CHAIRMAN'S REPORT

FOR THE YEAR ENDED 30 JUNE 2007

Overall, this has been a very strong year for the Trust.

We have seen good results from our investment in Vector, and that is reflected in another record dividend for beneficiaries.

The Trust holds 751 million shares in Vector and, at present prices, our shares in Vector are worth around $2 billion. Those shares represent 75.1% ownership of Vector.

The Trust's majority ownership of Vector is a continuing benefit for generations of consumers in the Trust district. It ensures that significant infrastructure business stays in New Zealand hands and, as Hugh Fletcher said at the recent Vector AGM, the Trust is a huge asset for the company.

"The company is fortunate to have a long term New Zealand owner and it is unfortunate that more companies are not in this position. If they were, more of our major companies would still be in New Zealand hands," said Mr Fletcher.

I think that sums up the importance of our role very well.

Trustees

In October 2006 the triennial election of Trustees took place, where 20 candidates stood for the five positions.

Four Trustees were re-elected to the Trust: Warren Kyd; Michael Buczkowski who has been elected Deputy Chairman; and Trustees Shale Chambers and Karen Sherry. And we welcomed a new Trustee in these elections: James Carmichael.

Former Trustee John Collinge was unsuccessful in this election, and we thank John for his services to the Trust during his time as a Trustee.

In regard to the current Trustees, I'm pleased to note that the combination of experience from the re-elected Trustees and the fresh views that James brings to the table is proving to be most effective. It is gratifying to see that, although Trustees may have different political views, there is a strong, shared belief that the present form of Trust ownership is the best way to protect the interests of our beneficiaries and to keep ownership of major assets – including Auckland's electricity and gas networks – in local hands.

About Vector

The Trust is the majority owner of Vector, which is one of New Zealand's largest multi-infrastructure companies with a wide range of assets. It owns and manages a diverse portfolio of businesses:

- The Vector electricity network in Auckland City, Manukau City and the northern parts of Papakura. This part of Vector's business was originally known to Aucklanders as the Auckland Electric Power Board. It was then part of Mercury until that company became exclusively a generator and retailer of electricity, while Vector became the lines business, under the ownership of the Auckland Energy Consumer Trust. There is now much more to Vector than the original lines business.
- Another significant business in the Vector portfolio is UnitedNetworks which owns the electricity lines on the North Shore, in Waitakere City, the Rodney district, and in greater Wellington.
- Vector also has extensive gas business interests. It operates a high pressure gas transportation system supplying major centres of the North Island, as well as lower pressure gas distribution networks in approximately 40 towns and cities.

- Vector also owns and operates gas processing facilities at Kapuni in South Taranaki.
- In the field of technology, Vector operates two metering businesses – NGC Metering and Stream Information. Through these activities, Vector provides independent electricity metering services to over 800,000 homes and businesses, as well as gas metering services to approximately 64,000 residential, commercial and industrial customers in New Zealand.
- Vector's telecommunications business, Vector Communications, is an independent owner, operator and wholesaler of open access networks on a significant scale in Auckland and Wellington.
- During this past year, Vector has taken a 19.99% cornerstone shareholding in NZ Windfarms, a power generation company that sells sustainably generated electricity from wind turbines. It is currently developing the first of what will be a portfolio of wind farms that it will own and operate throughout New Zealand.
- Another business in Vector's portfolio is Utilitech, which trains people for work in the utilities sector.
- Vector also has 50% ownership of Treescape which is one of Australasia's largest tree and vegetation control companies.

As this shows, Vector has a very extensive portfolio of businesses, and the AECT owns 75.1 percent of it all. We have certainly come a long way since the Trust was formed as a vehicle for community ownership of our local electricity lines.

Vector results

Although as a publicly-listed company Vector presents its own results, it is fitting that the company's operating performance this past year, which saw improved EBITDA earnings across all businesses, is noted in this report. In particular:

- The electricity business up 3.7% to $378.0 million
- The gas business up 17.4% to $243.0 million
- The technology businesses, up 14.1% to $47.8 million

We congratulate the board, management and staff of Vector for this solid result and for the strong business platform which the company has developed.

I wish to express thanks to Mark Franklin who stepped down in July this year after four and half years in the role of chief executive officer, during an extraordinary period of growth for the company.

A chief executive officer to replace Mark is yet to be appointed, but in the interim the company is in the very capable hands of acting CEO, Simon Mackenzie. Simon has been with Vector over the long term, and with his extensive experience in asset and network management, Simon is well versed in all matters regarding the company.

Vector Directors

As the majority shareholder of Vector, the Trust has considerable responsibility in the appointment of directors to the Vector board.

The current directors are:

Chairman Michael Stiassny
Directors: Bob Thomson, Alison Paterson, Tony Carter, Hugh Fletcher, Peter Bird, Shale Chambers and Karen Sherry.

During the year, resignations were received from John Goulter, Greg Muir and Tony Gibbs.

Appointments to the board during the year included two of the Trust's most highly experienced Trustees, Shale Chambers and Karen Sherry. Shale and Karen represent the Trust's interests as majority shareholders of Vector.

Four other outstanding directors were also appointed:

Alison Paterson, who also chairs publicly listed company, Abano Healthcare Ltd, and is Deputy Chair of the Reserve Bank as well as sitting on several other boards.

Tony Carter, managing director of Foodstuffs (Auckland) Ltd and managing director of Foodstuffs (NZ) Ltd.

Hugh Fletcher, a former CEO of Fletcher Challenge Ltd and is currently a non-executive director of the Reserve Bank of New Zealand, Fletcher Building Ltd and Rubicon Ltd. Hugh is also Chancellor of The University of Auckland.

Peter Bird, managing director of the eminent international merchant bank, NM Rothschild & Sons, who has extensive international experience in the energy and utility sectors.

These are very high calibre directors and, along with the sitting directors, they make up an extremely strong board under the chairmanship of Michael Stiassny.

We thank Michael and all our directors for their important and valuable contribution.

Regulatory environment

A most important issue facing Vector is that much of its business operates in a highly regulated environment. This means Vector's prices are, to a large degree, controlled by the Commerce Commission. This has a considerable impact on the company's profitability and constrains its growth strategy.

Dealing with these regulatory issues is extremely important, and much of our time is taken in working with professional advisors to address these issues.

In the year under review, and more recently, a number of regulatory issues arose on which the Trust took advice and made submissions. Our involvement in these issues is vitally important since all regulatory matters can have considerable impact on the value of our investment in Vector.

The most recent case - the Commerce Commission's draft decision on control arrangements for Vector's gas network – demonstrates the market sensitivity to regulatory uncertainty. Even though it is a draft decision and subject to change following a consultation process, it nonetheless had an immediate effect of reducing Vector shareholder value by 100 million dollars.

As the company's major shareholder, we have every reason to be extremely concerned when matters like this arise, and we therefore do become deeply involved in making submissions to ensure a fair outcome on regulatory issues that affect our investment in Vector.

As for the regulatory issues that arose in the year under review, we are pleased to report that the Commerce Commission has accepted in principle the administrative settlement proposed for the electricity network pricing. This followed the Commission's earlier declaration that it intended to put Vector under control for technical breaches of the thresholds regime.

The proposed settlement involves rebalancing of prices between commercial, industrial and domestic users and the geographical areas where Vector operates. The company had already embarked on this rebalancing and it is due for completion in 2009. The Commission has assured the company that there are no remaining issues to be addressed and it is working through its process. We look forward to the final resolution of this matter.

However we are also aware that by 2009 the Commerce Commission will be resetting Vector's electricity lines charges and the results of this reset will be critical. The Trust will be strongly represented in this process to ensure that there is a fair and reasonable outcome.

Other regulatory matters of special interest include the Government's review of the framework for regulating infrastructure businesses. This review will look at key sections of the Commerce Act and includes proposals that we believe will help foster investment in infrastructure and improve regulatory transparency for companies such as Vector.

One of the important proposals in this review is to introduce merits review of regulatory decisions which will allow for closer scrutiny of regulatory decisions. Merits review is standard practice internationally and we believe it will allow more robust analysis and challenge of critical decisions that affects business and consumers.

The Trust will play close attention to the Commerce Act review and will be making submissions as required to protect our investment on behalf of beneficiaries.

AECT Financial Review

The audited financial statements of the Auckland Energy Consumer Trust for the year ended 30 June 2007 have been presented by the Trust's accounting company, Staples Rodway.

<u>Operating revenue</u>

It is noted that the Trust's operating revenue for the year was actually less than recorded in the previous financial year. This is an anomaly caused by changes in the timing of dividend payments by Vector to its shareholders. The actual dividend received by the Trust in respect of the year ended 30 June 2007 (including the final dividend paid in September 2007) was $97.63 million. This is an increase of 8.3% over the dividend for the 2006 financial year.

Interest income of $2.352 million was also significantly up on the interest of $1.639 million earned in the previous financial year. There is a significant benefit in paying dividends by cheque rather than by power account credit as the Trust earns interest between the date cheques are posted to beneficiaries and the date cheques are presented at the bank, and this in turn enhances beneficiaries' dividends.

<u>Operating expenditure</u>

Operating expenditure for the Trust has increased from $2.397 million in 2006 to $3.552 million this past year.

This is partly due to the cost of the triennial election which took place in October 2006. But it is also due to:

- the increased costs related to the increased activity undertaken by the Trust in regard to regulatory issues
- higher dividend distribution costs
- and increased communications to beneficiaries.

This communication included a mid-year newsletter which provided beneficiaries with the means to tell us how they wanted their dividend paid. This was an outstanding success, resulting in more than 100,000 of our 300,000 beneficiaries providing us with their banking details for dividend payment. This will provide cost efficiencies and greater security for future payments.

Outside of the costs noted above, it is also acknowledged that costs in general are increasing, in line with the increased scale and complexity of the Trust's investment in Vector. We are no longer engaged in simply overseeing the power lines in our district. We are now responsible for an investment worth around $2 billion, in a large multi-infrastructure business which has assets worth over $5 billion.

Beneficiaries might be surprised to learn that, apart from the elected Trustees, we operate with a staff of just two employees – our most able team of Mark Bogle and Joy Stevens. So we regularly require outside, specialised assistance to deal with complex regulatory, legal, financial and industry related issues; and this is likely to continue to impact on our operating expenditure.

Dividend

In regard to the annual dividend, it is most satisfying to note the continued growth of the amount paid to income beneficiaries of the Trust each year. This is especially noteworthy given that the number of beneficiaries increases as the population grows in the Trust district.

Over the past three years, we have paid to each beneficiary:

- $170 in 2004
- $180 in 2005
- $310 in 2006.

And although it is outside the dates of this report, the 2007 dividend is another record amount, this time of $320.

The 2006 payment of $310 was made to 298,559 beneficiaries, and amounted to a total distribution by the Trust of $93 million.

The $310 dividend was paid by cheque directly to beneficiaries. This was done because the dividend amount of $310 was almost twice the amount of an average total monthly power bill for a family of three or four. If, as had been the case in previous years, the divided was paid as a credit on beneficiaries' power accounts, it would have taken months for many beneficiaries to use their credit. Payment by cheque meant beneficiaries had immediate access to the dividend and could also choose for themselves how to use it.

There is a further benefit in direct payment, in that it enables the Trust to ensure that beneficiaries become more aware of the Trust and its value to the community.

Costs of dividend payment

The payment of the dividend to beneficiaries by cheque rather than as a power account credit does incur higher costs, including the cost of mailing to all 300,000 beneficiaries. However the additional costs are largely offset by the considerable interest earned on funds placed on deposit at the bank while waiting for cheques to be presented, as mentioned above.

Committees and Meetings

During the year there were 21 full Trust meetings, and 14 meetings of subcommittees.

Trustees Meeting Attendances : 1 July 2006 – 30 June 2007

	Full Trust	Regulation & Strategy Subcommittee	Communications and Dividend Subcommittee	Nominations Advisory Panel
Warren Kyd	21	7	2	4
Michael Buczkowski	18	7	2	3
Shale Chambers	21	8	2	4
Karen Sherry	20	8	0	0
James Carmichael*	11	3	2	3
John Collinge*	7	0	0	0

* Part year

In addition, Trustees attended a number of Vector briefings and other events on behalf of the AECT. Trustees are also required to put time in studying comprehensive briefing documents relating to the Trust's investment in what is now a very complex and valuable business.

In light of the increased time Trustees are putting in to Trust work, a review of Trustee remuneration has been undertaken. This is the first review of Trustee remuneration in three years. The review has recommended that Trustees' receive a core remuneration, increasing in line with inflation, to cover all Trust work, with additional remuneration for positions of responsibility.

It should be noted that the Trust retained a portion of the directors fees paid to the two Trustees who sit on the Vector board.

Access to information

In the past year, the Trust has received its first two requests under the Guidelines For Access to Information. These were answered as promptly as possible, but we are reviewing the Guidelines as it has become obvious that it will not always be feasible to properly process requests within the tight timeframes provided under the current Guidelines.

Communication with beneficiaries

On a wider scale, the Trust is planning to extend the way it communicates with beneficiaries.

In June this year we provided beneficiaries with a newsletter, along with an opportunity for beneficiaries to tell us how they wanted their dividend paid. As already mentioned, this was an outstanding success, with over one third of all beneficiaries responding.

This newsletter, and the payment of the dividend to beneficiaries directly, is part of a wider communications strategy designed to improve the Trust's accountability to its 300,000 income beneficiaries, and to build awareness of the Trust's role and its value to those beneficiaries. To assist in this strategy, the Trust has engaged the services of advertising and branding agency Y&R, whose first work for the Trust was seen in the advertising around the dividend paid last month. Further work under the communications strategy is being developed and researched for use next year.

Ownership threat

The Trust has concerns that Auckland City Council has previously said it will press for local government ownership of the Trust assets to be implemented ahead of the 2073 date when the Trust's assets revert to the capital beneficiaries: the Auckland City Council, the Manukau City Council and the Franklin District Council.

The Trust could also be affected by outcomes of the government's Royal Commission of Inquiry into Auckland which will examine and report on what local and regional governance arrangements are required for the Auckland region over the foreseeable future.

The potential for any change to the Trust status is a matter of serious concern.

The Trust was set up to run for 80 years, until 2073, to protect the interests of future generations in the assets built up by previous generations. We have a responsibility to protect those interests, not just for ourselves, but for the next generations.

Trust ownership also ensures that ownership of Vector – one of the country's most important infrastructure companies - remains in New Zealand hands and that benefits are returned locally.

All of that could be lost if the Trust's status was ever allowed to be changed. The effect would be to deprive beneficiaries from Auckland, Manukau City and Papakura of their ownership rights, in favour of local government and possibly the whole of greater Auckland.

That has a lot of ramifications for income beneficiaries. In the larger picture, it potentially puts the ownership of Vector at risk. It raises the question of whether a council or regional body sell it? That's quite probable, and probably to overseas interests, as has happened in recent years. It would also be the end of the dividends that income beneficiaries are entitled to receive until 2073. And it is not clear if income beneficiaries would receive any payment to compensate for the future loss of those dividends.

When all of this is taken into consideration, it is evident why it is important that beneficiaries are better informed and more aware of just how valuable the Trust is to them.

NZIER report

The Trust's value has been borne out in the report published in September last year by The New Zealand Institute of Economic Research (NZIER).

The report evaluated the current Trust arrangements against four alternative ownership structures that had been suggested. The alternatives were:

- local council ownership of the Trust's current shareholding in Vector;
- appointment of a professional trust company to manage the Trust instead of the current arrangement of five Trustees directly elected by the income beneficiaries of the Trust;
- the distribution of the shares in Vector owned by the Trust to the income beneficiaries, the local authorities that are capital beneficiaries and the Auckland Regional Council; and
- the transfer of the shares owned by the Trust to a special purpose body, so it can use the income and capital of Vector to fund other infrastructure investments in Auckland, like roads, urban rail and other public transport.

The conclusion NZIER drew from the evaluation is that, on almost every measure and against any reasonable weighting of the various criteria, the current arrangements - that is, ownership of the assets by the Trust - are superior.

Beneficiaries are advised to read this report, which is available on our website, www.aect.co.nz, as it provides very clear evidence that the interests of beneficiaries are best served by the structure we currently have in place.

Undergrounding

One of the most important benefits the Trust delivers to beneficiaries is the continued programme of undergrounding of power lines in the Trust district.

The Trust has a formal arrangement with Vector that the company will invest at least $10.5 million dollars each year in undergrounding – increasing each year - until such time as 97% of all lines in the Trust district are underground. Obviously, it is going to take some time to reach that level, but every year beneficiaries can see the progress of this programme.

In the past year, large scale undergrounding was completed in Howick, and four smaller projects were completed in Motions Road (Western Springs), Paget Street (Ponsonby), Talbot Park (Glen Innes) and The Bullock Track (Western Springs).

The undergrounding programme is a significant and continuing benefit for our beneficiaries and it would not happen - and does not happen on this scale anywhere else - without the direct influence of the Auckland Energy Consumer Trust.

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.

Annual Meeting of Beneficiaries

The sixth annual meeting of beneficiaries will be held on Wednesday 31 October at the Auckland Racing Club and Ellerslie Convention Centre, 80-100 Ascot Avenue, commencing at 7pm.

Appointment of Auditors

Grant Thornton are the current auditors of the AECT. Trustees will be recommending to beneficiaries that Grant Thornton be appointed auditors of the AECT for the year ending 30 June 2008.

Acknowledgements

This has been a positive and strong year for the Trust, and that is reflected in the growth of the annual dividend paid to income beneficiaries.

On behalf of the Trustees and the beneficiaries, I extend thanks to all those who have contributed to the Trust's success this year. In particular, I acknowledge the sterling work done by our two staff members: executive officer, Mark Bogle; and our office administrator Joy Stevens.

I also thank my fellow Trustees for their commitment to the Trust's success. Between us, we share a considerable responsibility, with the Trust's investment in Vector now worth around $2 billion. This is a responsibility we take seriously, and I thank all the Trustees for their continued diligence and support of me as Chairman.

In conclusion, I thank all the Trust's beneficiaries who take an active interest in the Trust's performance. We welcome your interest and thank you for your support of the Trust's work.

Thank you.

Warren Kyd
Chairman

October 2007