

TRUSTEES' REPORT

On the operations and financial affairs of the

HAWKE'S BAY POWER CONSUMERS' TRUST

For the year ended 31 March 2006

ANNUAL REPORT TO CONSUMERS

ABOUT US

The Trust was set up in 1993. It is made up of five Trustees who hold all the shares in Unison Networks Limited, on behalf of consumers who are connected to Unison's electricity lines network in Hawke's Bay - mainly 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 affairs of the Hawke's Bay Power Consumers' Trust for the year ended 31 March 2006.

WHAT THE TRUST DOES

The Trustees' role on behalf of the consumer-owners is to ensure the value of their investment in Unison is protected and enhanced. As well as holding shares in Unison, the Trust has other key tasks. These are to:

- Appoint the Board of Directors and monitor their performance, and the performance of the company.
- Act in the best interests of the consumer-owners, and exercise their rights as shareholders.
- Decide the amount of Trust funds that ought to be paid 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.

2005 ELECTIONS – A NEW TRUSTEE

Elections of Trustees are held every three years and for the election held on 1 October 2005 there were 14 nominations. New Trustee, James Palmer of Te Awanga, joined four Trustees who were re-elected – Ann Dixon, Diana Kirton, "Taffy" Paine and Ken Gilligan.

TRUST ACTIVITIES 2005-06

The Trust operates under a Trust Deed, which sets out in detail the responsibilities and duties we are required to undertake. Other than the responsibilities and duties referred to earlier, the Trustees have no power, authority or discretion to participate in the day to day management or operation of the company. Trustees meet regularly with the Board of Directors, and receive monthly updates of financial and operational performance. These outcomes are continually monitored using the company's annual targets and measures which have been agreed with the directors.

Commerce Commission

Last year's report referred to the fact that the operational and financial affairs of all lines companies had now become subject to scrutiny and regulatory control. At the early stages of our financial year it became clear that considerable time and energy would be taken up by meetings and discussions associated with the Commerce Commission's regulatory control regime. We have spent many hours addressing the key elements and financial effects that Commission control of Unison's pricing could have on the value and sustainability of Unison as a successful business.

The Trust made formal submissions to the Commission and attended two stages of the Commission's conference with interested parties held in Wellington and in Napier. In presenting the Trust's submissions we were keen to balance shareholder value and benefits with the need to reinvest in the network so that security of supply and reliability was not placed at risk.

As this annual report is being prepared we are awaiting the outcome of an Administrative Settlement Offer that Unison submitted to the Commission in June 2006. The Trust has been kept fully apprised of the company's negotiations with the Commission in working towards a settlement.

A pleasing aspect coming out of the conference process used by the Commission was the strong consumer support for Unison to invest funds into its network so that the lights do stay on. In our view such investment is essential if Unison is to meet the capacity and quality of supply that consumers not only demand, but are entitled to. We simply cannot allow the network to be exposed to disruption and severe outages as we have recently seen happening in other parts of the country. Unison's annual report for 2006 refers to the largest proportion of the \$30 million that will be spent on the network this year as being for renewal of assets that have reached the end of their economic lives. The Trust agrees that these assets must be replaced for safety, operational and economic reasons and we accept these investments are an ongoing essential part of the company's financial activities.

Cash payout to consumers

The Trust received a dividend of \$4.5 million from Unison at the end of March 2006. Trustees are now giving consideration to when the amount is to be paid out and the amount to be paid to each consumer. We expect to announce further details of this distribution at the time of our annual meeting on 27 July.

Our last payment to consumers was in December 2004 and further distributions were deferred pending a decision from the Commerce Commission. However the financial state of Unison is such that it has been able to pay a dividend to the Trust at the end of March 2006.

Trust shareholding in Unison has ensured the economic benefits of regional ownership remain in Hawke's Bay and is not paid out to owners outside the region or to overseas shareholders. \$20 million has been distributed or discounted to consumers since 1999.

Community favours undergrounding

Our communities are enjoying increased undergrounding of power lines, especially in and around residential areas. The Trust has encouraged Unison to put additional funds into this work which, not only makes our streets more attractive by removing unsightly overhead lines, but also provides greater safety along roadways. This is another direct advantage of local ownership of the network.

Electricity Efficiency & Conservation

Our Trust has a proud record in supporting efficiency and conservation of electricity and we will continue with this important work. In the past year the Trust has given consumers the opportunity to have their hot water cylinder wrapped at a significant discount. Cylinder wraps to a value of \$70 were offered at a price of only \$20 and 1730 consumers accepted the offer. A random check showed consumers were very pleased with the project, knowing that they can save between \$80 and \$120 every year on hot water heating. Another project undertaken in 2005 and repeated in 2006 has been the offer to have electric blankets tested for a half-price fee of \$5. Also endorsed by our two Councils and the New Zealand Fire Service, this was again popular with more than 2600 blankets tested in 2005.

There is still more scope to promote greater use of energy efficient light bulbs and a fresh promotion, featuring more effective and longer lasting light bulbs, is being planned for later this year.

COMPANY PERFORMANCE & RESULTS 2005-06

In its primary role to act as a diligent shareholder, the Trust has to monitor the operating and financial performance of the company. It is also 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 gives highlights from the Trustees' Statement, the full text of which is contained in Unison's annual report.

A. Unison objectives and goals

The key objective of the company is to manage the business for the benefit of its shareholders, by ensuring shareholder value is enhanced while meeting the needs of consumers in providing a quality and efficient service. Excellence in performance is the primary goal to provide direct benefits to shareholders in the form of distributions of profits and added value of the company overall.

B. Financial targets for 2005-2006

Solid financial results are the most important outcome for shareholders. Whilst the financial targets for 2006 had been qualified because of the Commerce Commission's investigations into the company's pricing, Trustees were pleased to see that the operating surplus before restatement of goodwill and taxation was ahead of budget. As the Commission's investigation has run on longer than expected, the financial outcomes were constrained to a level than might otherwise have been the case. Unison subsequently withdrew price increases in the Rotorua and Taupo areas in the course of working towards resolving its pricing issues with the Commission. This will impact in the year to come.

The pace of debt reduction was faster than had been planned for, with \$9 million repaid during the year. Total debt as at 31 March 2006 was \$162 million and with the net revaluation increases on the networks, and the year's trading surplus, shareholders' funds are now at a record of \$304.7 million - a 41% increase over the \$216.4 million in 2005. Shareholders' funds now represent 63.2% of total assets, well above the target of 55% set for the year.

In our opinion the Company has complied with the financial targets:

	Target	Result
Surplus before interest, taxation and depreciation as a percentage return on average assets employed	11.4%	11.2%
Surplus before interest and taxation as a percentage of average assets employed	7.2%	7.1%
Net surplus (after tax and before restatement of goodwill) as a percentage of average shareholders' funds	6.7%	6.8%
Ratio of shareholders' funds to total assets	55%	63.2%

Network performance

Network performance is generally measured against the duration and frequency of interruptions. It is also an important element of the "service quality" which the Commerce Commission may use to assess Unison's performance as part of the regulatory regime it is responsible for. During the year Unison significantly improved its network performance on the basis of system average interruption duration index (SAIDI), with the figure of 133.8 minutes falling well inside the target of 152.7 minutes for the year. The company also showed improvement in terms of system interruption frequency index (SAIFI) to 2.9, down from 3.2 in 2005. However, this did not quite attain the target for the year of 2.4.

The number of minutes that elapsed per outage for the average customer was 47.4 minutes, significantly better than the target of 63.8 minutes and an improvement on 2005. Faults per 100km of line were 9.1, compared with target of 10.6. These results are commendable given that external factors can, and do impact on network performance. Unison has a programme in place to help minimise these external events and we are satisfied it is taking all reasonable steps, within sensible financial allocations, to improve network performance to a level appropriate to the nature of the networks.

Trustees are satisfied that the measures being taken by the company to maintain and develop its network and guard security of supply and reliability are in line with the Statement of Corporate Intent. We support Unison's initiative in applying for resource consent for the establishment of a substantial wind farm for electricity generation north of Napier. Such a development would provide a significant source of power for the region and assist in improving security of supply, as well as contributing to the opportunity for economic benefits. The initiative falls well within the scope of activities as described in the Statement of Corporate Intent.

Additional information on Unison's performance for the year ending 31 March 2006 can be found in the company's annual report or on Unison's website at www.unison.co.nz, or obtained from Unison direct.

TRANSPARENCY OF BILLING

In recent years we have joined with other trusts to seek transparency of billing, in order to clearly separate the distribution and energy costs on residential power bills. It is pleasing to report the Electricity Commission has released model contracts for domestic consumers. Retailers are to show both the charges for electricity supplied and also the distributor's charges. We hope all retailers will adopt the

model contracts, mindful that the Minister of Energy has previously stated he expects them to do so, otherwise he will regulate.

ENERGY TRUSTS OF NEW ZEALAND (ETNZ)

Trustees continue to attend the twice-yearly conferences of the Association, 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. The conferences also provide educational sessions to give trustees wider appreciation of their roles and responsibilities and assist their personal skill development.

I was re-elected to the position of Chairman of ETNZ at the Annual Meeting in May 2006.

OWNERSHIP REVIEW

At five yearly intervals the Trustees are required to initiate a review of ownership of the shares in the company. The last review was completed in October 2001 and this year's review must commence at the five year interval, in October 2006. The review is an extensive process which involves obtaining a comprehensive report from the Directors of Unison that sets out proposals and available options for future ownership of the shares in the company. The review also involves public consultation and to assist the process the Directors' report will be publicly available for submissions to be made to the Trust. After taking account of the views expressed and giving opportunity for submitters to speak to their submissions, the Trustees are then required to make a decision at a meeting that will be open to the public. Full details on timing will be announced in due course.

APPRECIATION

On behalf of Trustees, I extend thanks and appreciation to the Board of Directors and the Chief Executive and his team for their continued commitment in a period that has provided both challenges and opportunities. We look forward to creative ideas and plans that will continue to grow the business and create enhanced shareholder value.

Special thanks to Mr Noel Alderton, who served as a Trustee from 2002 to 2005. Noel is a committed supporter to the affairs of the Trust and we enjoyed working with him. To my fellow Trustees, my personal thanks to you too, for the time and energy given to the affairs of the Trust. With the ownership and other issues ahead, the next twelve months will be a challenge for us.

To Trust Secretary, Michael Waterson, our thanks for maintaining that high standard of service you always provide..

Ken Gilligan
Chairman

FINANCIAL AFFAIRS OF THE TRUST

Income: At year end the Trust received a substantial dividend of \$4.6 million from Unison. This was more than 50% greater than last year's dividend and, with interest revenues of \$173,000, total Trust income for the year increased to \$4.77 million. Interest income was up by \$10,000 over 2005.

Expenditure: There were major changes in the nature and scale of expenditure during 2005-06. Total expenditure of \$431,363 was up \$178,004 over last year. The Trust incurred one-off costs of \$28,749 relating to submissions and professional advice in relation to the Commerce Commission's investigations of Unison, and an amount of \$109,499 to conduct the Trustee elections last year.

Additional or new expenditure was also incurred on energy efficiency projects (hot water cylinder wraps) \$78,725, compared with \$2,238 last year, testing of electric blankets for consumers \$13,165, increased general expenses \$2,000 and legal fees \$1,057. Increased expenditure for secretarial and accounting services of \$9,281 and Trustees' expenses and remuneration of \$12,758 directly reflected the additional work on Trust affairs and attendance at special meetings during the year.

There were reductions in expenditure of \$56,131 for distribution expenses and also \$18,941 for publicity costs associated with the December 2004 distribution to consumers.

Overall there was a net surplus of \$4,396,842, compared with \$2,976,989 last year.