

Review from the Chair

I am pleased to give the following report on behalf of the trustees of the Auckland Energy Consumer Trust (AECT).

The AECT was created in 1993. It has 100 percent shareholding in Vector Limited, one of New Zealand's largest network infrastructure companies, and has more than 280,000 consumer beneficiaries making it the largest consumer trust in New Zealand.

The Trust comprises five trustees who are elected by the beneficiaries every three years. The trustees' duty is to distribute income earned to consumer beneficiaries and to maintain or enhance the value of the trust fund which, for the time being, is comprised of a 100% shareholding in Vector.

It is a privilege to report on this past twelve months, and I look forward to your attendance and feedback at this year's annual meeting.

Election of Trustees

On October 31 2003, consumer beneficiaries voted to elect five trustees to the AECT at the triennial elections and the following votes were recorded by the Returning Office, Independent Election Services Ltd:

Candidate	Votes Received
BUCKZKOWSKI, Michael (Citizens & Ratepayers Now)	24567 *
CHAMBERS, Shale (Powerlynk)	20822 *
COLLINGE, John (Citizens & Ratepayers Now)	26049 *
DEARING, Rodney (Independent)	8237
FALEAUTO, Ted (Citizen's Power)	8160
JOHNSTON, Malcolm (Citizen's Power)	7302
KYD, Warren (Citizens & Ratepayers Now)	21962 *
MONTGOMERY, Robyn (Independent)	6515
NASH, Stuart (Powerlynk)	18854
OVENS, Jill (Powerlynk)	18033
PARKIN, Barry Ian (Independent)	4796
RYAN, Paul	4742
SHERRY, Karen (Citizens & Ratepayers Now)	22830 *
VAN CAMP, Coralie (Powerlynk)	19840
VICKERS, Jennie (Independent)	7597
VOYCE, Margaret (Citizens & Ratepayers Now)	17729
WINTER, Pauline A (Powerlynk)	20725

*- One of five highest-polling candidates

The following people were elected as trustees of the AECT:

Michael Buczkowski, Shale Chambers, John Collinge, Warren Kyd and Karen Sherry.

There were a total of 16 ordinary and special meetings of the AECT during the year ended 30 June 2004.

The following is a summary of attendances:

Warren Kyd	10	from November 2003
Shale Chambers	10	from November 2003
John Collinge	16	
Michael Buczkowski	13	
Karen Sherry	14	
Pauline Winter	6	to October 2003
Coralie van Camp	6	to October 2003

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

Vector Limited

The board of directors of Vector Limited reported a very successful year for the Company, in which it met or exceeded the majority of its performance targets.

The table attached contains Vector's performance measures against the financial and non-financial targets agreed with the Trust at the beginning of the financial year. Key points reported by Vector included:

A number of extreme weather events in all network areas resulted in the company just missing its reliability target, which was based on a previous 5 year average. However, Vector management has focused on learning from these events to improve fault response processes in all weather conditions, and is confident that it is now better positioned to handle similar future events.

The company experienced significant improvement in its customer satisfaction and complaint resolution measures.

The annual staff satisfaction survey results placed Vector in the top quartile of an international index, reflecting the successful integration of the United Networks and Vector businesses, and the focus on developing a new culture and creating an enjoyable working environment. Staff satisfaction and retention has become especially important in an increasingly tight employment market.

Trustees would like to congratulate the board, management and staff of Vector for this outstanding achievement.

Overhead Improvement

As part of the Deed Recording Essential Operating Requirements, Vector is committed to developing undergrounding projects in the Auckland network area. In the year to 30 June 2004, Vector successfully completed two large-scale projects in the Papatoetoe and Avondale areas. For each of these projects, Vector adopted a 'dig-once' approach in partnership with Councils, Telecom and the water utilities, to totally revitalise the local area.

Several smaller-scaled projects were also successfully completed, the more significant of which were in Weymouth, Sandringham, Parnell, and Eastern Beach. More than \$12.5M was spent on undergrounding work in Auckland, Manukau and Papakura during the year.

2003 Vector Dividend

In August 2003, Vector announced an after tax net surplus of \$49.7 million for the 15-month period to 30 June 2003. A dividend of \$32.2 million was paid to the AECT on 29 August.

Included with the September 2003 distribution was the balance of the funds set aside for former customers and the unclaimed balance from the 2001 Dividend Distribution, which Trustees are obliged to keep for 2 years. These funds totalled \$11.975 million and together with the Vector dividend resulted in a \$44.175 million distribution to 285,000 income beneficiaries.

Our income beneficiaries received net cash distribution of \$155 which appeared on consumers' power accounts from mid September 2003.

2004 Vector Dividend

Subsequent to our balance date Vector has announced an after tax net surplus of \$57.8 million for the year to 30 June 2004. A dividend of \$49.1 million was paid to the AECT on 31 August 2004.

After receiving the Vector dividend and retaining funds for Trust Operating Expenses, \$48.62 million will be distributed to 286,000 income beneficiaries.

This will result in a net cash distribution of \$170 per consumer, an increase of over 9% on last year's dividend payment. The increase in dividend reflects the success of Vector's merger with United Networks and its transformation into a high performing multi-network infrastructure company.

The dividend will appear on consumers' power accounts from mid September 2004.

Board of Directors

Trustees meet with the Chairman of the Board and the Chief Executive on an ongoing basis.

Messrs Brian Plimmer and Don McLaren retired from the Board in December 2003 in accordance with the Company's constitution and were reappointed.

The AECT received the resignation of Mr Wayne Boyd in June 2004. Mr Boyd had been a director of Vector since 11 September 2002 and while this has not been a lengthy period I have no doubt of the significant contribution he has made to the Board during that time, especially during the successful integration of United Networks.

Trustees would like to express their sincere appreciation of Wayne's past services to the Company and to wish him well for the future.

Trustee Directors

At a meeting of the AECT on 8 June 2004 it was resolved that the Trust "will not appoint any trustee as a director of Vector Limited" and Mr John Collinge ceased to be a director from June 2004.

Financial Review

The audited financial statements of the Trust for the year ended 30 June 2004 follow.

Due to the balance date change in the 2003 year the comparative figures in the financial statements of the Trust are for the 15 month period 1 April 2002 to 30 June 2003.

Interest of \$470,000 was earned by the Trust in the 2004 year. This interest is significantly less than last year as the Trust was previously required to retain funds for distribution to former beneficiaries. These commitments were fulfilled during the

year and the surplus funds of \$11.975 million were distributed to all beneficiaries in September 2003 along with the full amount of the dividend received from Vector Limited of \$32.2 million.

Expenditure for the Trust for the year was \$2.04 million as against \$2.32 million for the 15 months ended 30 June 2003. There was a slight increase in expenditure of \$15,000 per month on average. Given the significant consultancy fees incurred during the year, the additional costs with regard to the requirement to consolidate financial statements and the fact that the Triennial Elections were held in October 2003, the Trustees are very pleased with this result.

Consolidation

We continue to argue that the government's requirement to consolidate the Trust's accounts with those of Vector only serves to confuse beneficiaries and add an unnecessary cost of approximately \$52,000. Trustees believe that the attached consolidated accounts prove that there is not the 'transparency' that the Minister of Energy insists that consolidation will achieve.

Annual Meeting of Beneficiaries

The third annual meeting of beneficiaries will be held on Wednesday 3 November at the Ellerslie Convention Centre, commencing at 7pm. At that meeting the Trustees will recommend the appointment of new auditors of the Trust (see below) and it will again be an opportunity to seek your feedback on the management of the Trust.

Appointment of Auditors 2004

Ernst & Young are the current auditors of the AECT having been appointed last year. Trustees will be recommending to beneficiaries that Ernst & Young be appointed auditors of the AECT for the year ended 30 June 2005.

Website and Logo

The website is continuing to be a vital asset of the AECT providing up to date information to the general public. This year the website was significantly upgraded with the new logo and colours. The website can be accessed at www.aect.co.nz

Electricity Trusts Association of New Zealand (ETNZ)

We are pleased to have been able to support this organisation during the year, especially with our Executive Officer's appointment as the Association's executive

secretary in July 2003. Our industry faces enormous challenges and it is vital that trustees are kept in touch with industry issues on an ongoing basis. The AECT acts as a communications centre for this information which is shared with the ETNZ membership. The ETNZ recompenses the AECT financially for providing its services. Our trustees have attended the ETNZ meetings and other industry conferences as required.

Events after Balance Date

Vector director, Margo Buchanan-Oliver resigned post balance date (August) due to family reasons and the Chief Executive Officer was appointed by the Board to fill the casual vacancy. Dr Buchanan-Oliver had been a director since March 2002 and I would like to recognise the significant contribution she has made to the Board during that time, especially during the successful integration of United Networks.

On 11 October 2004, the Chairman of Vector Limited announced that the company has reached an agreement to purchase The Australian Gas Light Company's (AGL) 66.05% stake in NGC Holdings Limited.

Completion of the acquisition is subject to an exemption being granted by the Takeovers Panel, which would allow AGL to sell its New Zealand holding company (AGL NZ Limited) to Vector, rather than its NGC shares. This company holds 64.2% of NGC. AGL also directly owns a further 1.8% stake. An offer is expected to be made to NGC's other shareholders in due course on an equivalent basis.

The offer is also conditional on Commerce Commission approval and an exemption under the Electricity Industry Reform Act (EIRA) in regard to NGC's interest in electricity generation.

The acquisition by Vector of AGL's 66 percent shareholding in NGC has major benefits for AECT beneficiaries, including:

- Providing Vector greater opportunities in the energy market;
- Strong prospects of increased dividends;
- Significant strategic assets remain in the ownership of New Zealand, and most particularly AECT beneficiaries;
- Continuation of the under grounding programme, along with sound security of supply processes.

Tributes

The Trust is well served by its Executive Officer, Gary Sturgess, and his Administrator, Joy Stevens through their hard work and commitment. This team has

developed a high level of knowledge about the Trust's activities and responsibilities and provides a dedicated service to the trustees.

I would like to record Pauline Winter's and Coralie van Camp's contribution to the Trust during the period they were elected trustees.

Finally, I would like to thank my fellow trustees for their contribution throughout the year and their support to me as Chairman since December 2003.

Warren Kyd
Chairman
October 2004