



Review from the Chairman

I am pleased to give the following report on behalf of the Trustees of the Auckland Energy Consumer Trust (AECT) for the year ended 30 June 2005.

It has been a significant year for the Trust which was created in 1993. At 30 June 2005 it held 100 percent shareholding in Vector Ltd, one of New Zealand's largest network infrastructure companies, and had more than 291,000 consumer beneficiaries making it the largest consumer trust in New Zealand.

This report is of great significance since it is the final report with the Trust holding all the shares in Vector. Future reports will see a much larger Vector having taken over all the shares of NGC Holdings Ltd and Vector being a publicly listed company with AECT holding 75.1% of the shares. It will see Vector being New Zealand's leading company in the transmission and distribution of gas, a significant retailer of gas and owning an important business in manufacturing metering for gas and electricity. Increased dividends for shareholders in Vector with an anticipated increase in the dividends to Auckland consumers is expected.

Committees and Meetings

During the year there were 26 full Trust meetings, being regular monthly meetings and special meetings to deal with the significant events regarding the purchase of NGC and the initial public offering of shares in Vector.

The following subcommittees were also formed:

- The Business Planning subcommittee
Chair: Shale Chambers. Members: Warren Kyd, John Collinge
- The Deal subcommittee
Chair: Karen Sherry. Members: Warren Kyd, Michael Buczkowski.

All Trustees may attend any meetings of the subcommittees. During the term, Karen Sherry joined the Business Planning subcommittee and Shale Chambers joined the Deal subcommittee.

The Nominations Committee comprised Warren Kyd and Shale Chambers. The Chairman of the Vector Board, Michael Stiassny, is a non-voting member of this committee. The committee deals with nominations to the Board of Vector. All appointments are finally made by the full Trust.

Warren Kyd and Shale Chambers also formed an internal executive review committee.

Attendance at the Trust meetings were:

12 months to 30 June 2005	Full Trust	Business Planning Subcommittee	Deal Subcommittee	Nominations Subcommittee
Warren Kyd	26	10	10	4
Shale Chambers	26	10	5	4
Michael Buczkowski	20	1		
John Collinge	17	3		
Karen Sherry	24	4	9	

In addition, Trustees attended a number of Vector briefings and other events on behalf of the AECT.

Dividend

For the year ended 30 June 2005 the Trust distributed a total of \$48.3 million to beneficiaries. For each beneficiary, this was a dividend of \$170, paid as a credit on beneficiaries' power accounts during September and October 2004.

This is a significant increase on the \$155 paid the previous year, and continues the increases the beneficiaries have received year-on-year.

A comparison of dividends and payouts to beneficiaries for the past three years is as follows:

Year	Total distribution	Dividend to each income beneficiary
2002	\$39.20 million	\$145.00
2003	\$43.05 million	\$155.00
2004	\$48.30 million	\$170.00

Vector Limited

Vector reported another most successful year to 30 June 2005, with financial results on target and service performance ahead of targets.

Key points reported by Vector include:

- Acquisition of majority stake in NGC on 14 December 2004, with the subsequent six months of NGC operations included in Vector's financial results to 30 June 2005.
- Net profit after tax (NPAT) of \$40.8 million.
- Net profit after tax and before intangible asset amortisation of \$104.3 million.
- Earnings of \$466.1 million before interest, tax, depreciation and amortisation (EBIDTA), an increase of 36.7%.
- Retention of Standard and Poor's BBB+ investment grade rating.

The company's industry and business leadership has been recognised with a number of awards in the year under review, including:

- The inaugural Electricity Engineering Association (EEA) Public Safety Award 2005 for Vector's innovative 'Stay Safe' school programme
- The NZ Workplace Health & Safety Award 2005 for the staff and contractor safety programme which achieved more than 2 million man hours on the Auckland network without a lost time injury.
- Vector also took top honours in the Excellence in Treasury award at the INFINZ financial awards.

The Trustees, on behalf of AECT beneficiaries, thank the management and staff of Vector for their commitment and hard work in achieving the excellent results they have delivered this past year.

Purchase of NGC shareholding

In September 2004 the AECT authorised Vector to purchase the AGL shares in NGC Holdings Ltd (66%) for \$3.00 per share by borrowing. Vector entered into a contract to purchase those shares. The purchase was completed in December 2004.

After signing the purchase agreement, Vector purchased a small percentage of the remaining shares. The purchase was completed by taking up a primary debt entitlement and a pre-IPO equity security (PIPES) agreement which required the

debt to be repaid by the issue of shares. The business of NGC Holdings Ltd consisted of:

- Entitlements to wholesale gas from several gas fields
- Ownership and operation of 2,200 km of high pressure gas transmission pipeline
- 2,900 km of intermediate, medium and low pressure gas distribution
- The business of energy metering services with a large share of gas and electricity markets
- The business of supplying LPG and gas liquids through Kapuni Gas Treatment Plant No. 2.

The combined businesses would become the largest multi-network infrastructure and associated services company in New Zealand.

Trust approval

Before giving Vector authorisation to proceed with the proposal to acquire NGC shares and make shares available to the public, the Trustees gave full consideration to the proposal and considered the recommendations of the Board of Directors and the advice of independent advisors.

The Trust authorised the company to proceed with the proposal subject to certain conditions that would protect the Trust and its beneficiaries.

Subsequently two subcommittees were formed to manage those conditions and other issues affecting the Trust.

The Deal Subcommittee

The Deal subcommittee, chaired by Karen Sherry, was responsible for considering in depth the proposed initial public offering (IPO) by Vector and alternatives, from the perspective of the Trust and beneficiaries.

The Trust authorised the Company to proceed with the IPO, and members of this committee then worked with Vector's IPO committee on matters regarding the IPO that needed input from the Trust.

In the IPO the company was to issue 249 million new shares.

Three priority pools were created for the IPO:

- one for AECT beneficiaries
- one for NGC shareholders whose shares needed to be purchased by Vector to gain 100% ownership;
- and one for Vector capital bondholders whose purchase of the bonds had been conditional on a share offering if shares were ever made available in the company.

The IPO and allocation of shares took place after the end of this financial year and will be covered in next year's report. However it is appropriate to acknowledge here that 34,000 beneficiaries took up the AECT priority offer and no further offer of shares needed to be made to the public.

Business Planning subcommittee

The Business Planning subcommittee, chaired by Shale Chambers, had the primary role of ensuring that the Trust had an input into Vector's ongoing business plan and to monitor performance of Vector following the IPO. It was also responsible for ensuring the Trust retained a number of important constitutional rights and that reporting arrangements with the company following the IPO would be formalised.

In particular, the Trust required the following rights to be included:

- The right to be consulted on any network price increases to Trust beneficiaries.
- The right to require the company to enhance its undergrounding programme under the new operating deed being negotiated.

The undergrounding of overhead lines is a continuing benefit for Trust beneficiaries that is carefully protected by the Trustees. A commitment to continue investing in undergrounding at the increased level of \$10.5 million a year - with further increases to keep in line with the Department of Statistics Producers Price Index - was an integral item in the agreement between the Trust and the company.

These and other constitutional rights are set out in the new Deed Recording Essential Operating Requirements which was signed by the Trustees and Vector on 24 June 2005. This Deed ensures that the benefits of ownership of Vector are protected for the beneficiaries of the Trust as they were prior to the NGC and share offer proposal.

Agreement was also reached that the company continues to present its proposed business plan to the Trust each year and that the Trust has the opportunity to provide feedback. This is a significant issue that essentially means Vector cannot change direction or substantially change its business without involving the Trust.

The full terms of the new Deed Recording Essential Operating Requirements are available on our website www.aect.co.nz.

Vector subsequent to 30 June 2005

Subsequent to 30 June 2005, Vector has:

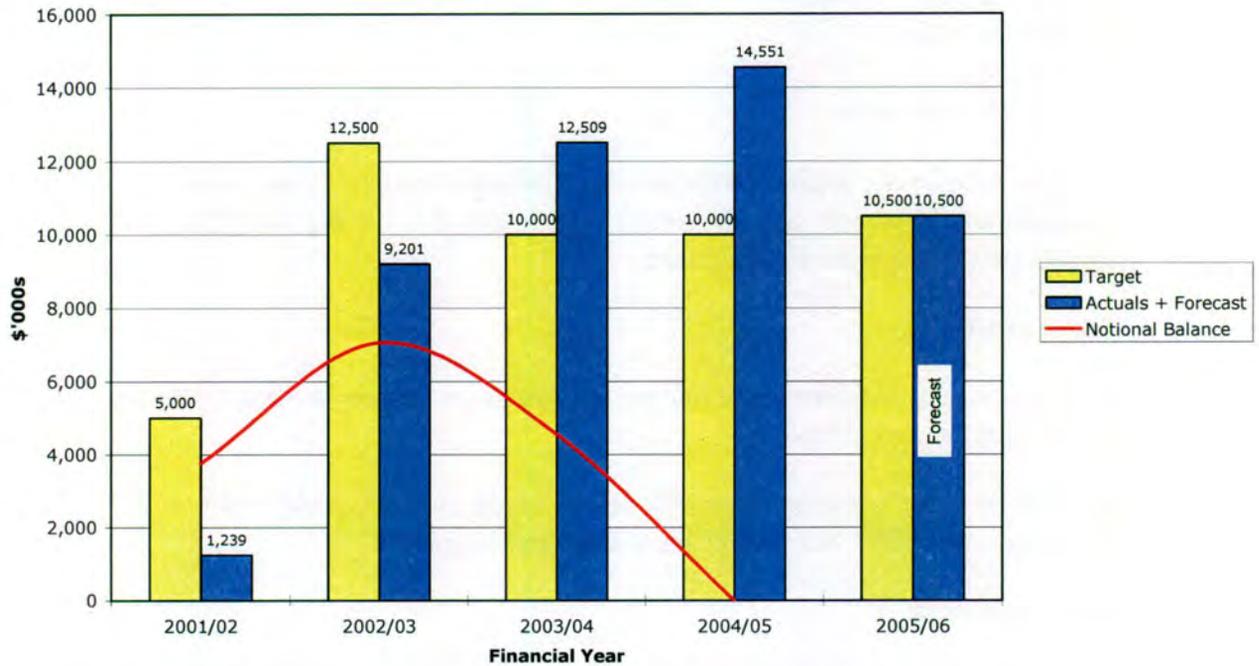
- (a) increased the capital of Vector to one billion \$1 shares, of which 751 million (75.1 percent) are held by the AECT
- (b) completed the acquisition of all remaining shares in NGC and has begun the integration process of the two companies.
- (c) issued shares as required to Vector bondholders
- (d) issued all the remaining shares to those AECT beneficiaries of whom 34,000 have become shareholders
- (e) listed on the New Zealand Stock Exchange.

Overhead Improvement

In the year to 30 June 2005 Vector made good progress on the overhead improvement programme and invested \$14.5 million in undergrounding work. In future, as covered by the agreement with the company, the base amount of \$10.5 million will be spent on undergrounding each year.

This year's investment in undergrounding has brought the overall expenditure back up to the cumulative programme budget.

Vector OIP Expenditure



This year, large scale projects were completed in the Rosebank Rd, Avondale area, Glen Innes, and Weymouth. In addition, 20 small scale projects were completed in neighbourhoods around the Trust region.

In the case of most projects Vector has successfully partnered with local councils and other utility companies to deliver a co-ordinated "dig once" approach where a total revitalisation of the project area has been achieved. This has resulted in much better outcomes for the communities than would have happened if the undergrounding work had been done in isolation.

The Trust is pleased to see the progress of undergrounding around our region and we are especially pleased that we have a formal agreement with the company for this to continue.

Board of Directors

The Trustees meet with the Chairman of the Board, Michael Stiasny, and the Chief Executive, Mark Franklin, on a regular basis and the Trust is confident that the Board is in a strong position to take the company forward.

During the year Vector director Brian Leyland resigned, and we thank Brian for the significant contribution he made to the Board during his time, especially the successful integration on UnitedNetworks.

The Trust made the following appointments during the year:

Mr Tony Gibbs
Mr John Goulter
Mr Greg Muir
and Mr Bob Thomson

All have extensive corporate experience as directors and/or in very senior management positions, and complement the skills of our other directors, giving us a very experienced and capable board.

Trust staff

This year saw the departure of our former executive officer. We are in the process of appointing his successor.

Joy Stevens, our administration officer, has taken over the additional role of Secretary. We thank her for her hard work and support.

Trust advisors

During the year the Trustees took professional advice on a number of matters and we extend our thanks to the following for their assistance:

- Legal advisor, David Bigio.
- Saha International, who provide advice on industry matters and who also assisted during the NGC proposal.
- First NZ Capital, and Messers Harmos Horton and Lusk, who were advisors to the Trust in regard to the NGC proposal.
- Independent analyst and advisor Jon Cimino who assisted the Trust in connection with the IPO proposal.

During the NGC acquisition and IPO process, the Trust and the Vector board were also jointly advised by Goldman Sachs JBWere.

Energy Trusts of New Zealand (ETNZ)

We are pleased to continue to support this organisation and to act as an information centre for the sharing of industry issues with the ETNZ membership. ETNZ recompenses AECT financially for providing this service.

Financial Review

The audited financial statements of the Trust for the year ended 30 June 2005 follow.

Interest of \$642,812 was earned by the Trust in the 2005 year. This interest is an increase over last year due to the fact that more than \$2 million in tax refunds were received during the year as a result of the binding ruling obtained in 2004, increasing the funds held and consequently interest earned.

Expenditure for the Trust for the year was \$2.4 million which is a slight increase on the previous year. Given the significant consultancy and legal fees incurred during the year, the additional costs are reflective of the considerable work done by Trustees in relation to the proposal to acquire NGC and proceed with an IPO, a review of the Board, additional appointments and also a review of the Trust's operations. The fees paid to Trustees were increased in accordance with the additional responsibilities assumed by Trustees.

Annual Meeting of Beneficiaries

The fourth annual meeting of beneficiaries will be held on Wednesday 2 November 2005 at the Ellerslie Convention Centre, commencing at 7pm.

Appointment of Auditors

Grant Thornton are the current auditors of the AECT, having been appointed during the year following the resignation of Ernst & Young because of a conflict of interest. Trustees will be recommending to beneficiaries that Grant Thornton be appointed auditors of the AECT for the year ending 30 June 2006.

Acknowledgements

I would like to thank my fellow trustees for their contribution throughout the year and their support to me as Chairman since December 2003. I especially thank Karen Sherry and Shale Chambers for their intensive and time-consuming work as Chairs of the Deal Committee and Planning Committee.

It has been a significant year for the Auckland Energy Consumer Trust and I have been pleased to contribute to its work and ongoing success.

Warren Kyd
Chairman

October 2005

