

TRUSTEES' REPORT

On the operations and financial affairs of the

HAWKE'S BAY POWER CONSUMERS' TRUST

For the year ended 31 March 2007

ANNUAL REPORT TO CONSUMERS

ABOUT THE TRUST

The Trust was set up in 1993. It has five Trustees who are elected every three years.

The Trust holds all the shares in Unison Networks Limited, on behalf of consumers who are connected to Unison's electricity lines network in Hawke's Bay - generally the areas of the Hastings District Council and the Napier City Council.

This annual report is to those consumers, and it provides a summary of the operations and financial results of the Hawke's Bay Power Consumers' Trust for the year ended 31 March 2007. Consolidated accounts of the Trust, incorporating all trading activities of Unison Networks Limited, are shown later in this report.

WHAT THE TRUST DOES

Our main role as the 100% shareholder of Unison is to hold the shares for the benefit of the consumer-owners. We monitor the operational and financial performance of the Company to ensure your interests as consumers, and as owners, are protected and enhanced. We do this by reviewing regular reports provided by the Board of Directors and comparing the results to the company's business plan and statement of corporate intent progressively during the year. In this way we are alert to any variations to the outcomes that have been agreed with the Board.

As well as sharing in financial dividends from company profits, consumer-owners have the benefit of knowing their interests are looked after, particularly when decisions on keeping our lines in top condition are made. Trust ownership gives that greater assurance which is not often the case with out-of-the-region or overseas shareholding.

The Trust has other key tasks. These are to:

- Appoint Unison's Board of Directors
- Monitor their performance, as well as the performance of the company.
- Distribute Trust funds to consumer-owners from time to time.
- Approve Unison's annual business goals and financial objectives.
- Manage and account for the financial affairs of the Trust.
- Hold a public meeting each year to report on the operations and financial performance of the Trust.
- Review the ownership of Unison's shares every five years, through a public consultative process.

TRUST ACTIVITIES

Regular payouts to consumers are to resume

Last October the Trust distribution to consumers was \$6.7 million, inclusive of imputation credits. At the time we were hopeful that once agreement was reached with the Commerce Commission, sound financial results by Unison would allow the payment of higher levels of dividends than have been the case in the recent years.

Late in 2006 Unison and the Commission concluded a satisfactory agreement on Unison's pricing. This has been a significant issue for the company's Board, management and for the Trustees. There is now some degree of certainty in the financial aspects of Unison's business activities and we can better predict financial yields and frequency of dividends payable to the Trust.

With this positive outlook the Trust and the Board of Directors have agreed that for the next three years 2008 to 2010, approximately 50% of the company's prior year's profit after tax will be paid to the Trust as a dividend. On 26 July 2007, the day of the Trust's public annual meeting, \$10.8 million, inclusive of imputation credits, will be paid to the Trust, which will be distributed to consumers later this year.

This will bring to more than \$38 million, with imputation credits, the amount of distributions made to consumers since 1999. Add to that sum the \$21 million also paid out to consumers in 1999 from the sale of the retail part of the company's activities, and consumers will have received direct financial benefits of \$59 million from Trust ownership in eight years.

Access to information by beneficiaries

In December the Trust adopted national guidelines for access to information by beneficiaries of electricity trusts. The purpose of the guidelines is to ensure that clear and transparent protocols are in place for trust beneficiaries to have access to information.

The guidelines, which all electricity trusts are required to adopt, provide for trust beneficiaries to have access to information; to attend public meetings of the trust; and to have access to a complaints process for dealing with refusals to supply information or allow access to public meetings.

Our Deed of Trust fully complies with the guidelines in matters such as holding annual public meetings and providing access to Trust information. The guidelines are on the Trust's web pages at www.hbpowertrust.co.nz.

Discount for electric blanket tests

For the last three years the Trust has offered a 50% discount off the normal price for testing electric blankets for consumers connected to Unison's network in the Hastings District and Napier City areas. Outlets in both Hastings and Napier are offering this service in 2007, which is now operating throughout the year, rather than short term, to give consumers flexibility when they choose to have their blanket tested.

Energy Efficiency - Lightbulb Campaign

The Trust remains committed to energy efficiency and conservation. Late in 2006 we had a hugely successful lightbulb campaign and from this Hastings and Napier households can expect to save more than \$7 million over the life of the energy efficient lightbulbs that were purchased. The campaign, undertaken in conjunction with Energy Mad and the Electricity Commission, was a great success with many positive community benefits.

A total of 72,860 Ecobulbs were purchased during the campaign and enough energy can be saved through those bulbs to power all of the homes in Taradale and Tamatea combined for one year. As well, on an average use of three hours a day, the bulbs offer potential savings of \$500 for every household over the life of the 5 bulbs. This translates to \$7.3 million dollars for all of the bulbs purchased in the campaign.

The campaign was taken up by approximately 40% of our households, based on the average of 5 bulbs per home, with a total project cost of \$156,220. We ran a similar campaign in 2003 and nearly 40,000 bulbs were sold then. For the two campaigns total sales exceeded 110,000 bulbs, giving significant financial savings to consumers.

UNISON OWNERSHIP REVIEW

At intervals of five years the Trustees are required to undertake a review of ownership of the shares in Unison Networks Limited. The previous ownership review decision was made on 11 October 2001 and, as required by the Deed, Trustees initiated the review in September 2006.

While the process of the review has extended into the Trust's new business year commencing 1 April 2007, it is appropriate to record the process and outcome of that review.

On 8 February 2007, within the 6 months period permitted, Unison directors duly provided their report on options for future ownership of the shares. The public consultative procedure was implemented by the Trust on 9 March 2007 and release of the report for public comment drew 351 submissions. Following a hearing of submissions on 8 June 2007 the Trustees met on 22 June 2007 and unanimously decided to retain ownership of the shares in the Trust.

Some of the main factors that brought about this decision were:

- Submissions showed there was a clear preference for continued Trust ownership.
- The Trust was set up in 1993 for the benefit of past present and future generations of consumers and it would be unfair and inequitable to pay out the assets of the company to today's consumers.
- Unison provides an electricity distribution system that is an essential part of the economic wellbeing of Hawke's Bay, upon which our cities towns and rural communities depend.

- Local Trust ownership provides a measure of control and influence over the security and stability of supply of electricity than might otherwise apply with ownership outside the region.
- There were no compelling reasons given in the submissions to justify alternative ownership arrangements that would be in the best interests of consumers.

A summary of the Trustees' conclusions is contained on the Trust's web pages at www.hbpowertrust.co.nz.

COMPANY PERFORMANCE & RESULTS 2006-2007

The annual report of Unison for the year ended 31 March 2007 records sound financial results, significant gains in reliability of supply and a reduction in the frequency of outages on the network. Within the electricity sector these are the end results that consumers and owners strive for – financial strength, security of supply and a robust network. Our consumers are now achieving these through the company's performance.

Unison has recorded a pre-tax surplus of \$16.8 million, down \$2.4 million from 2006. Operating revenues of \$91.8 million were marginally below those for 2006 at \$92.0 million due to pricing changes agreed with the Commerce Commission. For expenditure, operating costs of \$43.7 million were slightly up on the \$42.9 million last year. This very satisfactory result had been expected and it is a good outcome, particularly in view of an increase in depreciation charge of \$5 million for the year.

Details of Unison's operational and financial performance are contained in their annual report. They make impressive reading and it is appropriate to note some key features of what has been achieved in recent years. The network is showing enhanced resilience, which shows the benefits of the ongoing programme of asset renewal, development and maintenance. These investments and increased spending on vegetation control have cut down the number of power interruptions. The company has also invested heavily in smart technology and this has been invaluable in detecting and repairing potential problems before they highlight themselves as faults and interruptions.

Since 1999 Unison has outlaid more than \$100 million in capital expenditure, which is well above the industry average. At the same time costs have been at the middle band on an industry wide comparison basis.

We commend the company for these outcomes.

Statement of Corporate Intent

As the majority shareholder, the Trust is required to prepare a statement for inclusion in the company's annual report on its compliance with the current Statement of Corporate Intent. The following are highlights from the Trustees' Statement, the full text of which is contained in Unison's annual report.

- Unison achieved its stated objective to operate as a successful and sustainable business, through enhanced shareholder value and meeting the needs of its consumers in terms of quality and efficiency.
- Overall, the financial results were greater than had been forecast for the year and all financial targets were exceeded.
- There have been significant gains in terms of reliability and security of supply.
- The number of faults per 100km of line was below target for the year.

Financial performance

| | Target | Result |
|---|--------|--------|
| Surplus before interest, taxation and depreciation as a percentage return on average assets employed | 9.5% | 9.8% |
| Surplus before interest and taxation as a percentage of average assets employed | 5.4% | 5.9% |
| Net surplus (after tax and before restatement of goodwill) as a percentage of average shareholders' funds | 4.1% | 4.6% |

| Network performance | Target | Result |
|---|---------------|---------------|
| System average interruption duration index (SAIDI) (Number of minutes the average consumer is without power) | 152.7 | 140.0 |
| System average interruption frequency index (SAIFI) | 2.4 | 2.1 |

Additional information on Unison's performance for the year ending 31 March 2007 can be found in the company's annual report or on Unison's website at www.unison.co.nz, or obtained from Unison direct.

ENERGY TRUSTS OF NEW ZEALAND (ETNZ)

There were two conferences which Trustees attended to hear presentations from central Government and political leaders on the state of the electricity sector now and as they see it into the future. These conferences enable Trustees to gain wider appreciation of their roles and responsibilities and assist in their skill development.

I was again re-elected to the position of Chairman of ETNZ at the Annual Meeting in May 2007.

THE FUTURE

Unison has steadily grown in structure, business capacity and overall performance in recent years. This gives Trustees confidence in the future for the company as a key utility throughout the three networks in Hawke's Bay Rotorua and Taupo. Changes and challenges in the electricity industry will continue to present themselves but it is through these that new opportunities will be created for the benefit of Unison and its owners.

APPRECIATION

Our thanks to the Chairman, directors, management and staff of Unison Networks for their continued efforts and achievements. We appreciate the help and assistance readily provided from all levels within the company.

We farewelled our long serving secretary, Michael Waterson in December 2006 and record our thanks for his contribution to the Trust since 1998. Stephen Dine has been contracted to provide secretarial services and we welcome him to the Trust.

I extend my personal appreciation and thanks to other Trustees for their commitment and efforts during the past year. It has been a busy period for the Trust and positive results have been achieved.

Ken Gilligan
Chairman

MORE TRUST INFORMATION

Detailed information about the Trust and its work is accessible on the internet, under www.hbpowertrust.co.nz, or can be viewed or is available from the Trust's offices, C/- Brown Webb Richardson, 111E Avenue Road, Hastings and also at Unison's offices cnr Omahu Road and Oak Avenue, Hastings.

FINANCIAL AFFAIRS OF THE TRUST

Income: Total income for the year was \$448,779, significantly below the \$4.773 million for 2006, which had included a dividend of \$4.6 million from Unison. Most revenue in 2007 was from interest on deposits with banks and from a debt security with Unison. A small dividend of \$100,000 was received to be applied to energy efficiency and conservation projects.

Expenditure: Total expenditure for 2007 was \$391,716, compared with \$431,363 last year. Although previous year costs relating to the election of trustees \$109,449 were not repeated, there were higher costs for distribution of trust funds to consumers of \$56,017 in 2007. Energy efficiency project costs were up \$10,079, and there was extra expenditure of \$17,321 on public relations. Most of this related to preliminary advertising for the ownership review. Costs relating to Commerce Commission issues were lower by \$11,648, at \$17,101.

There were minor variations on some expenditure items, such as general expenses -\$3278, electric blanket testing -\$3610, secretarial -\$2112 and trustees expenses +\$795. The reduction in Trustee remuneration is a direct reflection of fewer meetings associated with Commerce Commission issues. Net income after tax was \$38,774.

Consolidated accounts of the Trust, incorporating all trading activities of Unison Networks Ltd, are shown separately, under "Trust and Company Consolidated Accounts".

(Note: Copies of the full accounts are available at the office of the Trust and the Company.)

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2007

| | This Year | Last Year |
|----------------------------|---------------|----------------|
| Income | | |
| Bank Interest | 252776 | 77401 |
| Debt Security Interest | 96000 | 96000 |
| Dividend | 100000 | 4600000 |
| | <u>448779</u> | <u>4773401</u> |
| Expenditure | | |
| Audit Fees | 4838 | 4838 |
| Commerce Commission | 17101 | 28749 |
| Distribution Expenses | 59186 | 3169 |
| Election Expenses | - | 109499 |
| Energy Efficiency Project | 88804 | 78725 |
| General Expenses | 3986 | 7264 |
| Insurance | 8438 | 5963 |
| Legal Fees | 810 | 1058 |
| Ownership Review | 1812 | - |
| Public Relations | 27540 | 10119 |
| Safety – Electric Blankets | 9555 | 13165 |
| Secretarial and Accounting | 45912 | 43800 |
| Trustees Expenses | 10309 | 9514 |
| Trustees Remuneration | 113425 | 115500 |
| Total Expenses | <u>391716</u> | <u>431363</u> |
| Net Income before Tax | 57063 | 4342038 |
| Taxation (Benefit) Expense | 18289 | (54804) |
| Net Income for Year | <u>38774</u> | <u>4396842</u> |

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 MARCH 2007

| | This Year | Last Year |
|---|-----------------|-----------------|
| Equity at beginning of year | 71347156 | 66707264 |
| Net Surplus (Deficit) | 38774 | 4396842 |
| Total recognized revenues and expenses for the year | <u>38774</u> | <u>4396842</u> |
| Distribution over-provided and unclaimed money | - | 243050 |
| Distribution to owners | (4501250) | - |
| Equity at End of Year | <u>66884680</u> | <u>71347156</u> |

TRUST AND COMPANY CONSOLIDATED ACCOUNTS

| | <i>Consolidated</i> | | <i>Trust</i> | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2007 \$000 | 2006 \$000 | 2007 \$000 | 2006 \$000 |
| Operating Revenue | 92028 | 92094 | 449 | 4773 |
| Trading Surplus (Deficit) | <u>29705</u> | <u>35466</u> | <u>57</u> | <u>4342</u> |
| Amortisation | (844) | (4495) | - | - |
| Non operating (costs) benefits | | <u>40</u> | <u>-</u> | <u>-</u> |
| Surplus (Deficit) before interest and tax | 28861 | 31011 | 57 | 4342 |
| Interest | (12075) | (12083) | - | - |
| Operating Surplus (Deficit) before taxation and restatement of Goodwill | 16786 | 18928 | 57 | 4342 |
| Restatement of Goodwill | <u>-</u> | <u>(60559)</u> | <u>-</u> | <u>-</u> |
| Operating Surplus (Deficit) before taxation | 16786 | (41631) | 57 | 4342 |
| Taxation benefit (Expense) | (2429) | (1510) | (18) | 55 |
| Net Surplus | <u>14357</u> | <u>(43141)</u> | <u>39</u> | <u>4397</u> |

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 MARCH 2007

| | | | | |
|---|---------------|---------------|--------------|--------------|
| Net Surplus (Deficit) for year | 14357 | (43141) | 39 | 4397 |
| Revaluation of network assets | <u>2910</u> | <u>135844</u> | <u>-</u> | <u>-</u> |
| Total recognised revenues and expenses for the year | 17267 | 92703 | 39 | 4397 |
| Distribution to owners | (4500) | - | (4500) | - |
| Unclaimed Distribution Money | <u>(1)</u> | <u>243</u> | <u>(1)</u> | <u>243</u> |
| Movements in Equity for year | 12766 | 92946 | (4462) | 4640 |
| Equity at beginning of year | <u>312056</u> | <u>219110</u> | <u>71347</u> | <u>66707</u> |
| Equity at end of year | <u>324822</u> | <u>312056</u> | <u>66885</u> | <u>71347</u> |