

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2005

| | | <i>Consolidated</i> | | <i>Trust</i> | |
|-----------------------------------------------------------------|-------|---------------------|---------------|---------------|---------------|
| | Notes | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| Operating Revenue | 6 | 91557 | 73846 | 3201 | 266 |
| Trading Surplus/(Deficit) | 6 | 39878 | 27988 | 2948 | 55 |
| Amortisation | 22 | (4495) | (4495) | - | - |
| Non operating (costs) benefits | 6 | 85 | (113) | - | - |
| Surplus/(Deficit) before discounts, interest and tax | | 35468 | 23380 | 2948 | 55 |
| Discounts | | - | (35) | - | - |
| Interest | | (12691) | (13614) | - | - |
| Surplus/(Deficit) before taxation | 6 | 22777 | 9731 | 2948 | 55 |
| Taxation benefit (Expense) | 5 | (3583) | 1486 | 29 | 1 |
| Net Surplus | 20 | 19194 | 11217 | 2977 | 56 |

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 MARCH 2005

| | | | | |
|--------------------------------------------------------|--------|--------|--------|-------|
| Net Surplus | 19194 | 11217 | 2977 | 56 |
| Total recognised revenues and expenses for the year | 19194 | 11217 | 2977 | 56 |
| Distribution to owners | (2918) | - | (2918) | - |
| Movements in Equity for year | 16276 | 11217 | 59 | 56 |
| Equity at beginning of year | 202834 | 191617 | 66648 | 66592 |
| Equity at end of year | 219110 | 202834 | 66707 | 66648 |

The accompanying significant accounting policies and notes form part of these financial statements

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2005

| | | <i>Consolidated</i> | | <i>Trust</i> | |
|---------------------------------|-------|---------------------|---------------|---------------|---------------|
| | Notes | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| EQUITY | | | | | |
| Equity on Establishment | 7 | 67661 | 67661 | 65000 | 65000 |
| Asset Revaluation Reserve | 19 | 112166 | 112166 | - | - |
| Retained Earnings | 20 | 39283 | 23007 | 1707 | 1648 |
| | | 219110 | 202834 | 66707 | 66648 |
| Represented by: | | | | | |
| NON CURRENT ASSETS | | | | | |
| Property, Plant and Equipment | 8 | 294336 | 293371 | - | - |
| Goodwill arising on acquisition | 22 | 79054 | 83549 | - | - |
| Capital Work in Progress | 23 | 9824 | 3338 | - | - |
| Deferred Taxation | 5 | 52 | 1437 | 52 | 23 |
| Shares in Subsidiary | | - | - | 64000 | 64000 |
| Debt Security with Subsidiary | | - | - | 1600 | 1600 |
| | | 383266 | 381695 | 65652 | 65623 |
| CURRENT ASSETS | | | | | |
| Cash | | 3176 | 3570 | 1518 | 1004 |
| Receivables | 9 | 8871 | 8063 | 17 | 2 |
| Taxation Refund | 5 | 1715 | 1201 | 29 | 30 |
| Inventories | | 1418 | 1467 | - | - |
| | | 15180 | 14301 | 1564 | 1036 |
| TOTAL ASSETS | | | | | |
| | | 398446 | 395996 | 67216 | 66659 |
| NON CURRENT LIABILITIES | | | | | |
| Employee Entitlements | 21 | 1121 | 665 | - | - |
| Term Debt | 11 | 169000 | 185000 | - | - |
| | | 170121 | 185665 | - | - |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accruals | 24 | 8573 | 6524 | 509 | 11 |
| Employee Entitlements | 21 | 642 | 973 | - | - |
| | | 9215 | 7497 | 509 | 11 |
| TOTAL LIABILITIES | | | | | |
| | | 179336 | 193162 | 509 | 11 |
| NET ASSETS EMPLOYED | | | | | |
| | | 219110 | 202834 | 66707 | 66648 |

For and on behalf of Trustees

..... Trustee
 Trustee Date

The accompanying significant accounting policies and notes form part of these financial statements

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2005

| Notes | <i>Consolidated</i> | | <i>Trust</i> | |
|------------------------------------------------------------|---------------------|----------------|---------------|---------------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| <i>Cash was provided from:</i> | | | | |
| Receipts from Customers | 83026 | 67703 | - | - |
| Contributions for Capital Works | 7443 | 4588 | - | - |
| Dividends Received | - | - | 3038 | 80 |
| Taxation Refunds | 688 | 254 | 1 | 1 |
| Grants Received | - | 58 | - | 58 |
| Compensation | - | 2 | - | 2 |
| Interest Received | 195 | 164 | 148 | 154 |
| | <u>91352</u> | <u>72769</u> | <u>3187</u> | <u>295</u> |
| <i>Cash was disbursed to:</i> | | | | |
| Payments to Suppliers | (29537) | (28437) | (248) | (242) |
| Payments to Employees | (9287) | (7317) | - | - |
| Interest paid on Loans | (12599) | (13595) | - | - |
| Taxation | (3400) | (357) | - | - |
| | <u>(54823)</u> | <u>(49706)</u> | <u>(248)</u> | <u>(242)</u> |
| Net cash flows from Operating Activities 15 | <u>36529</u> | <u>23063</u> | <u>2939</u> | <u>53</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| <i>Cash was provided from:</i> | | | | |
| Proceeds from Investments | 85 | - | - | - |
| Proceeds from Sale of Property, Plant and Equipment | 92 | 1446 | - | - |
| | <u>177</u> | <u>1446</u> | <u>-</u> | <u>-</u> |
| <i>Cash was applied to</i> | | | | |
| Purchase and Construction of Property, Plant and Equipment | (18675) | (14352) | - | - |
| Net Cash Flows from Investing Activities | <u>(18498)</u> | <u>(12906)</u> | <u>-</u> | <u>-</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| <i>Cash was received from:</i> | | | | |
| Borrowings | 2500 | - | - | - |
| | <u>2500</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Cash was applied to:</i> | | | | |
| Advance to Subsidiary | - | - | - | (600) |
| Distribution to Owners | (2425) | - | (2425) | - |
| Settlement of Borrowings | (18500) | (9500) | - | - |
| Net Cash Flow from Financing Activities | <u>(18425)</u> | <u>(9500)</u> | <u>(2425)</u> | <u>(600)</u> |
| Net (Decrease)/Increase in Cash Held | (394) | 657 | 514 | (547) |
| Cash balances at beginning of year | 3570 | 2913 | 1004 | 1551 |
| Cash balance at end of year | <u>3176</u> | <u>3570</u> | <u>1518</u> | <u>1004</u> |

The accompanying significant accounting policies and notes form part of these financial statements

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2005

1. REPORTING ENTITY

The Financial Statements for the "Trust" are for the Hawke's Bay Power Consumers' Trust. The consolidated Financial Statements for the "Group" are for the reporting entity comprising the Trust and its subsidiary, Unison Networks Limited.

2. PRESENTATION BASIS

The Financial Statements reflect the operations of the Group for the period 1 April 2004 to 31 March 2005, and the financial position of the Group as at 31 March 2005.

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

The Group Financial Statements have been prepared in accordance with the relevant provisions of these two Acts, the Financial Reporting Act 1993, and the Electricity Act 1992, as amended by the Electricity Amendment Act 2001.

3. GROUP FINANCIAL STATEMENTS

The Group Financial Statements consolidate the Financial Statements of the subsidiary, controlled by the Trust, using the purchase method.

All material transactions between the Trust and the subsidiary are eliminated on consolidation.

4. STATEMENT OF ACCOUNTING POLICIES

• Measurement System

The general accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis is followed by the Group, with the exception that certain property, plant and equipment have been revalued.

• Basis of Consolidation - Purchase Method

The consolidated financial statements include the Trust (HBPCT) and its subsidiary (Unison). The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis. All significant inter-entity transactions are eliminated on consolidation.

• Specific Accounting Policies

The following particular accounting policies which materially affect the measurement of profit and the financial position have been applied:

a. *Property, Plant and Equipment*

Owned Assets

All items of Property, Plant and Equipment are initially recorded at cost and, except for land, depreciated. These costs include the purchase consideration plus, where appropriate, site preparation costs, installation costs and all relevant overheads. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition it is intended for are complete.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2005

The Electrical Distribution Network is valued at fair value based on Optimised Depreciated Replacement Cost (ODRC) as independently determined by PricewaterhouseCoopers. These valuations were completed as at 31 March 2003.

Land and Buildings not included in the Electrical Distribution Network are stated at valuation determined by Telfer Young Ltd, of Napier, an independent registered valuation company, as at 31 March 2002 and have been adjusted for additions at cost and depreciation at appropriate rates. The basis of valuation was fair value as defined under the Financial Reporting Standard 3 - "Accounting for Property, Plant and Equipment."

All other items of Property, Plant and Equipment are initially stated at cost and depreciated as outlined in note 2(b) below.

Revaluations

The Electrical Distribution Network is revalued on a cyclical basis with no components being recognised at a valuation undertaken more than three years previously.

Land and Buildings are revalued on a cyclical basis at no more than five yearly intervals.

Any revaluation surplus arising on the revaluation of a class of property, plant or equipment is transferred directly to the Asset Revaluation Reserve. A revaluation deficit in excess of the Asset Revaluation Reserve balance for the class of property, plant or equipment is recognised in the Statement of Financial Performance in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recognised in the Statement of Financial Performance are recognised as revenue in the Statement of Financial Performance.

Disposal of Property, Plant and Equipment

When an item of property, plant or equipment is disposed of, any gain or loss is recognised in the Statement of Financial Performance and is calculated as the difference between the sale price and the carrying value of the asset.

The carrying values of property, plant and equipment do not exceed their estimated recoverable value. On disposal of an item of property, plant or equipment, any revaluation surplus in respect of that class of asset is reduced or increased by the amount applicable to that item.

b. Depreciation

Depreciation is provided on a straight line basis on all tangible items of property, plant and equipment other than freehold land, at rates calculated to allocate the assets' cost or valuation less any residual value, over their estimated useful lives.

The estimated useful lives of Property, Plant and Equipment are as follows:

Electrical Distribution Network

| | |
|-------------------------------------------------|---------------|
| 33kV Sub Transmission..... | 35 – 70 Years |
| Zone Substations, Structures and Equipment..... | 15 – 60 Years |
| Distribution Transformers..... | 40 – 55 Years |
| Distribution Switchgear..... | 35 – 40 Years |
| Overhead Lines..... | 35 – 70 Years |
| Underground Cables..... | 45 – 70 Years |
| Other Distribution Equipment..... | 10 – 45 Years |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2005

Other Plant, Property and Equipment

| | |
|-------------------------------------|----------------|
| Freehold Buildings..... | 60 – 100 Years |
| Land..... | Indefinite |
| Motor Vehicles..... | 5 – 10 Years |
| Plant and Equipment..... | 5 – 10 Years |
| Office Furniture and Equipment..... | 4 – 10 Years |
| Information Technology..... | 3 – 10 Years |

c. Investments

Investments are stated at the lower of weighted average cost or net realisable value.

d. Receivables

Receivables are stated at their estimated realisable value, after providing for doubtful debts.

e. Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

f. Capital Work in Progress

Capital Work in Progress includes the cost of materials and other direct and indirect costs incurred as at balance date.

g. Income Tax

The Group adopts the liability method of accounting for deferred taxation.

The taxation charge against the surplus for the period is the estimated liability in respect of that surplus after allowance for all the permanent differences and timing differences not expected to reverse in the foreseeable future. This is the partial basis for the calculation of deferred tax.

A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation. The subsequent realisation of such income tax benefits is subject to the requirements of income tax legislation being met.

h. Financial Instruments

The Group has financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates.

Financial instruments entered into as hedges of an underlying exposure are accounted for on the same basis as the underlying exposure. Accordingly, hedge gains and losses are included in the Statement of Financial Performance when the gains or losses arising on the underlying exposures are recognised in the Statement of Financial Performance.

Financial instruments such as bank balances, bank investments, receivables, accounts payable and term debt are included in the accounts at their estimated fair value.

i. Associate Companies

These are companies in which the Group holds significant shareholdings and in whose commercial and financial decisions it participates.

The Associate Company referred to under Note 18 has discontinued trading and the value of the investment written off. The company is in the process of being wound up.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2005

j. Capitalisation

Capital expenditure is defined as all expenditure incurred in the creation of a new asset, replacement of an asset that has reached the end of its economic life, or increased service potential of an existing asset. Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

k. Cash Flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held on call with banks, and investments in money market instruments.

l. Employee Entitlements

A liability for annual leave, long service leave and retirement gratuities is accrued and recognised in the Statement of Financial Position. Liabilities for annual and long service leave are calculated on an entitlement basis at current rates. Retirement gratuity liability is calculated using current rates and appropriate probabilities for all qualifying staff. The calculations are based on the net present value of the estimated future cashflow. A discount rate of 6.95% and an inflation factor of 2.5% was used.

m. Goodwill Arising on Acquisition

Goodwill arising on acquisition of subsidiaries/businesses/assets is amortised on a straight-line basis over the period of expected benefit or 20 years, whichever is the lesser. Goodwill is tested annually for impairment.

n. Borrowings

Borrowings are stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest are amortised to interest expenses on a yield to maturity basis over the period of the borrowing.

o. Goods and Services Tax

Trust - The Financial Statements have been prepared on an GST inclusive basis, except for the Energy Efficiency Project which is a taxable activity and is exclusive of GST.

Group - The Financial Statements of the group have been prepared with revenue and expense items exclusive of GST. In the Statement of Financial Position, accounts receivable and accounts payable are inclusive of GST. All other assets and liabilities are exclusive of GST.

p. Operating Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the leased assets.

Changes in Accounting Policies

There have been no changes to accounting policies. All policies have been applied consistently with the previous period.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005**

5. INCOME TAX

| | <i>Consolidated</i> | | <i>Trust</i> | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| a) Taxation | | | | |
| Operating Surplus Before Taxation | 22777 | 9731 | 2948 | 55 |
| Prima Facie Tax @ 33% | 7516 | 3212 | 973 | 18 |
| Permanent Differences | (776) | (101) | 1 | 7 |
| Timing Differences not Recognised | (3353) | (4526) | - | - |
| Prior Period Adjustments | 196 | (71) | - | - |
| Fully Imputed Income | - | - | (1003) | (26) |
| Current Taxation (Benefit) Expense | 3583 | (1486) | (29) | (1) |
| Taxation Expense is represented by: | | | | |
| Current Taxation (Benefit) Expense | 2198 | (71) | - | - |
| Deferred Tax (Benefit) Expense | 1385 | (1415) | (29) | (1) |
| | 3583 | (1486) | (29) | (1) |
| b) Movement in Deferred Taxation Liability – Timing Differences | | | | |
| In respect of network assets there is a deferred tax liability for tax depreciation recoverable amounting to approximately \$24.5 million. (2004: \$20.9 million) which would crystallise if all network assets were disposed of for their carrying value. | | | | |
| The deferred tax account includes a tax loss benefit of Nil (2004 \$1.4 million). Subsequent realisation of tax loss benefits are subject to the requirement of Income Tax Legislation being met. | | | | |
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| c) Taxation (Refund) Payable | | | | |
| Opening Balance | (1201) | (1022) | (30) | (26) |
| Current year taxation (Benefit) Expense | 2198 | (71) | - | - |
| Taxation Paid | (3429) | (387) | (29) | (30) |
| Taxation Refunded Prior Periods | 717 | 279 | 30 | 26 |
| | (1715) | (1201) | (29) | (30) |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

5. INCOME TAX (Continued)

| | <i>Consolidated</i> | | <i>Trust</i> | |
|------------------------------------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| d) Deferred Tax (Asset)/Liability | | | | |
| Opening Balance | (1437) | (22) | (23) | (22) |
| Movement | 1385 | (1415) | (29) | (1) |
| | <hr/> | | | |
| Closing Balance | (52) | (1437) | (52) | (23) |
| | <hr/> | | | |
| e) Imputation Credit Account | | | | |
| Opening Balance | 3655 | 3224 | - | - |
| Taxation Paid | 3400 | 357 | - | - |
| Taxation Refund Received | (687) | (253) | - | - |
| Imputation Credits attached to Dividends received in the reporting period | - | - | 1496 | 39 |
| Imputation Credits attached to Dividends paid in the reporting period | (1496) | (39) | - | - |
| Prior Period Adjustment | - | 366 | - | - |
| | <hr/> | | | |
| | 4872 | 3655 | 1496 | 39 |
| | <hr/> | | | |

6. SURPLUS/(DEFICIT) BEFORE TAXATION

| | | | | |
|---------------------------------------------------|---------|---------|------|-----|
| Operating Revenue | | | | |
| Interest Revenue | 210 | 151 | 163 | 141 |
| Recovery of debt previously written off as bad | 18 | 25 | - | - |
| Dividends | - | - | 3038 | 80 |
| Gain on sale of assets | - | 131 | - | - |
| All other revenue | 91329 | 73539 | - | 45 |
| | <hr/> | | | |
| | 91557 | 73846 | 3201 | 266 |
| Depreciation | | | | |
| Electrical Distribution System | (11187) | (10439) | - | - |
| Freehold Buildings | (148) | (138) | - | - |
| Motor Vehicles | (295) | (152) | - | - |
| Plant and Equipment | (178) | (132) | - | - |
| Office Furniture and Equipment | (72) | (91) | - | - |
| Information Technology | (868) | (647) | - | - |
| | <hr/> | | | |
| | (12748) | (11599) | - | - |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

6. SURPLUS/(DEFICIT) BEFORE TAXATION (Continued)

| | <i>Consolidated</i> | | <i>Trust</i> | |
|-------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Operating Expenses | | | | |
| Audit– Audit Services | (84) | (27) | (5) | (3) |
| Audit New Zealand – Disclosure Accounts | (6) | (3) | - | - |
| Remuneration Paid to Directors and Trustees | (335) | (223) | (103) | (69) |
| Bad Debts Written Off | (5) | (25) | - | - |
| Operating Lease Payments | (79) | (79) | - | - |
| Change in Provision for Doubtful Debts | 31 | 60 | - | - |
| Loss on Sale of Assets | (16) | (37) | - | - |
| Loss on Sale of Properties intended for sale | - | (21) | - | - |
| All other Expenses | (38437) | (33904) | (145) | (139) |
| | (38931) | (34259) | (253) | (211) |
| Trading Surplus/(Deficit) | 39878 | 27988 | 2948 | 55 |
| Non Operating Benefits (Costs): | | | | |
| Investment (Write-down) Recovery | 85 | (113) | - | - |
| | 85 | (113) | - | - |
| Other Costs | | | | |
| Amortisation | (4495) | (4495) | - | - |
| Discounts | - | (35) | - | - |
| Interest | (12691) | (13614) | - | - |
| | (17186) | (18144) | - | - |
| Surplus/(Deficit) before Taxation | 22777 | 9731 | 2948 | 55 |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005**

7. EQUITY ON ESTABLISHMENT

| | 2005 | 2004 |
|-------------------------|--------------|--------------|
| | \$000 | \$000 |
| Equity on Establishment | 67,661 | 67,661 |

The number of ordinary fully paid shares on issue is 64,000,000 (2004: 64,000,000)

8. PROPERTY PLANT AND EQUIPMENT

| | <i>Consolidated</i> | | <i>Trust</i> | |
|-------------------------------------------------|---------------------|--------------|--------------|--------------|
| | * | | | |
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| <i>Electrical Distribution Network</i> | | | | |
| 33KV Subtransmission | | | | |
| At Valuation | 16839 | 16839 | - | - |
| Additions at Cost | 809 | 49 | - | - |
| Accumulated Depreciation | (1142) | (534) | - | - |
| | 16506 | 16354 | - | - |
| Zone Substation Structures and Equipment | | | | |
| At Valuation | 20151 | 20151 | - | - |
| Additions at Cost | 1323 | 1077 | - | - |
| Accumulated Depreciation | (1765) | (846) | - | - |
| | 19709 | 20382 | - | - |
| Distribution and Substation Transformers | | | | |
| At Valuation | 44868 | 44868 | - | - |
| Additions at Cost | 11294 | 8795 | - | - |
| Accumulated Depreciation | (3940) | (1952) | - | - |
| | 52222 | 51711 | - | - |
| Distribution Switchgear | | | | |
| At Valuation | 15327 | 15327 | - | - |
| Additions at Cost | 1532 | 713 | - | - |
| Accumulated Depreciation | (1579) | (704) | - | - |
| | 15280 | 15336 | - | - |
| Overhead Lines | | | | |
| At Valuation | 99328 | 99328 | - | - |
| Additions at Cost | 8475 | 4546 | - | - |
| Accumulated Depreciation | (6743) | (3401) | - | - |
| | 101060 | 100473 | - | - |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005**

8. PROPERTY PLANT AND EQUIPMENT (Continued)

| | <i>Consolidated</i> | | <i>Trust</i> | |
|-----------------------------------------------------------------|---------------------|---------------|--------------|--------------|
| | * | | | |
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Underground Cables | | | | |
| At Valuation | 61677 | 61677 | - | - |
| Additions at Cost | 4170 | 1563 | - | - |
| Accumulated Depreciation | (4931) | (2289) | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 60916 | 60951 | - | - |
| Other Distribution Equipment | | | | |
| At Valuation | 18772 | 18772 | - | - |
| Additions at Cost | 1579 | 608 | - | - |
| Accumulated Depreciation | (1538) | (727) | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 18813 | 18653 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Carrying Value, Electricity Distribution Network | 284506 | 283860 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

| | <i>Consolidated</i> | | <i>Trust</i> | |
|----------------------------------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| <i>Other Plant, Property and Equipment</i> | | | | |
| Freehold Buildings | | | | |
| At Valuation | 3573 | 3573 | - | - |
| Additions at Cost | 407 | 355 | - | - |
| Accumulated Depreciation | (417) | (269) | - | - |
| | 3563 | 3659 | - | - |
| Land and Additions to Land | | | | |
| At Valuation | 479 | 479 | - | - |
| At Cost | 430 | 205 | - | - |
| | 909 | 684 | - | - |
| Motor Vehicles | | | | |
| At Cost | 2416 | 2611 | - | - |
| Accumulated Depreciation | (1773) | (1751) | - | - |
| | 643 | 860 | - | - |
| Plant and Equipment | | | | |
| At Cost | 2458 | 2910 | - | - |
| Accumulated Depreciation | (1723) | (2055) | - | - |
| | 735 | 855 | - | - |
| Office Furniture and Equipment | | | | |
| At Cost | 887 | 909 | - | - |
| Accumulated Depreciation | (583) | (561) | - | - |
| | 304 | 348 | - | - |
| Information Technology | | | | |
| At Cost | 6608 | 5277 | - | - |
| Accumulated Depreciation | (2932) | (2172) | - | - |
| | 3676 | 3105 | - | - |
| Net Carrying Value, Other items of Plant Property and Equipment | | | | |
| | 9830 | 9511 | - | - |
| TOTAL NET CARRYING VALUE | | | | |
| | 294336 | 293371 | - | - |

* During the year a review of property, plant and equipment has resulted in some assets being reclassified to their correct class of assets. For comparative purposes, the 2004 amounts have also been reclassified in line with these changes.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005**

| | <i>Consolidated</i> | | <i>Trust</i> | |
|-------------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Reconciliation: | | | | |
| Balance at beginning of reporting period | 293371 | 286604 | - | - |
| Plus Other property, plant and equipment additions | 13713 | 18366 | - | - |
| Less Depreciation | (12748) | (11599) | - | - |
| | <hr/> | | | |
| Balance at end of reporting period | 294336 | 293371 | - | - |
| This is represented by: | | | | |
| Property, plant and equipment at valuation | 281014 | 281014 | - | - |
| Property, plant and equipment at cost | 42388 | 29619 | - | - |
| Accumulated depreciation | (29066) | (17262) | - | - |
| | <hr/> | | | |
| | 294336 | 293371 | - | - |
| | <hr/> | | | |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

| | <i>Consolidated</i> | | <i>Trust</i> | |
|----------------------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 9. RECEIVABLES | | | | |
| Trade Debtors | 8895 | 8118 | 17 | 2 |
| Provision for Doubtful Debts | (24) | (55) | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 8871 | 8063 | 17 | 2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 10. INVESTMENT IN SUBSIDIARY | | | | |
| The Trust holds 100% of the shares in Unison Networks Limited. | | | | |
| 11. BORROWINGS | | | | |
| Term Borrowings | | | | |
| Payable within 1 year | 9000 | 25000 | - | - |
| Payable between 1 and 2 years | 80000 | - | - | - |
| Payable between 2 and 3 years | - | 80000 | - | - |
| Payable between 3 and 4 years | 80000 | - | - | - |
| Payable between 4 and 5 years | - | 80000 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Borrowings | 169000 | 185000 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2005 | 2004 | | |
| | % | % | | |
| Weighted average interest rate on term borrowings | 7.13 | 7.13 | | |

All term borrowings are bank loans and interest rates for these borrowings are based on the bank bill plus a margin.

The Group utilises a multi tranche bank facility arrangement for a total of \$200m. Components of this facility will be routinely renewed on maturity date. For this reason all borrowings under this facility are reported as term borrowings.

The bank facility is unsecured and has the benefit of a negative pledge and cross guarantee. The facility is subject to various covenants such as limitations on long-term indebtedness, leverage and other ratios. The Group complied with all covenants for the 2004 and 2005 financial years.

12. RELATED PARTY TRANSACTIONS

The Establishment Plan of the Company provided for the formation of the Hawke's Bay Power Consumers' Trust (the object of which is to hold the shares of the Company on behalf of the consumers in their capacity as owners) and the issue of a \$1,000,000 debt security from the Company to the Trust. The debt security was increased to \$1,600,000 on 25 June 2003 and carries an interest rate of 6% pa. It is repayable on 31 May 2013.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

12. RELATED PARTY TRANSACTIONS (Continued)

A fully imputed dividend of \$3,038,000 as well as interest of \$96,000 was paid by the Company to the Hawke's Bay Power Consumers' Trust during the year.

Energy Brokers Limited is an associate Company as detailed under Note 18 and is in the process of being wound up. There have been no transactions during the reporting period with this related party.

The Group operates a management contract for Centralines Limited, an electricity lines company based in Waipukurau. This contract provides for executive, financial and technical managerial services for Centralines Limited. For commercial reasons the value of this contract is not disclosed.

During the year the following directors and trustee provided services through their Partnerships/Companies.

| | 2005 | 2004 |
|-------------------------------------------------|--------------|--------------|
| | \$000 | \$000 |
| IMS Ltd/K Atkinson | 11 | 12 |
| Chapman Tripp/F Miller | - | 4 |
| Vectek Electronics Ltd/K Valentine | - | 28 |
| HB Electrical Inspection Services Ltd/A J Paine | - | 1 |

An operating lease agreement to supply backup generation facilities was entered into during the year on normal commercial terms between Unison and the Hawke's Bay District Health Board, of which Mrs H Walker and Mr K Atkinson are directors.

As at balance date the only amount outstanding was \$660 (2004: \$9214) which was payable to IMS Limited under normal trading terms.

There were no other related party transactions.

13. COMMITMENTS

The value of contractual capital commitments as at 31 March 2005 is estimated at \$7,147,346 (2004: \$1,207,319).

The Group has entered into fixed term contracts with Siemens Limited for the provision of maintenance and non-customer generated capital works over the electricity networks in the Taupo and Rotorua regions. These contracts are for a period of up to 4 years.

The Group has entered into a contract with Transpower relating to Wairakei Transformers to improve the security of supply in the Taupo region. This contract has 9 years to run.

Operating Lease Commitments

| | 2005 | 2004 |
|------------------|--------------|--------------|
| | \$000 | \$000 |
| Less than 1 year | 79 | 60 |
| 1-2 years | 33 | 40 |
| 2-5 years | <u>13</u> | <u>20</u> |
| | 125 | 120 |
| | <u> </u> | <u> </u> |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

14. CONTINGENT LIABILITIES

Note 26 discloses potential implications for Unison's prices and asset carrying values as a result of the Commerce Commission's current inquiry. Unison has no other contingent liabilities. (2004: The Company was audited by the Inland Revenue Department for the tax year ending 31 March 2001. At balance date Unison has not received any notification of intention to reassess the years under review.)

15. RECONCILIATION OF REPORTED NET OPERATING SURPLUS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

| | <i>Consolidated</i> | | <i>Trust</i> | |
|--------------------------------------------------------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Net Surplus | 19194 | 11217 | 2977 | 56 |
| Plus: Non Cash/ Non Operating Items: | | | | |
| (Gain) / Loss on Assets Sales | 16 | (94) | - | - |
| Amortisation | 4495 | 4495 | - | - |
| Investment in associated company write-down | - | 113 | - | - |
| Depreciation | 12748 | 11599 | - | - |
| Deferred Tax benefit | 1385 | (1415) | (29) | (1) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 37838 | 25915 | 2948 | 55 |
| Plus (Less): Movements in Working Capital: | | | | |
| (Increase) Decrease in Receivables and Prepayments | (808) | (1193) | (15) | 36 |
| (Increase) Decrease in Inventories | 49 | (580) | - | - |
| Increase (Decrease) in Accounts Payable, Accruals and Employee Entitlements | (37) | (900) | 5 | (34) |
| (Decrease) Increase in Taxation Payable | (514) | (179) | 1 | (4) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Cash Inflow from Operating Activities | 36528 | 23063 | 2939 | 53 |

16. FINANCIAL INSTRUMENTS

a) Interest Rate Risk

The Group has a comprehensive treasury policy approved by the Board of Directors to manage the risks of financial instruments.

The Group manages interest rate exposure in accordance with treasury policy by hedging no less than 60% of all borrowings with interest rate hedge instruments.

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

16. FINANCIAL INSTRUMENTS (Continued)

The weighted average rate of interest rate swaps are as follows:

| | 2005 | 2005 | 2004* | 2004 |
|--------------------------------|------|--------|-------|--------|
| | % | \$000 | % | \$000 |
| Maturing in less than 1 year | 6.15 | 30000 | 6.11 | 24000 |
| Maturing between 1 and 2 years | 6.32 | 30000 | 6.15 | 30000 |
| Maturing between 2 and 5 years | 6.46 | 54000 | 6.41 | 84000 |
| Maturing after 5 years | 6.65 | 36000 | 6.65 | 36000 |
| | | <hr/> | | <hr/> |
| | | 150000 | | 174000 |
| | | <hr/> | | <hr/> |

* The weighted average rates for 2004 were incorrectly stated in the 2004 Annual Report and have hence been corrected.

The market valuation of these hedges at 31 March 2005 is a \$2,177,608 gain.
(2004: \$2,363,309 loss).

b) Credit Risk

Financial instruments which potentially subject the Group to credit risk principally consist of bank balances and accounts receivables. No collateral is held on these amounts (2004: Nil).

Maximum exposure to credit risk is the amount stated in the Financial Statements and is net of any recognised provision for losses on these financial instruments.

c) Concentration of Credit Risk

The Group has exposure to four electricity retailers that account for 69% of accounts receivables. To minimise this risk, the Group performs credit evaluations on all energy retailers in conjunction with the contractual requirements contained within the use of system agreements operating with these parties. A bond or bank undertaking may be required where deemed necessary.

At balance date a bank guarantee of up to \$5.4 million is currently held by Unison in respect of one retailer.

d) Fair Values

The methods and assumptions used are that carrying amounts in the Financial Statements reflect the estimated fair value of the financial instruments including receivables, bank and investments, accounts payable and term debt.

There were no material investments at balance date.

e) Currency Risk

The Group enters into forward exchange contracts for any significant transactions conducted in currency other than the New Zealand dollar to eliminate the effects of any currency fluctuations. At balance date no forward exchange contracts were in operation (2004: Nil).

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

17. SEGMENT INFORMATION

The Group operates predominantly in one industry – the ownership, management and operation of electricity networks within the Hawke's Bay, Rotorua and Taupo regions.

18. INVESTMENT IN ASSOCIATE COMPANY

| | 2005 | 2004 |
|-----------------------------------------------|-------|-------|
| | % | % |
| Significant Associate (Balance Date 31 March) | | |
| Energy Brokers New Zealand Limited | 31.78 | 31.78 |

Energy Brokers New Zealand Limited was a wholesaler of customised packages of energy supplies and is no longer trading. Although remaining a shareholder, the Company ceased to trade through Energy Brokers due to the sale of the electricity retailing business from 1 October 1998. This Company is currently in the process of being wound up. The outstanding claims between Energy Brokers Limited and the former Electricity Corporation of NZ were settled during the year. The carrying value of the residual investment was written off in 2004. The amount recovered during the current year has been recognised in the Statement of Financial Performance.

19. RESERVES

| | <i>Consolidated</i> | | <i>Trust</i> | |
|------------------------------------------------|---------------------|--------|--------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Asset Revaluation Reserve | | | | |
| Balance at beginning of year | 112166 | 112166 | - | - |
| Revaluation of Electrical Distribution Network | - | - | - | - |
| | 112166 | 112166 | - | - |
| Detailed as: | | | | |
| Land | 278 | 278 | - | - |
| Revaluation of Electrical Distribution Network | 111888 | 111888 | - | - |
| | 112166 | 112166 | - | - |

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005**

20. RETAINED EARNINGS

| | <i>Consolidated</i> | | <i>Trust</i> | |
|------------------------------|---------------------|--------------|----------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Balance at beginning of year | 23007 | 11790 | 1648 | 1592 |
| Net Surplus | 19194 | 11217 | 2977 | 56 |
| | <hr/> | | | |
| Distribution to owners | 42201 (2918) | 23007 - | 4625 (2918) | 1648 - |
| | <hr/> | | | |
| Balance at end of year | 39283 | 23007 | 1707 | 1648 |
| | <hr/> | | | |

21. EMPLOYEE ENTITLEMENTS

Employee entitlements expected to be taken within the 12 months following balance date are recorded as Current Liabilities.

All other Employee Entitlements are recorded as Term Liabilities.

22. GOODWILL ARISING ON ACQUISITION

| | <i>Consolidated</i> | | <i>Trust</i> | |
|--------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Goodwill at cost | 89888 | 89888 | - | - |
| Accumulated Amortisation | (10834) | (6339) | - | - |
| | <hr/> | | | |
| Closing balance | 79054 | 83549 | - | - |
| | <hr/> | | | |

Goodwill arising on acquisition is the result of accounting allocations and represents the balance of the purchase price for the Rotorua and Taupo electrical distribution networks after assigning fair values for financial reporting purposes to the appropriate asset classes. The valuation assigned for financial reporting purposes to the most significant category of the purchase price (namely the electrical distribution network) has been established using an optimised depreciated replacement cost (ODRC) methodology on an individual component basis, in accordance with Financial Reporting Standard 3, Property, Plant and Equipment.

ODRC methodology has limitations as it takes minimal account of the integrated systemic value of the infrastructure in place, the value of consents, existing use rights, easements etc. These important elements of total system value remain under the generic "Goodwill arising on acquisition".

HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

23. CAPITAL WORK IN PROGRESS

| | <i>Consolidated</i> | | <i>Trust</i> | |
|---------------------------------|---------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| Electrical distribution network | 9824 | 3338 | - | - |

24. ACCOUNTS PAYABLE AND ACCRUALS

| | | | | |
|--------------------------|-------------|-------------|------------|-----------|
| Trade Creditors | 7372 | 5415 | 509 | 11 |
| Interest Payable Accrual | 1201 | 1109 | - | - |
| | 8573 | 6524 | 509 | 11 |

25. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no significant reporting events subsequent to balance date.

26. OTHER MATTERS

Unison is subject to the Commerce Commission's Price and Quality Threshold Regime which applies to Electricity Lines businesses.

The Commerce Commission is currently undertaking a stage 1 post-breach inquiry, in terms of its published Assessment and Inquiry Guidelines, following breaches of the price and quality thresholds by Unison. The Commerce Commission has yet to determine whether it considers it appropriate to move to a stage 2 inquiry. The outcome of the Commerce Commission post breach inquiry could result in price control, which would potentially impact the carrying value of goodwill. The summary of 2004 Information Disclosure Requirements, recently published by the Commerce Commission indicates that Unison's line charges are in the lower half of line charges for electricity line businesses in New Zealand.

Unison believes that this Price and Quality Threshold Regime does not achieve its statutory purpose and, during the course of the year, commenced proceedings for a judicial review of the Commerce Commission's regime in the High Court. The judicial review proceedings are yet to be heard.