

TRUSTEES' REPORT

On the operations and financial affairs of the

HAWKE'S BAY POWER CONSUMERS' TRUST

For the year ended 31 March 2005

ANNUAL REPORT TO CONSUMERS

The Trust holds all the shares in Unison Networks Limited, on behalf of consumers who are connected to the Hawke's Bay electricity lines system of that Company. This Annual Report is to those consumers, and it provides a summary of the operations and financial affairs of the Hawke's Bay Power Consumers' Trust for the year ended 31 March 2005.

What the trust does

The Trust was set up in 1993 to hold all the shares in Unison Networks Limited, on behalf of those consumers. Unison is now the fourth largest lines company in New Zealand.

In addition to its primary role to act as a diligent shareholder, the Trust is required to:

- Act in the best interests of the consumers, and exercise their rights as shareholders.
- Decide the amount of Trust funds that ought to be paid to consumer-owners from time to time.
- Appoint Unison Directors and monitor their performance.
- Provide input to and approve Unison's annual Statement of Corporate Intent, which outlines the Company's overall business and financial objectives and intentions for the next three years.
- Manage and account for the financial affairs of the Trust.
- Hold an annual public meeting 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

Dividend Distributed to Consumers: Unison achieved solid financial results in 2003-2004. As a result, a dividend of \$3.038 million was paid to the Trust in the second half of 2004, which was distributed by the Trust to all consumer-owners during December 2004. From the many "thank you" letters and calls to the Trust, there was no doubt the \$50 payments (after tax) were very well received by all concerned.

For the latest year of operations 2004-2005, we are pleased to report that Unison has again had a very favourable financial result. Detailed commentary on the Company's operational and financial performance for the year ended 31 March 2005 is contained elsewhere in this report.

Director Appointments: There were no new appointments made to the Board during the year.

Company Liaison: As well as meeting regularly with the Chairman of the Board and the Chief Executive, Trustees held wide-ranging discussions with Directors on a number of important issues facing Unison and the industry in general. Trustees are kept fully informed of the goals the Company is striving for, and we particularly endorse any initiatives that will give consumers improved safety and security in supply of electricity. Unison recently announced an exciting proposal for a local wind generation project and the Trust supports these kinds of initiatives. It is recognized that with the demand for electricity outstripping supply, such initiatives as the wind farm development at Te Pohue will not only improve energy security, but also the security of electricity for the Hawke's Bay region. We anticipate decisions on this initiative will be finalised later this year.

UNISON NOT OVERCHARGING FOR REBATES

The Chair of the Commission also recently issued a warning to trusts that own lines companies, against overcharging consumers to fund rebates later. Apparently, some lines companies charged up to 60% more than they needed to and she warned the Commission had power to investigate this practice.

Our Trustees are fully aware of the make-up of Unison's prices, and we are absolutely satisfied Unison is not one of the trusts she referred to. Unison's pricing regime is consistent over its three networks – Hawke's Bay, Rotorua and Taupo. Unison's pricing is designed so that the Company has adequate funds to renew ageing parts of the network and allow for expansion. Unison is also progressively undergrounding its urban networks and spending more to improve the reliability of supply in rural areas.

For Unison's pricing, the Trust's goal is clear - we want pricing to be at a level that ensures a stable supply for everyone and that, through the Trust, its consumer-owners can also enjoy some financial benefits of this local ownership.

CONSUMERS STILL UNDER PRESSURE

Consumers continue to face hefty price increases from electricity retailers. Electricity companies are free to alter their pricing any time they choose – yet lines companies, such as Unison, are subject to controls and regulations of the Commerce Commission.

Information released by the Ministry of Economic Development shows that for an "average" of 8,000 units consumed per year, the annual cost to a Hawke's Bay consumer over the 5 years from November 1999 to November 2004, increased from \$983.20 to \$1,570.40, an extra \$587.20 or +60%. This is a huge increase by any standards, compared with the 21%, or extra \$103, in price increases for Unison.

It is offensive and unfair, in our view, that electricity companies can force excessive pricing on consumers without any restrictions.

But we are hopeful there will be a change to this inequitable situation. In her address to the May Conference of the Energy Trusts of New Zealand, the Chair of the Commerce Commission, Paula Rebstock, said the five big electricity companies are now the subject of a review to examine whether they have too much market power. This review arises after widespread concern that the five big players have the ability to raise prices without much restraint. It is interesting to note three of the "big five" are state-owned Meridian Energy, Mighty River Power and Genesis Energy. The Trust applauds this review by the Commerce Commission.

TRANSPARENCY STILL AWAITED

We remain hopeful this outstanding matter can be finalized before the end of this year. Hon Trevor Mallard, Minister of Energy, told delegates at the Energy Trusts' May Conference that the Government remained committed to separation of billing – to show separately the costs of electricity consumed from other charges on electricity accounts. This will let consumers see when prices have been changed, and clearly show how much they are paying for the power consumed and distributed to their property.

CONSUMERS' INTERESTS

Although the prime purpose of the Trust is to hold shares in Unison on behalf of consumer-owners, over the past 10 years the Trust has taken on a wider role – of being an "advocate" for consumers in a whole range of matters. Frequently, consumers seek assistance from the Trust to resolve matters on their behalf and we readily help where we can. This role has come about by default, because the electricity company that sends out the bill is merely selling the electricity to the consumer and collecting payment for consumption and distribution. On the other hand, Unison, as the lines company, is physically based in the area and is known locally as "*The Powerlines People*". As with the Trust, Unison is seen as the "face" of the industry in Hawke's Bay and the Trust has, therefore, assumed the role of assisting consumers with enquiries on a variety of issues. Many similar trusts in New Zealand are also assuming this role.

Consumers have the choice - we remind consumers they can choose which retailer they select to be their supplier of electricity. Switching between retailers is easy to do and our Citizens' Advice Bureaus are ready to assist with enquiries of this nature. Information is also readily available on the Internet at www.powerswitch.co.nz.

ENERGY EFFICIENCY

The Trust remains supportive of initiatives that conserve electricity and promote efficiency in its use. We had planned to resume the EnergyWise and Healthy Homes insulation programme during the year, and the Trust had successfully been granted new funding from the Energy Efficiency & Conservation Authority. The project was initially deferred pending consideration of a wider regional promotion but, due to time constraints, this project was withdrawn. Our future participation in similar schemes is being reviewed.

Electric blankets - although not an activity prior to year end 31 March 2005, during April the Trust funded a special low-cost inspection service to allow consumers to have electric blankets tested at a 50% discount on the normal cost of this service. Safety and peace of mind resulted in more than 2,600 blankets being tested, of which approximately 300 failed.

TRUST SEEN AS A MODEL

Two initiatives taken by the Trust in recent years are now being used as a model by others. Hastings and Napier residents will recall the successful "light bulb" campaign undertaken by the Trust in 2003, during which consumers could purchase energy efficient light bulbs at a very low cost. Nearly 40,000 light bulbs were sold in Hastings and Napier in this project, which would give savings not only in lower demand for electricity but also reduce the annual cost to consumers. Now, a Christchurch company, Energy Mad Ltd, have introduced a New Zealand-wide Household Efficient Lighting Project which is based on our 2003 campaign. Energy Mad is aiming to replace 4 million light bulbs with new energy efficient bulbs, to reduce peak electricity network demand, and potentially save \$400 million for consumers over the life of the bulbs.

Our second initiative was the home insulation programmes we ran from 2001 to 2004. These were targeted at improving the homes of consumers suffering from cardiac and respiratory illness, and who were on low incomes. We note, with interest, that one of the main schemes now funded by the Energy Efficiency & Conservation Authority is applying similar criteria – for homes of lower income people with health problems.

MORE TRUST INFORMATION

Detailed information about the Trust and its work is now accessible on the internet, under www.hbpowertrust.co.nz. This operates as a part of Unison's website and the following information is available:

- The role and purpose of the Trust
- The Deed of Trust
- Names of current Trustees and how they are elected
- Annual Reports and Financial Statements for the years 2002, 2003, 2004 and 2005
- Recent news articles

UNISON PERFORMANCE AND RESULTS 2004-2005

Operationally, the Company's key objective, to manage the business for the benefit of its shareholders by maintaining value and providing a quality and efficient service, is being met. Important operational outcomes which combine elements such as a reliable network, satisfied stakeholders, and a safe and healthy workplace, are being actively pursued. Network performance, which is measured against specific industry indices for frequency and duration of interruptions, produced mixed results. Extreme weather events were again a major reason for the variations. It is not expected this trend will continue during 2005-2006.

When the operational and financial targets for 2004-2005 were being finalised last year, it was anticipated that Unison would increase its revenues as a result of tariff increases. Those increases were designed to more adequately reflect competitive pricing, and also to ensure a sustainable service to consumers in the long term through renewal and upgrading of the networks.

The Company's annual report shows an after tax net surplus for the year was \$19.25 million, compared with \$11.24 million in 2003-2004. This is a commendable result. Measuring this performance, the target ratio of shareholders' funds to total assets of 54% was exceeded. One financial target, Net Surplus (before discounts) as a percentage of Average Shareholders' Funds, was not met, mainly because of the changed tax position of the Company, which resulted in the after tax surplus being less than planned. All other financial targets were exceeded. Details can be found in the Company's annual report or on Unison's website at www.unison.co.nz.

ENERGY TRUSTS OF NEW ZEALAND (ETNZ)

Trustees attended the twice-yearly conferences of the Association, at which central Government and political leaders regularly give presentations on how they see changes ahead for the electricity sector. Industry commentators also give their impressions on where and how the industry will change, providing Trustees with a better understanding of trends and developments.

These conferences also provide a forum for Trustees to access knowledge and skill, to better equip them for their role as Trustees and to be alert to issues impacting on lines companies and on Trusts, as the major owners of lines companies in New Zealand. I was re-elected to the position of Chairman of ETNZ at the Annual Meeting in May 2005.

THE FUTURE

Trustees endorse the financial commitment to and initiatives taken by the Company to improve the physical quality and capability of the networks, by renewing and expanding these essential infrastructural assets. We recognise that although such investment reduces the level of funds that might otherwise be available for distribution to shareholders, our consumer-owners also place high importance and value on security and stability of supply.

As stated last year, Trustees remain committed to consumer-owners sharing in the success of the Company's financial performance, through distributions of dividends and other forms of benefit such as undergrounding of urban lines, improved automation and energy efficiency initiatives. The Trust and the Board of Directors will review payment of another distribution later this year.

We support the opinion of the Directorate that Unison is well positioned to take advantage of opportunities for growth in shareholder value and for the Company as a whole. We don't overlook the fact there are very real challenges ahead, but given the skill mix and attributes that are continually being developed within the Company, and the Board itself, we are confident of ongoing success in the years ahead.

APPRECIATION

The Trust commends the Board of Directors, the Chief Executive and his team, for their achievements over the past year. We thank them all for their contributions to Unison's admirable results.

I extend my own personal appreciation to other Trustees for their support and commitment to the Trust's affairs. We also record our thanks to Trust Secretary, Michael Waterson, for the high standard of service he gives to the Trust's activities. Our workload continues to grow in volume and complexity and I anticipate that during the coming year there will be more of the same.

Ken Gilligan
Chairman

FINANCIAL AFFAIRS OF THE TRUST

There was a major change in the financial income stream of the Trust last year. Traditionally, any distribution of funds to consumers has been passed on by a discount, or rebate, against lines charges on the electricity power account. However, in 2004, the Trust paid out a distribution by cheque, direct to consumers connected to the network. It is, therefore, difficult to compare the financial results for the last two years.

Income in 2004-2005 amounted to \$3,201,399, which included a dividend from Unison of \$3,038,000. The only other income was from bank interest \$67,399 and interest on funds held by Unison of \$96,000. Last year, 2003-2004, the total income was only \$265,668 as the dividend was a minimal amount of \$80,000.

Expenditure during 2004-2005 was \$253,359, compared with \$201,233 last year. The major variations in additional expenditure were for audit fees, the costs of the December 2004 distribution, public relations and advertising, and trustees' remuneration. There were reductions in spending on insurance, legal, secretarial, and trustee expenses.

Of the net surplus of \$2,976,989, a total of \$2,918,000 was distributed to consumers in December 2004.

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