

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2006

		<i>Consolidated</i>		<i>Trust</i>	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Operating Revenue</b>	6	92094	91557	4773	3201
<b>Trading Surplus/(Deficit)</b>	6	35466	39878	4342	2948
Amortisation	22	(4495)	(4495)	-	-
Non operating (costs) benefits	6	40	85	-	-
<b>Surplus/(Deficit) before discounts, interest and tax</b>		31011	35468	4342	2948
Interest		(12083)	(12691)	-	-
<b>Operating Surplus/(Deficit) before taxation and restatement</b>	6	18928	22777	4342	2948
Restatement of Goodwill	22	(60559)	-	-	-
<b>Operating Surplus/(Deficit) before Taxation</b>		(41631)	22777	4342	2948
Taxation benefit (Expense)	5	(1510)	(3583)	55	29
<b>Net Surplus/(Deficit)</b>	20	(43141)	19194	4397	2977

### STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 MARCH 2006

Net Surplus/(Deficit) for year	(43141)	19194	4397	2977
Revaluation of network assets	135844	-	-	-
Total recognised revenues and expenses for the year	92703	19194	4397	2977
Distribution to owners	-	(2918)	-	(2918)
Unclaimed Distribution Money	243	-	243	-
Movements in Equity for year	92946	16276	4640	59
Equity at beginning of year	219110	202834	66707	66648
<b>Equity at end of year</b>	312056	219110	71347	66707

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 2006

		<i>Consolidated</i>		<i>Trust</i>	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>EQUITY</b>					
Equity on Establishment	7	67661	67661	65000	65000
Asset Revaluation Reserve	19	248010	112166	-	-
Retained Earnings	20	(3615)	39283	6347	1707
		312056	219110	71347	66707
<b>Represented by:</b>					
<b>NON CURRENT ASSETS</b>					
Property, Plant and Equipment	8	448336	294336	-	-
Goodwill arising on acquisition	22	14000	79054	-	-
Capital Work in Progress	23	5204	9824	-	-
Deferred Taxation	5	107	52	107	52
Shares in Subsidiary		-	-	64000	64000
Debt Security with Subsidiary		-	-	1600	1600
		467647	383266	65707	65652
<b>CURRENT ASSETS</b>					
Cash		1720	3176	1106	1518
Receivables	9	8874	8871	4519	17
Taxation Refund	5	2955	1715	34	29
Inventories		2386	1418	-	-
		15935	15180	5659	1564
<b>TOTAL ASSETS</b>					
		483582	398446	71366	67216
<b>NON CURRENT LIABILITIES</b>					
Employee Entitlements	21	725	1121	-	-
Term Debt	11	160000	169000	-	-
		160725	170121	-	-
<b>CURRENT LIABILITIES</b>					
Accounts Payable and Accruals	24	9621	8573	19	509
Employee Entitlements	21	1180	642	-	-
		10801	9215	19	509
<b>TOTAL LIABILITIES</b>					
		171526	179336	19	509
<b>NET ASSETS EMPLOYED</b>					
		312056	219110	71347	66707

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 2006

Notes	<i>Consolidated</i>		<i>Trust</i>	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Receipts from Customers	83924	83026	-	-
Contributions for Capital Works	7989	7443	-	-
Dividends Received	-	-	100	3038
Taxation Refunds	-	688	-	1
Interest Received	160	195	172	148
	92073	91352	272	3187
<i>Cash was disbursed to:</i>				
Payments to Suppliers	(35368)	(29537)	(428)	(248)
Payments to Employees	(9377)	(9287)	-	-
Interest paid on Loans	(12045)	(12599)	-	-
Taxation	(2806)	(3400)	(6)	-
	(59596)	(54823)	(434)	(248)
Net cash flows from Operating Activities 15	32477	36529	(162)	2939
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Proceeds from Investments	40	85	-	-
Proceeds from Sale of Property, Plant and Equipment	43	92	-	-
	83	177	-	-
<i>Cash was applied to</i>				
Purchase and Construction of Property, Plant and Equipment	(24766)	(18675)	-	-
Net Cash Flows from Investing Activities	(24683)	(18498)	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<i>Cash was received from:</i>				
Borrowings	1000	2500	-	-
	1000	2500	-	-
<i>Cash was applied to:</i>				
Distribution to Owners	(250)	(2425)	(250)	(2425)
Settlement of Borrowings	(10000)	(18500)	-	-
Net Cash Flow from Financing Activities	(9250)	(18425)	(250)	(2425)
Net (Decrease)/Increase in Cash Held	(1456)	(394)	(412)	514
Cash balances at beginning of year	3176	3570	1518	1004
Cash balance at end of year	1720	3176	1106	1518

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 2006

### 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 2005 to 31 March 2006, and the financial position of the Group as at 31 March 2006.

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.

Unison Energy Limited (UEL) is a subsidiary of Unison Networks Ltd which was incorporated on 12 January 2005. At balance date UEL had not traded nor did it have any issued or called share capital and has no assets or liabilities.

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 its intended location and condition are complete.

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2006

The Electrical Distribution Network is independently valued at fair value based on Depreciated Replacement Cost (DRC).

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

#### **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.

The carrying values of property, plant and equipment do not exceed their estimated recoverable value.

#### **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.

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 2006

#### **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 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 now been wound up.

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2006

*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 the increase in 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 leave is calculated on an entitlement basis at current rates. Retirement gratuity liability and long service leave 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.

*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 the accounting policies.

**HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

**5. INCOME TAX**

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
a) <b>Taxation</b>				
Operating Surplus Before Taxation	(41631)	22777	4342	2948
Prima Facie Tax @ 33%	(13738)	7516	1433	973
Permanent Differences	19744	(776)	30	1
Timing Differences not Recognised	(4716)	(3353)	-	-
Prior Period Adjustments	220	196	-	-
Fully Imputed Income	-	-	(1518)	(1003)
<b>Current Taxation (Benefit) Expense</b>	<b>1510</b>	<b>3583</b>	<b>(55)</b>	<b>(29)</b>
<b>Taxation Expense is represented by:</b>				
Current Taxation (Benefit) Expense	1565	2198	-	-
Deferred Tax (Benefit) Expense	(55)	1385	(55)	(29)
	<b>1510</b>	<b>3583</b>	<b>(55)</b>	<b>(29)</b>

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 \$31 million. (2005: \$24.5 million) which would crystallise if all network assets were disposed of for their carrying value.

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
c) <b>Taxation (Refund) Payable</b>				
Opening Balance	(1715)	(1201)	(29)	(30)
Current year taxation (Benefit) Expense	1565	2198	-	-
Taxation Paid	(2834)	(3429)	(34)	(29)
Taxation Refunded Prior Periods	29	717	29	30
	<b>(2955)</b>	<b>(1715)</b>	<b>(34)</b>	<b>(29)</b>

**HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

**5. INCOME TAX (Continued)**

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
d) <b>Deferred Tax (Asset)/Liability</b>				
Opening Balance	(52)	(1437)	(52)	(23)
Movement	(55)	1385	(55)	(29)
	<hr/>			
Closing Balance	(107)	(52)	(107)	(52)
	<hr/> <hr/>			
e) <b>Imputation Credit Account</b>				
Opening Balance	4872	3655	-	-
Taxation Paid	2800	3400	-	-
Taxation Refund Received	-	(687)	-	-
Imputation Credits attached to Dividends received in the reporting period	-	-	49	1496
Imputation Credits attached to Dividends paid in the reporting period	(49)	(1496)	-	-
Prior Period Adjustment	3	-	-	-
	<hr/>			
	7626	4872	49	1496
	<hr/> <hr/>			

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

<b>Operating Revenue</b>				
Interest Revenue	161	210	173	163
Recovery of debt previously written off as bad	17	18	-	-
Dividends	-	-	4600	3038
All other revenue	91916	91329	-	-
	<hr/>			
	92094	91557	4773	3201
<b>Depreciation</b>				
Electrical Distribution System	(11656)	(11187)	-	-
Freehold Buildings	(140)	(148)	-	-
Motor Vehicles	(239)	(295)	-	-
Plant and Equipment	(147)	(178)	-	-
Office Furniture and Equipment	(57)	(72)	-	-
Information Technology	(1079)	(868)	-	-
Power Generation	(4)	-	-	-
	<hr/>			
	(13322)	(12748)	-	-
	<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 2006

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

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Operating Expenses</b>				
Audit– Audit Services	(84)	(84)	(5)	(5)
Audit New Zealand – Disclosure Accounts	(7)	(6)	-	-
Remuneration Paid to Directors and Trustees	(385)	(335)	(115)	(103)
Bad Debts Written Off	(17)	(5)	-	-
Operating Lease Payments	(76)	(79)	-	-
Change in Provision for Doubtful Debts	(23)	31	-	-
Loss on Sale of Assets	(4)	(16)	-	-
All other Expenses	(42710)	(38437)	(311)	(145)
	(43306)	(38931)	(431)	(253)
<b>Trading Surplus/(Deficit)</b>	35466	39878	4342	2948
<b>Non Operating Benefits (Costs):</b>				
Proceed from Associate Company	40	85	-	-
	40	85	-	-
<b>Other Costs</b>				
Amortisation	(4495)	(4495)	-	-
Interest	(12083)	(12691)	-	-
	(16578)	(17186)	-	-
<b>Surplus/(Deficit) before Taxation and Restatement of Goodwill</b>	18928	22777	4342	2948
Restatement of Goodwill	(60559)	-	-	-
<b>Surplus/(Deficit) before Taxation</b>	(41631)	22777	4342	2948

# HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

### 7. EQUITY ON ESTABLISHMENT

	2006 \$000	2005 \$000
Equity on Establishment	67,661	67,661

The number of ordinary fully paid shares on issue is 64,000,000 (2005: 64,000,000)

### 8. PROPERTY PLANT AND EQUIPMENT

	<i>Consolidated</i>		<i>Trust</i>	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<i>Electrical Distribution Network</i>				
<b>33KV Subtransmission</b>				
At Valuation	23774	16839	-	-
Additions at Cost	-	809	-	-
Accumulated Depreciation	-	(1142)	-	-
	23774	16506	-	-
<b>Zone Substation Structures and Equipment</b>				
At Valuation	31044	20151	-	-
Additions at Cost	-	1323	-	-
Accumulated Depreciation	-	(1765)	-	-
	31044	19709	-	-
<b>Distribution and Substation Transformers</b>				
At Valuation	78806	44868	-	-
Additions at Cost	-	11294	-	-
Accumulated Depreciation	-	(3940)	-	-
	78806	52222	-	-
<b>Distribution Switchgear</b>				
At Valuation	32108	15327	-	-
Additions at Cost	-	1532	-	-
Accumulated Depreciation	-	(1579)	-	-
	32108	15280	-	-
<b>Overhead Lines</b>				
At Valuation	152857	99328	-	-
Additions at Cost	-	8475	-	-
Accumulated Depreciation	-	(6743)	-	-
	152857	101060	-	-

**HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

**8. PROPERTY PLANT AND EQUIPMENT (Continued)**

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Underground Cables</b>				
At Valuation	79087	61677	-	-
Additions at Cost	-	4170	-	-
Accumulated Depreciation	-	(4931)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	79087	60916	-	-
<b>Other Distribution Equipment</b>				
At Valuation	40245	18772	-	-
Additions at Cost	-	1579	-	-
Accumulated Depreciation	-	(1538)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	40245	18813	-	-
<b>Net Carrying Value, Electricity Distribution Network</b>	<hr/>	<hr/>	<hr/>	<hr/>
	437921	284506	-	-

# HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<i>Other Plant, Property and Equipment</i>				
<b>Freehold Buildings</b>				
At Valuation	3573	3573	-	-
Additions at Cost	447	407	-	-
Accumulated Depreciation	(502)	(417)	-	-
	3518	3563	-	-
<b>Land and Additions to Land</b>				
At Valuation	479	479	-	-
At Cost	430	430	-	-
	909	909	-	-
<b>Motor Vehicles</b>				
At Cost	2728	2416	-	-
Accumulated Depreciation	(1846)	(1773)	-	-
	882	643	-	-
<b>Plant and Equipment</b>				
At Cost	2324	2458	-	-
Accumulated Depreciation	(1460)	(1723)	-	-
	864	735	-	-
<b>Office Furniture and Equipment</b>				
At Cost	783	887	-	-
Accumulated Depreciation	(545)	(583)	-	-
	238	304	-	-
<b>Information Technology</b>				
At Cost	7127	6608	-	-
Accumulated Depreciation	(3799)	(2932)	-	-
	3328	3676	-	-
<b>Power Generation</b>				
At Cost	680	-	-	-
Accumulated Depreciation	4	-	-	-
	676	-	-	-
<b>Net Carrying Value, Other items of Plant Property and Equipment</b>				
	10415	9830	-	-
<b>TOTAL NET CARRYING VALUE</b>				
	448336	294336	-	-

**HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006**

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Reconciliation:</b>				
Balance at beginning of reporting period	294336	293371	-	-
Plus Other property, plant and equipment additions	31478	13713	-	-
Less Depreciation	(13322)	(12748)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Plus: Revaluation	312492	294336	-	-
	135844	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of reporting period	448336	294336	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>This is represented by:</b>				
Property, plant and equipment at valuation	441973	281014	-	-
Property, plant and equipment at cost	14521	42388	-	-
Accumulated depreciation	(8158)	(29066)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	448336	294336	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

**Valuations**

The electrical distribution network has been valued in accordance with FRS 3 at Depreciated Replacement Cost (DRC) as determined by PricewaterhouseCoopers (based on technical support provided by Sinclair Knight Mertz Ltd) as at 31 March 2006.

All other land and buildings have been independently valued by Telfer Young Ltd as at 31 March 2002. They have been adjusted for additions at cost and depreciation at appropriate rates to 31 March 2006.

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>9. RECEIVABLES</b>				
Trade Debtors	8922	8895	4519	17
Provision for Doubtful Debts	(48)	(24)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	8874	8871	4519	17
	<hr/>	<hr/>	<hr/>	<hr/>
<b>10. INVESTMENT IN SUBSIDIARY</b>				
The Trust holds 100% of the shares in Unison Networks Limited.				
<b>11. BORROWINGS</b>				
<b>Term Borrowings</b>				
Payable within 1 year	26500	9000	-	-
Payable between 1 and 2 years	66500	80000	-	-
Payable between 2 and 3 years	67000	-	-	-
Payable between 3 and 4 years	-	80000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Borrowings</b>	160000	169000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>2006</b>	<b>2005</b>		
	<b>%</b>	<b>%</b>		
Weighted average interest rate on term borrowings	7.35	7.13		

All term borrowings are bank loans and interest rates for these borrowings are based on the bank bill rate 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 2005 and 2006 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 2006

#### 12. RELATED PARTY TRANSACTIONS (Continued)

A fully imputed dividend of \$4,600,000 as well as interest of \$96,000 was paid by the Company to the Hawke's Bay Power Consumers' Trust during the year.

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 Companies or individually.

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
IMS Ltd/K Atkinson	3	11
Vectek Electronics Ltd/K Valentine	4	-
Mrs A Dixon	.5	-

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 amounts outstanding were \$270 (2005: \$6604) which was payable to IMS Limited and \$1302 (2005: Nil) to Vectek Electronics Ltd under normal trading terms.

There were no other related party transactions.

#### 13. COMMITMENTS

The value of contractual capital commitments as at 31 March 2006 is estimated at \$3,096,038 (2005: \$7,147,346).

The Group has a perpetual contract with Siemens Limited for the provision of maintenance and non-customer generated capital works over the electricity networks in the Taupo and Rotorua regions.

#### Operating Lease Commitments

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Less than 1 year	32	79
1-2 years	10	33
2-5 years	—	<u>13</u>
	42	125
	<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 2006

#### 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.

In the event of a legitimate claim being made by a Consumer to share in the distribution made in March 1999 and December 2004, the Trust will settle the claim from general funds.

There are no contingent liabilities at balance date (2005: Nil).

The Group has no other contingent liabilities.

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

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Net Surplus/(Deficit)</b>	(43141)	19194	4397	2977
<b>Plus: Non Cash/ Non Operating Items:</b>				
(Gain) / Loss on Assets Sales	(16)	16	-	-
Amortisation	4495	4495	-	-
Restatement of Goodwill	60559	-	-	-
Depreciation	13322	12748	-	-
Deferred Tax benefit	(55)	1385	(55)	(29)
	<hr/>	<hr/>	<hr/>	<hr/>
	35164	37838	4342	2948
<b>Plus (Less): Movements in Working Capital:</b>				
(Increase) Decrease in Receivables and Prepayments	(3)	(808)	(4502)	(15)
(Increase) Decrease in Inventories	(968)	49	-	-
Increase (Decrease) in Accounts Payable, Accruals and Employee Entitlements	(476)	(37)	3	5
(Decrease) Increase in Taxation Payable	(1240)	(513)	(5)	1
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Inflow from Operating Activities	32477	36529	(162)	2939
	<hr/>	<hr/>	<hr/>	<hr/>

#### 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 2006

#### 16. FINANCIAL INSTRUMENTS (Continued)

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

	2006	2006	2005	2005
	%	\$000	%	\$000
Maturing in less than 1 year	6.35	30000	6.15	30000
Maturing between 1 and 2 years	6.45	30000	6.32	30000
Maturing between 2 and 5 years	6.51	46000	6.46	54000
Maturing after 5 years	6.58	64000	6.65	36000
		<hr/>		<hr/>
		170000		150000

Included in this year's swaps are \$40 million of forward start swaps which are not active until 1 November 2006. Of these \$10 million are maturing between 2 and 5 years and the remaining \$30 million are maturing after 5 years.

The market valuation of these hedges at 31 March 2006 is a \$136,843 gain (2005: \$2,177,608 gain).

#### 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 66% 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 (2005: Nil).

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

#### 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

	2006 %	2005 %
Significant Associate (Balance Date 31 March)		
Energy Brokers New Zealand Limited	-	31.78

Energy Brokers New Zealand Limited was a wholesaler of customised packages of energy supplies and is no longer trading and was wound up during the 2006 year.

#### 19. RESERVES

	<i>Consolidated</i>		<i>Trust</i>	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Asset Revaluation Reserve</b>				
Balance at beginning of year	112166	112166	-	-
Revaluation of Electrical Distribution Network	135844	-	-	-
	248010	112166	-	-
<b>Detailed as:</b>				
Land	278	278	-	-
Revaluation of Electrical Distribution Network	247732	111888	-	-
	248010	112166	-	-

#### 20. RETAINED EARNINGS

	<i>Consolidated</i>		<i>Trust</i>	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at beginning of year	39283	23007	1707	1648
Net Surplus/(Deficit)	(43141)	19194	4397	2977
	(3858)	42201	6104	4625
Distribution to owners	-	(2918)	-	(2918)
Unclaimed Distribution Money	243	-	243	-
	(3615)	39283	6347	1707

## HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

#### 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 Non Current Liabilities.

#### 22. GOODWILL ARISING ON ACQUISITION

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Goodwill at cost	89888	89888	-	-
Accumulated Amortisation	(15329)	(10834)	-	-
Restatement of Goodwill	(60559)	-	-	-
Closing balance	14000	79054	-	-

Goodwill arising on acquisition represents the balance of the purchase price paid for the Rotorua and Taupo electrical distribution networks after assigning fair values for financial reporting purposes to the appropriate asset classes. Unison amortises goodwill over a twenty year useful life subject to an annual impairment test.

Goodwill impairment has been assessed assuming future cash inflows and outflows relating to the Taupo and Rotorua assets in existence at 31 March 2006. Cash inflows are based on Line Charge Revenues calculated using the Commerce Commission's "Building Blocks" methodology and regional allocations in line with Unison's proposed new Administrative Settlement Offer, which has yet to be agreed with the Commission. Cash outflows relate to operating and capital expenditure allocations using current best estimates and reflect expenditure essential to maintaining the assets at their current service capability. Note that any changes to these assumptions can have a material impact on the goodwill balance and therefore the assessed goodwill impairment.

The remaining unamortised goodwill after impairment is assessed to be \$14 million. The revaluation of the electrical distribution network as at 31 March 2006 results in a significant uplift in asset values. In essence some of the Taupo and Rotorua Networks value previously reflected in Goodwill has been substituted by the uplift in the tangible value of the electrical distribution network.

#### 23. CAPITAL WORK IN PROGRESS

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Electrical distribution network	4798	9824	-	-
Other	406	-	-	-
	5204	9824	-	-

# HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

### 24. ACCOUNTS PAYABLE AND ACCRUALS

	<i>Consolidated</i>		<i>Trust</i>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Trade Creditors	8382	7372	19	509
Interest Payable Accrual	1239	1201	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	9621	8573	19	509
	<hr/>	<hr/>	<hr/>	<hr/>

### 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.

In September 2005 the Commerce Commission published an intention to declare control of Unison's distribution prices. As part of the consultation process required of the Commission under the Commerce Act, Unison, along with other interested parties, made submissions in respect of its position and presented these at a conference held by the Commission in December 2005.

Subsequently Unison has undertaken to provide the Commerce Commission with an administrative settlement offer during May 2006. The Commission will be required to consult on the administrative settlement offer prior to accepting it. In developing an administrative settlement offer, Unison has made, and the Commerce Commission has accepted an interim offer to reduce line charges in Taupo and Rotorua from 1 April 2006. This equates to a \$1.9 million reduction in revenues. If the Commission decides not to accept the final terms of an administrative settlement offer they will likely proceed to declare control of Unison's distribution prices. The Commerce Commission's decision to accept Unison's administrative settlement offer or to declare control of Unison's distribution prices is expected in the 2006-2007 financial year.

Unison reported in its 2005 Annual Report that it had commenced proceedings for a judicial review of the Commerce Commission's regime in the High Court. Those proceedings were held in October 2005 and a decision was received 28 November 2005 which found in favour of the Commerce Commission. Unison has appealed the decision and a hearing has been set down for July 2006.

## **HAWKE'S BAY POWER CONSUMERS' TRUST AND SUBSIDIARY**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006**

#### **27. IMPACTS OF THE ADOPTION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For the reporting period beginning 1 April 2007 Unison will comply with New Zealand International Financial Reporting Standards (NZIFRS). In complying with NZIFRS for the first time, Unison will restate comparative balances.

A high level conversion plan has been developed for implementation in the coming year. This includes restating the 2006 annual financial statements under NZIFRS, identifying conversion issues and consequently implementing the necessary process and system changes. The major issues identified that impact on Unison's financial statements include deferred tax, financial instruments, and assets valuation/impairment.

Unison currently recognises a deferred tax liability in the Statement of Financial Position only if the income tax effect of all timing differences are expected to reverse in the foreseeable future, i.e. the partial basis. NZIFRS requires a more comprehensive reflection of future tax liabilities/assets which will result in a deferred tax liability being recognised in the Statement of Financial Position. This liability represents the difference between the fair value of fixed assets as shown in the Statement of Financial Position and their corresponding tax book value. This liability is expected to be material.

Unison utilises interest rate swaps to hedge against interest rate volatility. The value of these hedges are not recognised in the Statement of Financial Position. Under NZIFRS these hedges and any other defined financial instruments will be recognised in the Statement of Financial Position with any changes in fair value being reflected in the Statement of Financial Performance, unless specific hedge accounting criteria is achieved. Unison expects to achieve hedge accounting and therefore any volatility in the fair value of its hedges is not required to be taken through the Statement of Financial Performance but through the Statement of Equity. The financial impact of the fair value of these hedges is unknown but could be material.

Under NZ GAAP Unison records its revaluation surplus arising on the revaluation of a class of assets directly to the asset revaluation reserve in the Statement of Equity. A revaluation deficit in excess of the asset revaluation reserve balance for that class is recognised in the Statement of Financial Performance. Under NZIFRS revaluations must be accounted for on an individual asset basis and not by asset class. Any revaluation surplus is recorded in the Statement of Equity and any revaluation deficits goes first to the Statement of Equity per asset, and then any deficit in excess of the individual asset revaluation reserve balance goes into the Statement of Financial Performance. The financial impact of this change is unknown but could be material.

Unison amortises goodwill arising on acquisition under NZ GAAP over 20 years and subject to an annual impairment test. NZIFRS does not permit amortisation of goodwill but instead requires an annual impairment test only.

