resilience investments will be needed to accommodate this additional demand.

Resilience

In February 2023, Cyclone Gabrielle had a devastating impact in Hawke's Bay. Along with houses and businesses, core infrastructure was significantly damaged which disrupted critical services such as roading, power, water and communications. Electricity infrastructure is exposed to extreme weather, and repairing Unison's electricity network was critical to restoring power supply as quickly as possible to customers. Unison demonstrated its capability and leadership in its response to Cyclone Gabrielle, working with local communities, Transpower and other services to restore power across the region as quickly as possible.

> It has been absolutely incredible times as we've managed through this devastating impact of Cyclone Gabrielle together… We've attended all the community meetings together, you've been rockstars at those meetings, bringing power to the people… and informing them all along the way where you were working next. Thank you for your incredibly hard mahi.
>
> MAYOR SANDRA HAZLEHURST

As the energy system becomes more dependent on electricity, Unison will need to find ways to maintain network resilience and reliability while ensuring energy costs are affordable for customers.

Capability

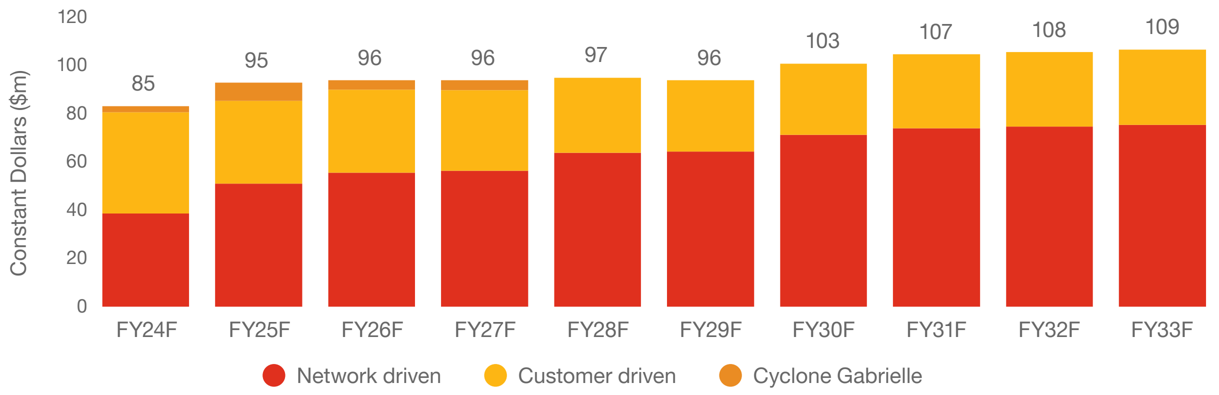
Electricity network operations will become more complex because customers are increasingly generating and storing their own electricity, exporting excess energy into the network, and changing their demand patterns with smart devices and in response to smarter pricing. This will require smarter networks, with real time monitoring and analysis of assets to support risk based, predictive maintenance and energy trading across local systems.

Unison has invested in smarter network operating systems, including its advanced distribution management system and is investing in new technology innovations in readiness for more complex distribution system operation. As one of the larger networks, Unison can afford to invest in innovation and expert capability as the costs and benefits of these investments are shared across many customers.

Funding

Unison is currently forecasting over $990m (in 2023 terms) of capital investment in the network and supporting infrastructure over the next ten years. A large portion of this is responding to customer demand. In addition, over the next few years, the impacts of Cyclone Gabrielle on the network will be addressed. This investment will be funded from network charges, customer connection contributions, retained earnings and external borrowing, which is common for long term assets which serve multiple generations of users, and consistent with Unison's regulatory settings.

Figure 1: Forecast capital expenditure



Source: Unison Regulatory AMP, 2023-2033

As a regulated business, the revenue that Unison can recover from customers for electricity distribution services is capped by the Commerce Commission, to ensure Unison's charges are reasonable and its costs are prudent and efficient. This means that Unison's shareholders may be required to forego returns when cashflows are needed for network investment, with the expectation that shareholder returns will be earned over the longer term.

Accordingly, at this time Unison requires a shareholder which provides stability for the Group to make investments in long life infrastructure, which will benefit current and future generations of electricity customers. If necessary, growth in shareholder returns may need to be deferred for a period while sufficient investment is made in the network to meet new electricity demand and to enhance network resiliency.

Pricing

Unison has implemented time of use pricing which better signals the costs and benefits of using electricity at peak and off peak times, and supports the efficient uptake of distributed energy resources to complement network investment. This pricing model is designed to reduce network use at peak times, for example by encouraging owners of electric vehicles to charge up overnight when prices are low. This lowers the investment needed in peak capacity, reducing future customer charges.

Access to funding

As illustrated above, the next decade will require significant investment by Unison in electricity network infrastructure. Network revenues are capped by regulations which require the cost of the infrastructure to be recovered over long periods (up to 50 years) from current and future customers connected to the electricity network. Unison currently borrows to meet any cash flow shortfall, which is common practice for owners of long life infrastructure such as electricity networks. This practice is also consistent with regulatory expectations.

The significant amount of network investment to be undertaken over the next decade will need to be funded by a combination of regulated revenue recovered from customers and other sources of funds, including borrowing. This is relevant to the ownership review as Unison's current shareholders, Hawke's Bay consumers, cannot provide additional capital. In addition, if Unison is cash constrained, it may not be able to maintain its dividend flow to the Trust, which could result in reduced distributions to beneficiaries in years when network investment is high. Unison and other electricity networks in New Zealand are attractive to local and international lenders because the country and the industry are perceived as low risk. This relies on Unison maintaining an acceptable level of financial risk.

Although Unison does not hold a formal credit rating, it targets shadow credit metrics consistent with an investment grade credit rating. Maintaining a shadow investment grade rating also allows Unison to access funding at reasonable rates.

Unison's projections show that a shadow investment grade rating is expected to be maintained, even with the additional borrowing required to fund the increased investment in the network. This is because:

- regulated revenue allowances will increase from FY26 reflecting catch up of deferred revenue, higher benchmark regulated returns, cost inflation and increases in the value of the asset base
- increased contributions from customers for new and upgraded connections to the network
- Unison's gearing is currently relatively modest at 41%, despite increased borrowings during FY22 and FY23 to fund network growth, investment in new businesses and increased inventory. Gearing is forecast to peak at 44% in FY25, and reduce to current levels shortly thereafter. Figure 2 shows the Group's forecast borrowing headroom, consistent with maintaining a debt to EBITDA ratio of < 4.0X.
- subsidiary businesses are forecast to generate positive net cash flows and improved profitability, contributing to dividend growth across the Unison Group.

Unison is therefore currently forecasting sufficient borrowing capacity to meet its planned network investment programme and deliver modest dividend growth, with some headroom for future investments. These forecasts assume that the current regulatory settings continue, and that Unison Networks' forecast expenditure is included in the regulatory revenue allowances.

Strategic objectives

Unison's 22/23 SCI sets out the strategic direction and targets for the Group as agreed with the Trust. The vision and strategic intent are forward looking, and recognise the opportunities and challenges of New Zealand's energy transition for Unison.

Our vision

"Leading a sustainable energy future to support consumers' changing energy needs, while enabling our communities to prosper for generations to come."

Strategic intent

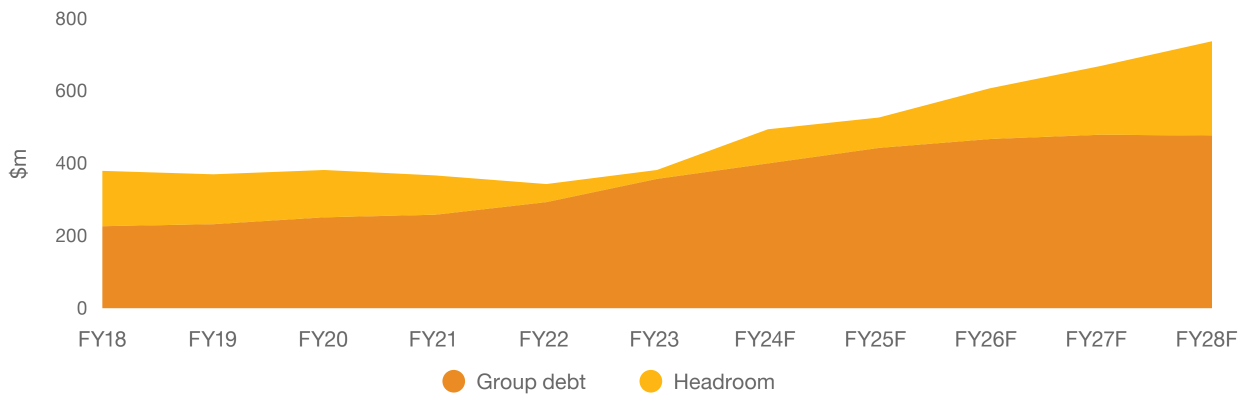
"Our strategic intent represents our top level approach to achieve the vision, which we have simplified as follows:

i. Build operational excellence in the core business, and in doing so, ready ourselves for new capabilities required for a sustainable energy future

ii. Grow our unregulated businesses by leveraging group synergies, core competencies and exploring adjacent opportunities where the Unison Group can add significant value."

Source: Unison Statement of Corporate Intent 23/24

Figure 2: Forecast debt and borrowing headroom



Our assessment of ownership options for Unison is informed by the performance of the Group over the past five years and the ability to meet the expectations reflected in the strategic intent relating to operational excellence and growth. A high level summary of Unison's performance and preparedness against these objectives is presented below.

Assessment of performance against strategic intent

Operational excellence and readiness for a sustainable energy future	Growth through opportunities adjacent to the regulated business
Recent performance	
Unison has performed well in its core regulated network business, meeting all regulatory requirements, with the exception of a storm related reliability exceedance in FY18, maintaining service levels and improving operational performance through targeted investment in health and safety, smarter pricing, systems, people and data. Unison's purchase of the Rotorua and Taupo networks in 2002 created the fifth largest network business in New Zealand. This network scale has enabled Unison to invest in improved network operating and planning capability and support services. Financial performance has been impacted by regulatory limits which caused revenue to be deferred, combined with increasing costs due to inflation and difficulties in accessing materials and resources for network projects. Unison demonstrated its capability and leadership in its effective response to Cyclone Gabrielle.	Unison has acquired and invested in a number of businesses which complement the regulated network business. Financial performance was impacted by the pandemic which resulted in operating restrictions, supply chain disruption, and deferred orders in offshore markets. Investment in capability and increasing demand for services is now generating more consistent profitability. This includes expansion of markets and products and services.
Future ready	
Unison has invested in smart network systems which enhance visibility of network performance including the low voltage network. This is important for the increasing flexibility required of electricity networks for distributed energy resources and changing customer load patterns. Unison's investment in EV charging, fault anticipation and light detection survey technologies are all examples of innovations which will help to improve network operations and planning for the future. Unison is planning significant network investment to respond to the energy transition and improve network resilience in response to Cyclone Gabrielle.	The subsidiary businesses will have further opportunities to grow and contribute shareholder value. They will contribute to the energy transition by supporting Unison Networks and other distributors with engineering, electrical contracting, and equipment manufacturing and supply services. The demand for these services will grow as the energy transition progresses. There will be a shortage of electrical contracting capacity to deliver the transmission and distribution investment required across New Zealand. UCSL investment in recruitment, training and leadership development will be critical to delivering the network development programmes of its customers, including Unison Network.

We conclude that Unison is well placed to continue to deliver outcomes consistent with the vision and strategic intent.

SECTION 4

Analysis of ownership options

Once every five years, Unison's Directors must prepare a report for the Trust which considers the advantages and disadvantages of continued Trust ownership including the benefits or otherwise to consumers. The report must also include analysis of other ownership options. To assist the Directors, we have considered three broad ownership options, acknowledging that there are alternative arrangements which could be implemented within each of these which we have not explicitly considered. Our assessment of ownership options focusses on the next five years, at which time the next ownership review is due to be undertaken.

Ownership options

Trust ownership

Trust ownership is common amongst electricity distribution businesses in New Zealand. Typically consumers are the beneficiaries of the trust, for example HBPCT distributes Unison's annual dividends to Hawke's Bay consumers. Unison's consumers located in Rotorua and Taupo are not beneficiaries of HBPCT, and do not receive distributions. There are a few community trusts, like Trust Tairawhiti located in the Gisborne district, which make distributions to support community initiatives.

Trustees are elected or appointed and are custodians of the shares in the local network company on behalf of beneficiaries. Trustees must perform their duties consistent with the Trust Deed.

Distribution or sale of shares

Following public consultation, the Trust may elect to distribute or sell some or all of the shares in the Group. If shares are distributed to consumer beneficiaries, they may choose to retain the shares, and continue to receive distributions, or to sell the shares to other investors, such as institutional investors.

Distributing shares to beneficiaries for no consideration would not generate any additional capital but selling shares to the public or institutional investors would provide additional capital (through reinvestment by the Trust). Shares may be listed or new equity could be issued to a third party.

A partial distribution or sale of shares could be considered, in which case the following thresholds are relevant:

- retaining at least 75.1% of the shares allows the Trust to retain control over the constitution of Unison
- retaining at least 50.1% of the shares allows the Trust to retain outright control.

Under the Trust Deed, a 100% distribution or sale of shares would require the Trust to hold the proceeds until they are distributed to beneficiaries. The Trust is not able to use the proceeds for other purposes.

This differs to Trust Tairawhiti which recently sold Eastland Network to First Gas. As Trust Tairawhiti is a community trust, the proceeds of the sale are able to be invested for the benefit of the Tairawhiti community.

Joint ventures, mergers or other third party arrangements

The following options are available to the Group, and where material would require shareholder approval.

Joint ventures with other parties is an option which can enable growth. This option could be used to fund growth in subsidiaries by accessing third party capital, while retaining full ownership of the parent company, Unison Networks. Accordingly, we have assumed that Unison's subsidiary businesses are the most likely candidates for potential joint ventures.

Mergers with similar businesses, such as other electricity networks, is an option to achieve more scale and access to new opportunities, such as expanded markets for subsidiary businesses. Mergers are most readily executed by equity exchange. This option would dilute the Trust's ownership of Unison, and result in a partial interest in a larger entity. For the purpose of this assessment we assume that smaller networks offer Unison network management opportunities (like the Centralines arrangement), but larger networks may be potential merger partners.

Another option is to sell part of the electricity network or a subsidiary to raise capital. As the Trust represents the consumers located in Hawke's Bay, the Trust could decide to retain the foundation asset, Hawke's Bay network and sell the Rotorua/Taupo networks, which were acquired in 2002, to release capital to support the local business and invest in growth opportunities. This strategy has been employed by Vector which sold its non-Auckland electricity and gas networks to focus on new business opportunities and its Auckland networks. Alternatively, one or more of the Group's subsidiaries could be sold.

A further option is to lease the network to a third party. Under a long term lease, the control of the network would be transferred to a third party for an agreed period, in return for an upfront payment and/or annual lease payments to Unison. Lease payments could be used to fund distributions to the Trust. At the end of the period the business passes back to Unison. A lease arrangement typically requires the third party to maintain the service capability of the business during the lease period.

Assessment of options for Unison

We have assessed the pros and cons of each of these ownership options, relative to the consumer trust ownership model. We have focused on four key outcomes under each model, as follows:

- Consumer and community benefit – the impact on consumer beneficiaries located in Hawke's Bay and the local Hawke's Bay community. This analysis includes both financial and non-financial impacts in the Hawke's Bay region.
- Operational excellence – the impact on the ability of Unison to achieve operational excellence and deliver good service outcomes for all electricity consumers connected to the network. Our assessment assumes that economic and industry regulation continues to apply under all options. These provide protection for all of Unison's consumers from deteriorating service levels and unreasonable prices.
- Growth and the energy transition – the potential to create shareholder value and to invest in network growth and resilience in response to the energy transition.
- Cost and complexity – the administrative cost and complexity of each ownership model.

We have used a **yellow** (positively contributes to outcome), **grey** (partly contributes to outcome), **red** (does not promote outcome) scoring system to help illustrate the assessment below.

Summary of ownership options assessment

Promotes consumer and community benefit	Promotes operational excellence	Promotes growth and the energy transition	Minimises cost and complexity
Consumer trust			
● (yellow) Maintains control ● (yellow) Consumer objectives reflected in SCI ● (yellow) Current and future beneficiaries receive distributions ● (yellow) Dividends are distributed in Hawke's Bay	● (yellow) Supports investment in capability and operational performance ● (yellow) Focus is on consumer outcomes	● (yellow) Supports investment in growth and to support the energy transition for consumers ● (grey) Ability to raise extra capital for growth is constrained	● (grey) Some administration costs to administer Trust, hold elections and undertake ownership reviews ● (grey) Trust maintains beneficiary register and makes annual distributions
Community trust			
● (yellow) Maintains control ● (yellow) Community objectives reflected in SCI ● (yellow) Distributions directed to current and future community needs ● (yellow) Dividends are distributed in Hawke's Bay	● (yellow) Supports investment in capability and operational performance ● (yellow) Focus is on community outcomes	● (yellow) Supports investment in growth and to support the energy transition for the community ● (grey) Ability to raise extra capital for growth is constrained	● (red) Higher cost to administer as more complex process to manage and allocate distributions ● (red) Requires a change to the Trust Deed

● (yellow) **Positively contributes to outcome** ● (grey) **Partly contributes to outcome** ● (red) **Does not promote outcome**

	Promotes consumer and community benefit	Promotes operational excellence	Promotes growth and the energy transition	Minimises cost and complexity
Minority distribution of shares to consumer beneficiaries	⚫ Maintains control, but diluted influence ⚫ Current beneficiaries benefit but future beneficiaries miss out 🟡 Dividends are distributed in Hawke's Bay	⚫ Trust's influence in operational performance to be balanced with other shareholder interests 🟡 Focus is on consumer outcomes	🔴 Generates no additional funds for growth	🔴 More complex and costly as two ownership models to administer 🔴 Must maintain share registry and make shareholder disclosures
Full distribution of shares to consumer beneficiaries	🔴 Control lost ⚫ Ongoing consumer influence depends on whether beneficiaries hold or dispose of the shares ⚫ Current beneficiaries benefit but future beneficiaries miss out ⚫ Reduced distributions in Hawke's Bay	⚫ Focus on operational performance may depend on whether beneficiaries hold or dispose of the shares ⚫ Focus on consumer outcomes diluted if beneficiaries on sell shares	⚫ Strategic direction dependent on investor representations 🔴 Provides no additional capital to fund growth	🔴 Must maintain a share registry and make shareholder disclosures 🔴 Trust must distribute shares and wind-up trust 🟡 Trust ceases to exist once shares distributed to beneficiaries
Minority sale of shares to consumers or investors	⚫ Maintains control, but diluted influence ⚫ Current beneficiaries benefit but future beneficiaries miss out ⚫ Reduced distributions in Hawke's Bay	⚫ Trust's influence in operational performance to be balanced with other shareholder interests ⚫ Focus on consumer outcomes may be diluted if investors seek returns	🟡 Generates funds for growth	🔴 More complex and costly as two ownership models to administer 🔴 Must maintain share registry and make shareholder disclosures

🟡 **Positively contributes to outcome** ⚫ **Partly contributes to outcome** 🔴 **Does not promote outcome**

Promotes consumer and community benefit	Promotes operational excellence	Promotes growth and the energy transition	Minimises cost and complexity
Full sale of shares to consumers or investors			
• Control and influence lost • Consumer or community objectives may not be met • Current beneficiaries benefit but future beneficiaries miss out • Reduced distributions in Hawke's Bay	• Focus on operational excellence may be in conflict with shareholder return expectations	• Generates no funds for growth, as Trust must hold funds until distributed	• Must maintain a share registry and make shareholder disclosures • Trust ceases to exist once funds distributed to beneficiaries
Merger with another large network company			
• Diluted control and influence, dependent on size of the other network • Current and future beneficiaries continue to receive distributions • Dividends are distributed in Hawke's Bay	• Operational excellence may be enhanced with access to scale and specialised capability • Local focus may be lost as part of larger network	• Strategic direction influenced by other network • Larger business may access more capital for growth	• Opportunities are rare • No change in ongoing administration costs as Trust continues
Sale of the Rotorua/Taupo networks or a subsidiary to a third party			
• Maintains control • Consumer objectives reflected in SCI • Current and future beneficiaries continue to receive distributions • Distributions in Hawke's Bay may reduce as company activity shrinks	• Operational excellence compromised due to loss of network scale • Focus on Hawke's Bay consumers maintained, but not the consumers of the other networks	• Generates funds for growth in the Unison Group, or to retire debt • Trust Deed restricts investment opportunities	• Sale proceeds fund transaction costs • No change in ongoing admin costs as Trust continues

Positively contributes to outcome | **Partly contributes to outcome** | **Does not promote outcome**

Promotes consumer and community benefit	Promotes operational excellence	Promotes growth and the energy transition	Minimises cost and complexity
Joint ventures between subsidiaries and third parties			
⚫ Dilutes control of subsidiaries but maintains control of parent 🟡 Current and future beneficiaries continue to receive distributions 🟡 Dividends are distributed in Hawke's Bay	🟡 Supports investment in capability and operational performance 🟡 JV partners may contribute expertise and innovation	⚫ Provides capital to expand non regulated businesses 🟡 Shares risk of new ventures	🔴 More complex ownership structure adds cost ⚫ Choice of partner is critical
Long term lease of the network to a third party			
🟡 Maintains long term control 🔴 Influence over direction and performance largely lost during lease 🔴 Annual distributions in Hawke's Bay may be reduced or lost	⚫ Some risk of lower operating standards as lessee may seek to maximise returns during the lease period	🟡 Provides funds for new opportunities or to pay down debt	🔴 Not common in this sector 🔴 Long term lease may be difficult to achieve due to 5 yearly ownership reviews ⚫ Up front cost and complexity in choosing the lease partner and negotiating the lease ⚫ No change in ongoing administrative costs as Trust continues

🟡 **Positively contributes to outcome** ⚫ **Partly contributes to outcome** 🔴 **Does not promote outcome**

Advantages and disadvantages of continued consumer trust ownership

Unison has performed well as a consumer owned business, as demonstrated in this report. Unison's scale, capability, prudent investment in its network, financial management, and growth through acquisition of adjacent businesses means it is well positioned for the challenges of the energy transition over the next decade. The Trust has enabled this performance by:

- setting strategic and financial and non-financial performance objectives for Unison through the annual SCI. The Trust brings a long term, community perspective to this process as evidenced by Unison's vision statement
- acknowledging that there is a balance to be struck between investing in capability, innovation and service performance which benefits current and future generations across the network, investing for growth, and annual dividend distributions which benefit current beneficiaries
- appointing the Board of Directors, including directors which reside in Hawke's Bay
- supporting Unison to grow through acquisition.

Consumer and community outcomes

The Trust brings a community perspective to ownership as the elected trustees are tasked with representing the interests of local beneficiaries. Unison's community engagement is consistent with this perspective, as demonstrated by the response to Cyclone Gabrielle. The Trust's stewardship of the Group is strengthened by the external regulatory oversight and standards which apply to Unison.

Accordingly, consumers benefit from Trust ownership through prudent stewardship of the assets for current and future generations of consumers, service levels which are consistent with community expectations, the annual distributions which flow directly to beneficiaries located in Hawke's Bay, and growth in shareholder value.

If shares are sold or distributed to beneficiaries, current Hawke's Bay consumers gain at the expense of future beneficiaries. This would generate significant inter-generational inequity, and would be inconsistent with the long life nature of the assets which service customers over many years. Current consumer beneficiaries would receive a one off gain from the distribution or sale of shares which would benefit the local community. However, future dividends paid by Unison would be less likely to benefit the Hawke's Bay community as the investor pool would be more dispersed. Future distributions would only flow to shareholders, so future consumers located in Hawke's Bay would miss out.

If shares were distributed and retained by consumers, local community expectations for the Group could be maintained. If shares were sold to investors, by consumers or the Trust, this perspective would be diluted and possibly lost.

Operational excellence

With Trust ownership, Unison has grown considerably through acquisition, which has given the Group scale. Accordingly, Unison has been able to invest in improving its operational excellence, capability and systems, including supporting innovation projects to ready it for the energy transition. The Trust has supported this investment which is for the long term benefit of consumers.

As a locally owned business, Unison has been able to attract, retain and develop people who are invested in contributing to good outcomes for the Hawke's Bay region.

The distribution and sale options have the potential to dilute the Group's focus on operational excellence as the objectives of other shareholders, including shareholder returns, must be met. However, mergers or joint ventures with third parties may provide access to new capabilities, innovation and best practice.

Ability to grow

With Trust ownership, Unison has grown significantly and generated additional shareholder value. To some extent this has been funded through external borrowing. One limitation of Trust ownership is that it is difficult to raise new equity, and therefore Trust ownership may limit the amount of investment able to be made in new opportunities. In addition, trustees may not be willing to reduce annual distributions to allow Unison to fund investment. However, shareholders which are not local may be less willing than a consumer or community trust to forego short term returns when cashflows are needed for investment in the network.

We note that the Group is currently forecasting sufficient borrowing capacity to meet its planned network investment programme and maintain dividend growth, with some headroom for future investments. However this is not unlimited, and future growth in shareholder value may be constrained under the current ownership model. Unexpected changes to the regulatory settings or higher than anticipated demand for network or subsidiary investment are factors which could use up available borrowing headroom and create funding constraints.

Options for accessing additional capital include partial sale of shares, joint ventures, mergers or sale of part of the network or subsidiaries. These options provide opportunities for the Trust to maintain control, including over the foundation Hawke's Bay network assets, while funding growth in core business activities. We note that a distribution of shares to consumer beneficiaries does not provide additional capital.

Cost and complexity

There is some administrative complexity in the Trust ownership model, as trustees must be elected, the ownership review must be undertaken every five years, and the annual distributions to consumer beneficiaries must be processed. These processes come with some administrative costs such as maintaining a registry of beneficiaries. Currently the Trust's operating costs are funded through Unison's dividends, and have averaged $0.84m per annum over the past five years. Part of this cost supports the Trust's energy efficiency initiatives, which are voluntary and not directly associated with running the HBPCT.

However, the single ownership model contributes to minimising administration costs, as managing a mixed ownership model would increase costs and complexity.

Moving to a community trust model would add administration costs as the Trust would need to develop a process for determining how funds are distributed to community benefactors. For example Trust Tairawhiti budgeted annual operating costs of 3.5 to 4.8 times HBPCT's operating costs between FY20 and FY22.

More significant costs would be incurred if the shares in the Group were listed for private or institutional investors. Listing costs of between 3% and 8% of the share offer have been reported by New Zealand entities making initial public offerings in recent years. Ongoing additional shareholder administration costs would also be incurred under this model.

Conclusion

Consumer trust ownership of Unison has served Hawke's Bay consumers well to date. Unison's scale and focus on performance excellence, innovation and investment mean the Group is well positioned for the energy transition, and to create future shareholder value. The Trust brings a community perspective to ownership as the elected trustees are tasked with representing the interests of local beneficiaries. This local consumer and community influence is diluted, or may be lost, if shares are distributed or sold.

Consumer beneficiaries located in Hawke's Bay benefit from annual distributions made by the Trust, funded by Unison's dividends. Distributing or selling shares would mean that current consumer beneficiaries would gain, but future Hawke's Bay consumer beneficiaries would miss out. If the Trust sells all of the shares in Unison to investors, it has no choice but to hold the proceeds until they are distributed and wind up the Trust. At that point, the Hawke's Bay region would likely lose the annual dividend distributions from Unison, as these would flow to the new owners.

The biggest challenge with the consumer trust model is limited access to capital to fund further growth. Unison's prudent financial management, investment in non regulated businesses and the FY26 regulatory reset mean that there is sufficient borrowing headroom for the current Group's activities to FY28, when the next ownership review is scheduled, and beyond. Given the investment required to respond to the energy transition over the next decade, Unison will be well served with a shareholder which supports the Group to make investments in long life infrastructure to provide essential services over the long term. If necessary, shareholder returns may need to be deferred to undertake network investment.

Distributing shares to consumer beneficiaries provides no additional funds for growth. With continued Trust ownership, there are options for Unison to access additional capital or address capital constraints through third party arrangements, such as joint ventures or mergers, or the sale of part of the network or the subsidiaries, with shareholder approval.

While there are costs with administering the consumer trust, these are a small portion (about 5%) of the distributions to beneficiaries, and are consistent with the requirements of the Trust Deed for the trustees to execute their duties to represent the interests of consumer beneficiaries. Other ownership options would also incur shareholder costs, such as maintaining an equity listing and making shareholder disclosures, or processing applications for community grants. The more complex options may be more costly, such as a mixed ownership model, and incur significant initial establishment costs, such as issuing shares or merging with another entity.

In conclusion, the local consumer ownership of the Unison Group serves the Hawke's Bay community well through the flow of financial distributions to Hawke's Bay consumers, and influence on the strategic direction of the Group, including the focus on community outcomes. If the shares were sold or distributed to local consumers, current consumers would benefit financially, but future consumers would miss out and the community focus of the Group may be lost if the shares are acquired by external investors.

In the future, 'trigger' events may occur which lead to further consideration of a change in ownership or other arrangements, such as a merger or joint venture or sale of part of the network or a subsidiary. Trigger events may be driven by a desire to achieve more scale across the business, to access more capital for growth or investment in core network infrastructure, or to access additional expertise.

SECTION 5

Unison's performance

Unison Group's financial performance

Financial performance

Over the review period Unison has demonstrated sustained growth in revenue and profit as demonstrated in Table 1. The Group's revenue grew by 29.8% from FY18 to FY23, representing a compounding growth rate of 5.3% p.a. Notable increases were achieved in FY22 and FY23, largely as a result of higher operating revenue from UCSL and ETEL.

Unison's EBITDA growth of 0.5% was less than revenue growth and equated to a compounding growth rate of 0.1% p.a.

Over the review period Unison distributed $91.3m of dividends to the Trust for distributions to beneficiaries. However, dividend growth has been modest over the review period as illustrated in Figure 3, which illustrates a constant dividend yield since FY19. The impact of the pandemic, reduced regulatory profit limits and inflationary pressures have limited opportunities for dividend growth.

However, Unison's dividend payout ratio has been within the range of other large electricity network companies, as illustrated in Figure 4. Some of these entities have more diversified business activities which have contributed to their higher dividend distributions.

Table 1: Unison Group financial performance

$m	FY18	FY19	FY20	FY21	FY22	FY23
Unison Networks revenue	165.4	167.4	166.0	153.7	157.0	165.6
Other revenue	82.4	80.9	89.1	92.0	106.2	156.0
Expenditure	153.0	155.9	159.9	154.2	177.4	226.4
EBITDA	**94.8**	**92.4**	**95.2**	**91.5**	**85.7**	**95.3**
Depreciation	29.5	30.8	34.7	35.8	36.9	40.1
Loss (gain) on sale of PPE	0.7	1.1	0.8	1.2	(0.2)	1.5
EBIT	**64.7**	**60.5**	**59.8**	**54.4**	**49.1**	**53.7**
Interest	13.8	13.1	13.6	13.1	12.9	17.5
NPBT	**50.9**	**47.5**	**46.2**	**41.4**	**36.2**	**36.2**
Tax	14.2	13.0	13.1	11.7	10.0	10.4
Change in financial instruments	1.0	2.4	3.9	(6.8)	(8.3)	(2.9)
Derivative tax expense	(0.3)	(0.7)	(1.1)	1.9	2.3	0.8
NPAT	**36.0**	**32.8**	**30.3**	**34.6**	**32.2**	**27.9**

Figure 3: Unison dividend yield

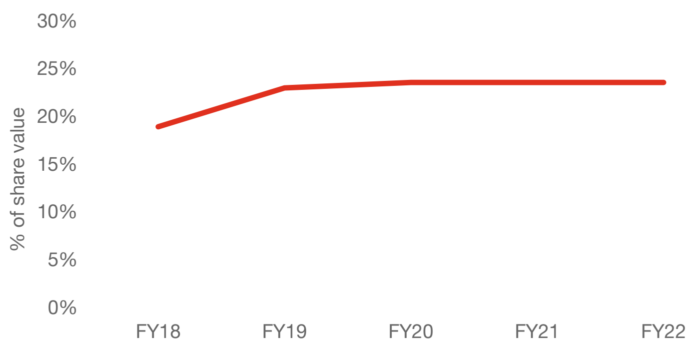
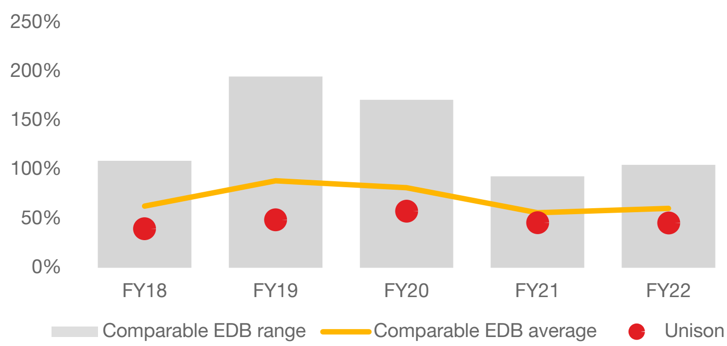


Figure 4: Dividend payout ratio comparison



Financial position

Unison has increased its asset base by 36% between FY18 and FY23, reflecting $378m of capital investment. Net assets has not increased at the same rate reflecting increased borrowings to fund network infrastructure and acquisitions.

Despite the increase in debt, Unison has increased its equity by 22.9% over the review period, increasing shareholder value.

Unison Networks' asset base made up 86% of the Group's total assets in FY18 and 84% in FY23, reflecting the acquisitions and growth of subsidiary businesses.

Unisons' borrowings has increased by $131m and assets have grown by $276m over the same period. Forecast levels of capital investment are expected to increase debt levels in the short term. The FFO/Debt ratio will fall within the bounds of the S&P A- and BBB+ minimum rating thresholds as shown in Figure 6. These are consistent with maintaining an intermediate level of financial risk.

Table 2: Unison Group financial position

$m	FY18	FY19	FY20	FY21	FY22	FY23
Current assets	60.1	64.2	76.6	74.5	95.2	125.2
Property, plant & equipment	633.7	673.1	703.3	715.6	780.3	818.1
Other non-current assets	80.4	67.4	93.1	102.2	81.1	106.7
Total assets	**774.1**	**804.6**	**873.0**	**892.3**	**956.6**	**1,050.0**
Current liabilities	35.2	36.0	35.0	34.5	40.9	54.8
Non-current liabilities	323.0	336.3	393.7	391.6	415.1	484.2
Total liabilities	**358.2**	**372.3**	**428.7**	**426.1**	**456.0**	**539.0**
Net assets	**416.0**	**432.3**	**444.3**	**466.2**	**500.6**	**511.0**
Total equity	**416.0**	**432.3**	**444.3**	**466.2**	**500.6**	**511.0**

Figure 5: Unison Group asset composition

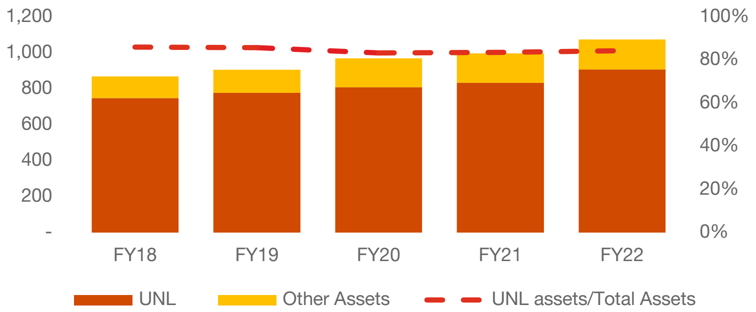
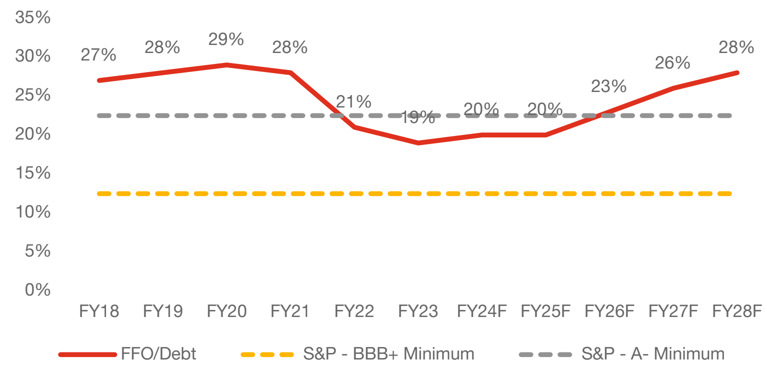


Figure 6: Unison Group FFO to Debt



Unison Networks financial performance

Financial performance

Unison Networks is regulated by the Commerce Commission which sets the maximum revenues Unison Networks is able to earn for each five year regulatory period. These are set with an expectation that Unison Networks will achieve a reasonable return on assets. Regulated returns were reset in FY21, and the allowed return was reduced from 7.19% to 4.57%. Accordingly Unison Networks revenue and EBITDA reduced from FY21.

EBITDA has a CAGR of negative 2.2% between FY18 and FY23. This can be attributed to lower revenues and increasing expenditure, partly reflecting higher inflation and transmission charges.

Higher interest costs in FY23 reduced NPAT relative to earlier years.

Financial position

Over the review period Unison Networks has continued to invest in the core network to improve resilience and cater for regional growth. This increased the asset base by $241m (or 32%) over the review period.

Table 3: Unison Networks financial performance

$m	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	165.4	167.4	166.0	153.7	157.0	165.6
Expenditure	81.3	81.9	82.6	75.4	82.3	90.5
EBITDA	**84.1**	**85.5**	**83.4**	**78.2**	**74.7**	**75.1**
Depreciation	24.7	25.4	26.8	27.3	27.6	28.3
Loss (gain) on sale of PPE	0.8	1.2	1.1	1.4	(0.1)	1.7
EBIT	**58.6**	**58.8**	**55.5**	**49.6**	**47.1**	**45.1**
Interest	13.2	12.4	12.1	11.6	11.4	15.1
NPBT	**45.4**	**46.4**	**43.3**	**38.0**	**35.7**	**30.0**
Tax	12.7	12.6	12.1	10.6	9.5	8.4
Change in financial instruments	1.0	2.4	3.9	(6.8)	(8.3)	(2.9)
NPAT	**31.8**	**31.5**	**27.3**	**34.2**	**34.5**	**24.5**

Table 4: Unison Networks financial position

$m	FY18	FY19	FY20	FY21	FY22	FY23
Current assets	22.6	24.5	22.6	19.0	25.7	21.6
Property, plant & equipment	620.0	663.9	693.5	711.8	749.6	783.0
Other non-current assets	106.7	89.8	92.4	103.0	132.5	185.4
Total assets	**749.3**	**778.2**	**808.6**	**833.7**	**907.7**	**990.0**
Current liabilities	21.2	19.9	17.9	16.3	18.5	25.1
Non-current liabilities	329.0	343.1	365.9	371.3	407.8	476.1
Total liabilities	**350.2**	**363.0**	**383.8**	**387.6**	**426.3**	**501.1**
Net assets	**399.1**	**415.2**	**424.8**	**446.2**	**481.4**	**488.8**
Total equity	**399.1**	**415.2**	**424.8**	**446.2**	**481.4**	**488.8**

Subsidiary financial performance

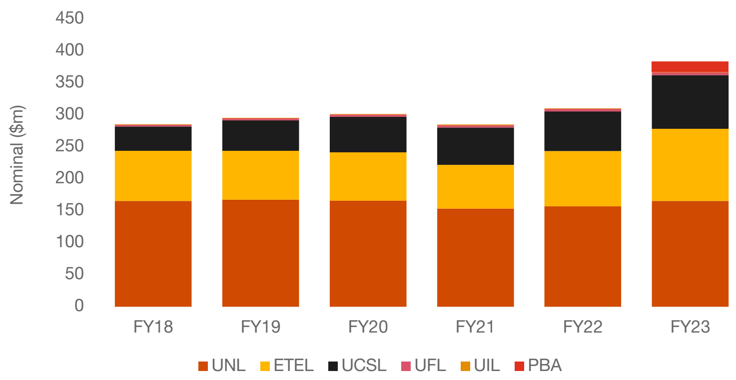
Revenue

Over the review period, the contribution from Unison's subsidiaries has grown. The Group revenue data in Figure 7 reflects the revenue reported by each business, before intercompany eliminations.

Since FY18 the subsidiary businesses have contributed a greater proportion of revenue to the Group, which now comprise 55% of total revenue (before eliminations). The most significant contributions are from UCSL (120% growth) and ETEL (44% growth). This has offset the reduction in UNL's revenue since FY21 when the regulatory settings changed.

UCSL's growth reflects increasing demand for network contracting services from UNL, external customers and other networks such as Aurora Energy. ETEL's growth represents a 28% increase in sales in FY23.

Figure 7: Unison Group revenue contribution

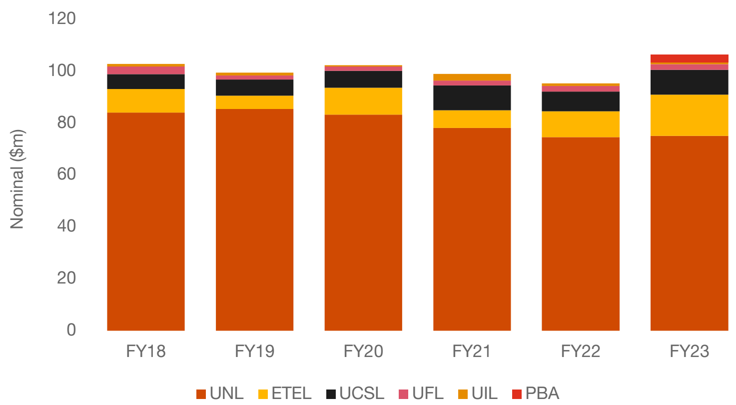


EBITDA

The EBITDA reported by each business is presented in Figure 8. This shows that Unison Networks' earnings remain the most significant for the Group. Since FY18 the subsidiary businesses has increased their contribution to group EBITDA, from 18% to 29%.

UCSL reported an increase in EBITDA of 65% across the review period, with ETEL reporting an increase of 75%. In comparison Unison Networks reported a reduction in EBITDA of 10.7%.

Figure 8: Unison Group EBITDA contribution



SCI performance

Unison's annual SCI sets out its scope of activities and strategic aims including key performance targets.

Unison's performance targets focus on 11 key measures which include Group financial targets including profitability and distributions, as well as targets for Unison Networks' operating costs and network reliability and health and safety performance targets.

The table below shows Unison's performance against the annual SCI targets since FY18.

Unison has been better than or within 10% of the performance targets on most measures since FY18, as illustrated by the yellow and grey dots. The key exceptions were:

- In FY18, Unison failed to meet its reliability targets, which reflected the impact of Cyclone Cook and other major weather events that year.
- In FY18, new health and safety regulations came into effect which extended the time taken for restoring supply after planned and unplanned outages. Targets were adjusted in subsequent years to reflect the new operating standards.
- Group financial performance targets were increased in FY20, and were not met in that year. Lower than anticipated Unison Networks revenue contributed to this result.

Table 5: Performance against SCI targets

	FY18	FY19	FY20	FY21	FY22
Group Financial Performance Targets					
EBITDA as a percentage of average assets employed	Within 10% of target	Within 10% of target	Does not meet target	Better than target	Within 10% of target
EBIT as a percentage of average assets employed	Within 10% of target	Within 10% of target	Does not meet target	Better than target	Within 10% of target
Profit as a percentage of average shareholders' funds	Better than target	Better than target	Does not meet target	Better than target	Better than target
Ratio of shareholders' funds to total assets	Better than target	Within 10% of target	Within 10% of target	Better than target	Better than target
Dividend target (cents per share)	Better than target	Better than target	Better than target	Better than target	Within 10% of target
Health & Safety Performance					
Lost time injuries	Does not meet target	Does not meet target	Within 10% of target	Better than target	Better than target
Number of Public Accidents	Better than target	Better than target	Better than target	Within 10% of target	Within 10% of target
Medical Treatment Injuries in Focus Areas	Better than target	Better than target	Better than target	Better than target	Better than target
Electrical Lines Business Performance Targets					
1. Operating Costs					
Total Lines Business Cost Per Consumer	Within 10% of target	Better than target	Better than target	Better than target	Within 10% of target
2. Electricity Network Performance					
SAIDI – System Average Interruption Duration Index	Does not meet target	Better than target	Better than target	Better than target	Within 10% of target
SAIFI – System Average Interruption Frequency Index	Does not meet target	Better than target	Better than target	Better than target	Better than target

Better than target   Within 10% of target   Does not meet target

Unison's non-financial performance highlights

People

Over the review period Unison has continued to invest in its people. In 2019, a steering group for building diversity and inclusion was established, and Unison became a member of Diversity Works NZ. During the COVID-19 pandemic Unison established health and safety protocols, adopted flexible working and increased technology funding for staff. Unison also transitioned to improved health and safety protocols and achieved accreditation of the health and safety management system to ISO45001 standard in FY19. Unison also launched 'Te Tauira Pou Hiko' to promote wellbeing in the workplace.

Unison has also continued to focus on training, recruitment and development to ensure the Group has access to a competent workforce. This includes supporting trainee line mechanics with a regional training pathway through Unison's Centre of Excellence.

Over the review period the Group has also invested in targeted leadership development training for future leaders. The Board appointed Jaun Park as the new Group Chief Executive Officer in 2023, following the retirement of Ken Sutherland.

Community

Over the review period Unison added to its sponsorship portfolio by entering a three year partnership with river restoration charity, the Maraetotara Tree Trust. The Trust protects and restores a significant river ecosystem in Hawke's Bay by establishing permanent reserve habitats for regenerating native plants, birds and wildlife. Unison has also continued to educate young people about electrical safety through its 'Safe Sparks' programme and support young people engage in sport through its 'Greatest Supporter' programme.

Cyclone Gabrielle

On 13 February 2023 New Zealand was hit by Cyclone Gabrielle which saw a peak of 75,000 Unison customers without power in the days following the cyclone across the Unison network. Following widespread damage, Unison was able to enable a fast and effective response. This was made possible through the Group's previous work in crisis planning, risk and resilience management. Unison Group's incident management system and co-ordination between the incident management team, UCSL's field crews and other agencies were critical to this response.

Regulatory compliance

Over the review period Unison Networks has compiled and reported on the price-quality paths enforced by the Commerce Commission, with the exception of a storm related reliability exceedance in FY18. Unison's network SAIDI was 128.7 in FY18, above the regulatory limit of 110.2. An independent report into the breach concluded it was caused by factors outside of Unison's control and that Unison's asset management practices are consistent with good industry practice. Unison was the first EDB in New Zealand to be certified ISO55001 compliant for its asset management practices.

Network innovation and investment in capability

Unison Networks has strengthened its asset management practices and invested in smart network technology over the review period. OneEnergy, a new enterprise resource management system, was implemented in FY21, improving asset management and business operations across the Group.

Network innovations include investment in predictive fault technology, light technology survey of the overhead network and investment in network monitoring and low voltage performance to support the uptake of electric vehicles and distributed energy resources.

Customer growth

Unison Networks has also seen an increase in customers with connections increasing by 7,689 between FY18 and FY23, reflecting a 3.6% increase over the period. Total new solar connections over the review period was 2,921.

In FY19 UCSL entered into a four year field services agreement with Aurora Energy located in Dunedin. This agreement was renewed for a further two years in FY23.

Year on year UFL has seen increased connections, and over the review period UFL has been able to reduce the average fibre connection costs.

Sustainability

Unison Networks' Windsor Substation was the winner of the Low Carbon Future category at the 2022 Energy Excellence Awards. The substation has a zero carbon footprint, produces its own energy and water, and is made of sustainable materials.

Acquisitions

During the review period, the Unison Group expanded its non regulated services through acquisitions of RPS, ABB's Motor Generation Services and PBA. Subsequently PBA acquired MPS, who provide asset management and underground construction services. In addition, ETEL and RPS has expanded their product range and expanded into new markets.

These acquisitions complement the existing Unison Networks, UCSL and ETEL businesses, consistent with the Group's strategy to invest in adjacent opportunities and contribute to the energy transition.

SECTION 6

Unison Networks comparative performance

Group selection

We have benchmarked Unison Networks performance against other electricity networks using regulatory reporting information. We have placed Unison Networks in a group with five comparable electricity distribution businesses (EDBs). We also assess performance against the industry average.

When comparing the performance of EDBs in New Zealand, it is appropriate to group networks using the following indicators:

- network density (the ratio of customer connections per circuit kilometre)
- total size of the network (the total number of customer connections to the network).

We have therefore chosen networks of similar size and density as illustrated in Figure 9. The EDBs included in Unison Networks' peer group are:

- Aurora Energy
- Northpower
- Orion New Zealand
- Powerco
- WEL Networks

Unison Networks is slightly smaller than the peer group average, based on the number of connections (ICPs), but larger than the industry average. This is because Unison, with 117,000 ICPs, has been grouped with some of the largest networks, including Powerco with 353,000 ICPs and Orion with 214,000 ICPs.

Unison Network's connection density is slightly less than the peer group average but higher than the industry average. This is because Unison Networks and its peer group serve larger urban areas than many of the EDBs across New Zealand.

Figure 9: EDB ICPs and network density

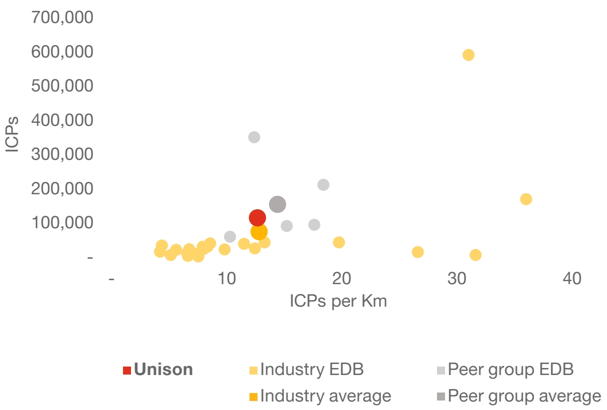
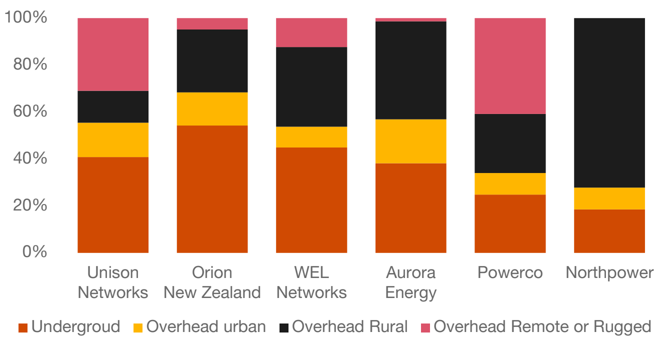


Figure 10 shows the network composition of Unison Networks and its peer group EDBs. Unison Networks has a comparatively high proportion of underground network, and remote or rugged overhead network. This means that the overhead urban and rural networks are a lesser proportion for Unison Networks than the peer group EDBs. Remote and rugged networks generally cost more to serve, and may experience longer outages due to the extra time taken to locate and restore faults. Underground networks generally are more reliable as they are not as exposed to extreme weather.

Figure 10: Unison Networks and peer group circuit length by type



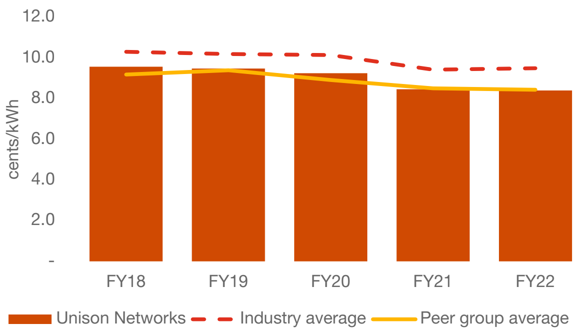
Prices

Average revenue per unit of electricity delivered is a measure of the average prices charged for electricity lines services, including transmission services, and provides a basis for comparison between EDBs.

Average prices are influenced by the mix of customers on the network. For comparison purposes we exclude prices to large industrial customers, which vary across networks.
The unit prices are for all customers on standard contracts.

Unison Network's unit prices are consistent with its peer group and slightly lower than the industry average. Average prices have been decreasing over the review period consistent with both the industry and peer group average, and the regulatory settings.

Figure 11: Average unit prices for standard customers (c/kWh)



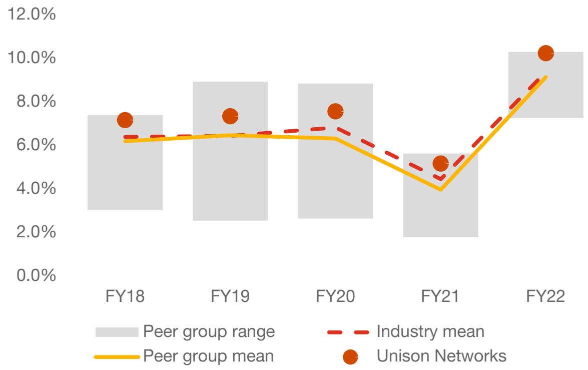
Return on investment

Profitability is measured by an ROI measure which reports annual regulatory profit as a percentage of the regulatory asset base. It is presented as comparable to a vanilla WACC because this is used when monitoring regulatory performance and setting regulated revenue limits. Unison Network's ROI has been slightly higher than both the peer group and industry averages since FY18.

The allowed regulated return reduced significantly in FY21, and Unison Network's ROI, as well as the comparator ROIs reduced as a result. As shown in Figure 12, there is a considerable ROI range within Unison Network's peer group. Aurora Energy reported particularly low ROIs across the review period, as they have invested heavily in corrective maintenance and asset renewals to restore the performance of their network during this period.

All ROIs increased significantly in FY22 due to an inflation adjustment to regulated assets and income under the regulatory settings.

Figure 12: Regulatory ROI



Operating costs (opex)

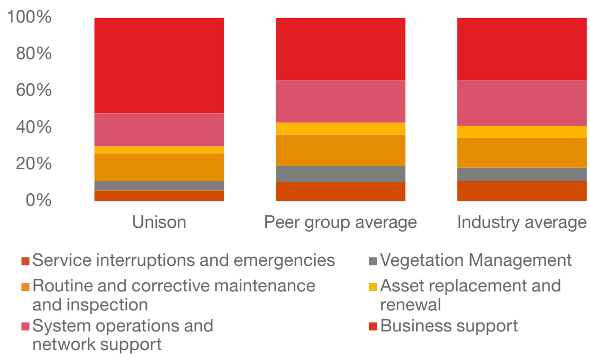
Unison Networks' total opex in FY22 was $379/ICP which is similar to the peer group average of $377/ICP and less than the industry average of $470/ICP. This is consistent with our expectation that larger networks, like Unison Networks, are able to pass on scale benefits for consumers.

For comparison purposes, annual opex is categorised as either:

- Network opex, which includes emergency maintenance, routine and replacement maintenance and vegetation management
- Non-network opex, which includes system operations and network support opex and business support opex.

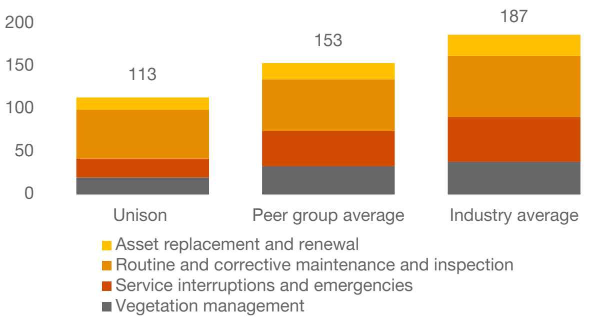
Unison Network's operating model impacts network and non-network opex comparisons. Network opex does not include any overhead recoveries which are typically included in field work maintenance. This means that Unison's network opex tends to be lower and its non-network opex, particularly business support opex, is higher than other EDBs. This is illustrated in Figure 13.

Figure 13: FY22 opex composition



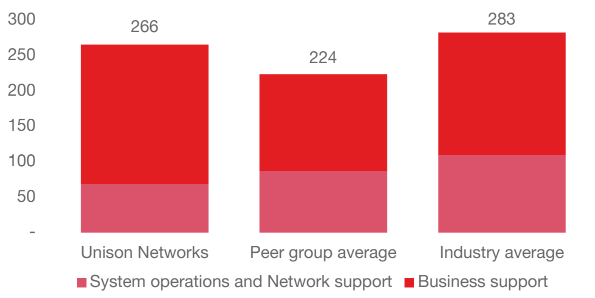
Unison's network opex per ICP is less than the comparator averages. The proportionate spend on each maintenance activity is similar, with a slightly higher focus on corrective maintenance and inspection.

Figure 14: FY22 Network opex per ICP



Unison's non-network opex per ICP is higher than the comparator averages as per the regulatory disclosure framework. As overheads relating to contracting services are not recorded as part of field work, business support costs are notably higher. System operations costs are notably lower than the comparator averages, partly because network IT costs are in business support.

Figure 15: FY22 Non-network opex per ICP

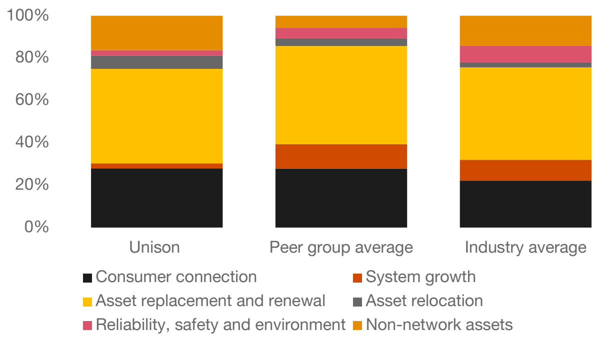


Capital expenditure (capex)

Unison Networks total capex in FY22 was $508/ICP. This was below the peer group average of $621/ICP and industry average of $594/ICP.

The composition of the FY22 capex is shown in Figure 16. Unison Networks had less capex associated with system growth and more customer driven capex and non-network capex than the comparator averages.

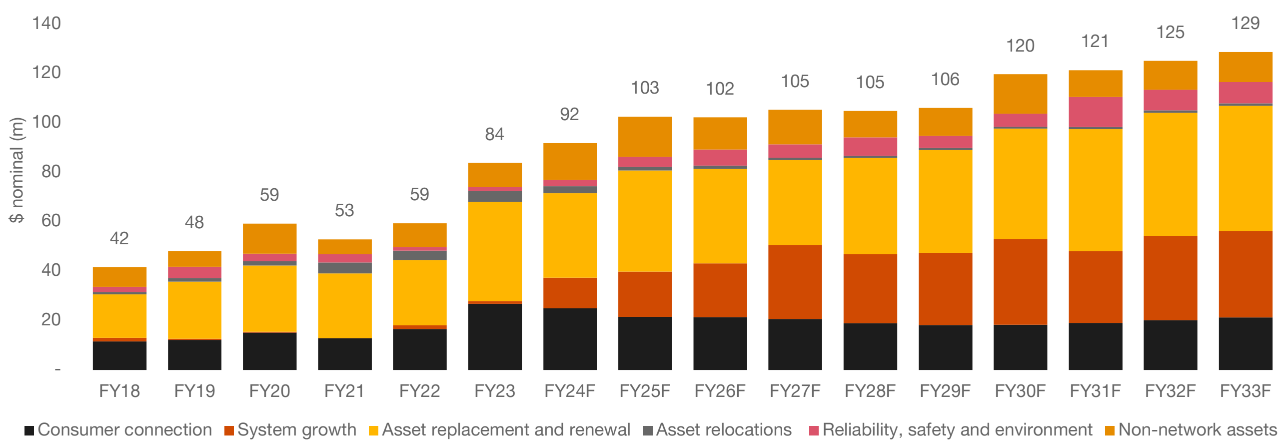
Figure 16: FY22 capex composition



Unison Networks is forecasting significantly increased capex to FY33, as illustrated in Figure 17. There are notable increases in system growth capex, while maintaining the current level of investment in asset renewals and customer connections. Additional investment in network reliability is also forecast.

The Unison Networks forecast includes approximately $19.5m of capital expenditure as a direct response to Cyclone Gabrielle.

Figure 17: Capital expenditure forecast



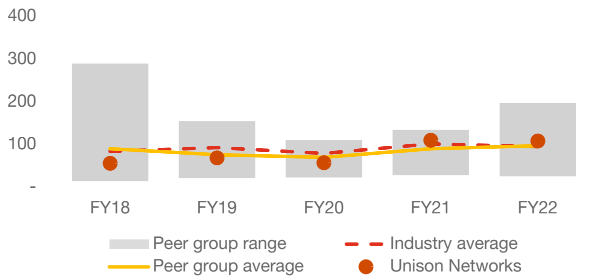
Planned network outages: Class B SAIDI and SAIFI

SAIDI is a measure of average duration of interruptions on the network each year and SAIFI is a measure of the average interruption frequency on the network each year. Class B SAIDI and SAIFI reflect planned outages which are required to maintain and develop the network.

On this page, the term 'lower' means network reliability performance was better than other networks, and 'higher' means that network reliability performance was worse than other networks.

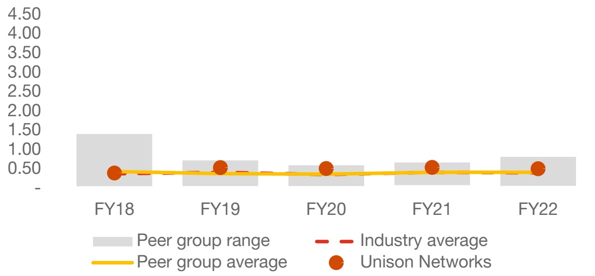
As shown in Figure 18, Unison Networks' planned SAIDI was lower than both the peer group and industry averages in FY18 and similar in the other years.

Figure 18: SAIDI – Class B (Planned)



Unison Networks' planned SAIFI has been slightly higher than the peer group and industry averages since FY19.

Figure 19: SAIFI – Class B (planned)



Class C SAIDI and SAIFI (Unplanned)

Class C SAIDI and SAIFI results from unplanned outages due to interruptions on the network which result in loss of supply. Normalised SAIDI and SAIFI exclude the impact of major events such as storms or large equipment failures.

Unison Networks' unplanned SAIDI has been lower than the industry and peer group averages, except FY18 when the network experienced major storms including Cyclone Cook. When normalised for these major events, as shown in Figure 21, Unison Network's total Class B and C SAIDI is lower than the peer group and industry average for the review period.

Figure 20: SAIDI – Class C (Unplanned)

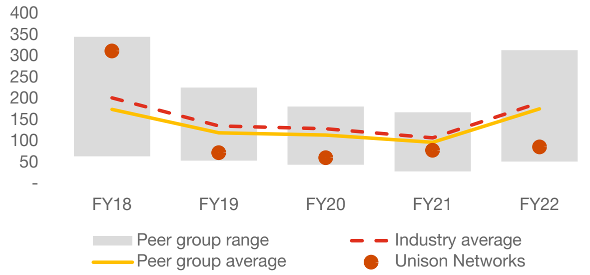
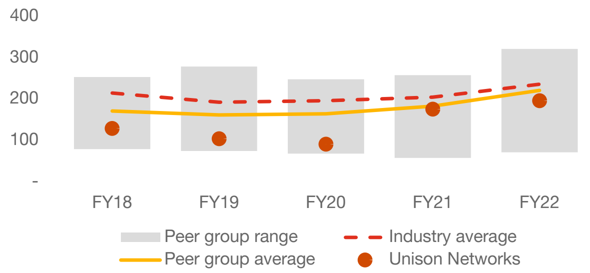
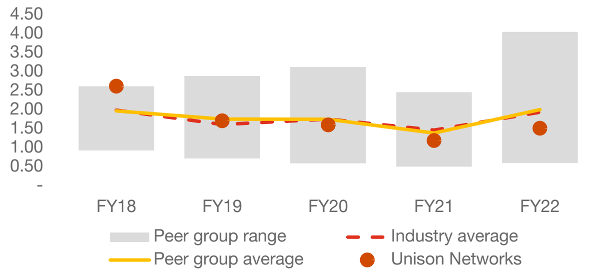


Figure 21: Normalised SAIDI (Classes B & C)



Unison's unplanned SAIFI has improved since FY19 and has been lower than the comparator averages since FY20.

Figure 22: SAIFI – Class C (Unplanned)



APPENDIX

Glossary

Capital expenditure	Capex
Constant average growth rate	CAGR
Earnings before interest, tax, depreciation and amortisation	EBITDA
Electricity Distribution Business	EDB
ETEL Limited	ETEL
Financial Year	FY
Gigawatt hours	GWh
Hawke's Bay Electric Power Trust	HBPCT, The Trust
Installation Control Point	ICP
Kilovolt-amps	kVA
Kilowatt hour	kWh
Magnetic Power Services	MPS
Net profit after tax	NPAT
Net profit before tax	NPBT
Operating expenditure	Opex
PBA Limited	PBA
Return on investment	ROI
RPS Switchgear	RPS
Statement of Corporate Intent	SCI
System average interruption duration index	SAIDI
System average interruption frequency index	SAIFI
Unison Contracting Services Limited	UCSL
Unison Fibre Limited	UFL
Unison Group	Unison
Unison Insurance Limited	UIL
Unison Networks Limited	Unison Networks

Information we have relied on

- EDB Information Disclosures FY18-FY23
- Hawke's Bay Power Consumers Trust , Annual Reports FY18-FY23
- Hawke's Bay Power Consumers Trust, Deed of Trust
- Unison Annual Reports FY18-FY23
- Unison Regulatory Asset Management Plan 2023-2033
- Unison Statement of Corporate Intent FY18-FY23
- UNL Group Budget FY24
- UNL Group Management Accounts FY18-FY23