



Independent auditor's report

For the year ended 30 June 2011

To the directors of Vector Limited

Report on the Group special purpose financial statements

We have audited the accompanying special purpose financial statements of the gas distribution activities of Vector Limited and its subsidiaries ("the Group"). The special purpose financial statements comprise the gas distribution activities' statement of financial position as at 30 June 2011, the statement of comprehensive income for the year then ended, and a summary of significant accounting policies and other explanatory information. The special purpose financial statements have been prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997 ("the Regulations").

Director's responsibility for the special purpose financial statements

The directors are responsible for the preparation of these special purpose financial statements in accordance with the requirements of the Regulations, and for such internal control as the directors determine is necessary to enable the preparation of special purpose financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the special purpose consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the special purpose consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the special purpose consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm also performs the audit of the statutory financial statements of the Group, as well as providing other related assurance services and general accounting services. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Opinion

In our opinion, the special purpose financial statements of Vector Limited's gas distribution activities for the year ended 30 June 2011 are prepared, in all material respects, in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

Basis of accounting and use of this report

Without modifying our opinion, we draw attention to the statement of accounting policies to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared to assist Vector Limited to meet the requirements of the Gas (Information Disclosure) Regulations 1997. As a result, the special purpose financial statements may not be suitable for another purpose.

Our report is intended solely for the directors of Vector Limited and the Ministry of Economic Development and should not be distributed to or used by any parties without our prior written consent.

Report on other regulatory requirements

The special purpose financial statements of Vector Limited's gas distribution activities include financial and efficiency performance measures. Our opinion on this information is separately stated and not included in this report.



22 February 2012
Auckland



Independent auditor's report

For the year ended 30 June 2011

To the directors of Vector Limited

Report on the performance measures

We have audited the accompanying financial and efficiency performance measures. These performance measures have been prepared by Vector Limited and its subsidiaries ("the Group") in respect of its gas distribution activities for the purposes of regulations 15 and 16 of the Gas (Information Disclosure) Regulations 1997 ("the Regulations"). These measures are disclosed in the Group's Gas Distribution Activities Information Disclosure financial statements for the year ended 30 June 2011.

Director's responsibility for the performance measures

The directors are responsible for ensuring that the financial and efficiency performance measures are prepared in accordance with Schedule 1 of the Gas (Information Disclosure) Regulations 1997 and for such internal control as the directors determine necessary to enable the preparation of the financial and efficiency performance measures that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to examine the financial performance measures prepared in accordance with clause 1 of Part 2 of Schedule 1 of the Regulations and the financial components (being "direct expenditure" and "indirect expenditure") of the efficiency performance measures prepared in accordance with clause 2 of Part 2 of Schedule 1 of the Regulations and to report thereon based on the evidence obtained. We have not been engaged to provide any assurance in respect of the non-financial components of the efficiency performance measures or on the energy delivery efficiency performance measures and statistics. We conducted the engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and the Standard on Assurance Engagements (New Zealand) 3100: *Compliance Engagements* issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance about whether the financial and efficiency performance measures are prepared, in all material respects, in accordance with the Regulations.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial and efficiency performance measures whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the financial and efficiency performance measures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Group's internal control.

Our firm also performs the audit of the statutory financial statements of the Group, as well as providing other related assurance services and general accounting services. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business. These matters have not impaired our independence as auditors of the Group. The firm has no other relationship with, or interest in, the Group.



Opinion

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion:

- the financial performance measures are prepared in all material respects, in accordance with clause 1 of Part 2 of Schedule 1 of the Regulations; and
- the financial components of the efficiency performance measures (being “direct expenditure” and “indirect expenditure”) are prepared, in all material respects, in accordance with clause 2 of Part 2 of Schedule 1 of the Regulations.

Use of this report

This report has been prepared solely for the use of Vector Limited for the purpose of compliance with regulations 15 and 16 the Gas (Information Disclosure) Regulations 1997 and for no other purpose. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Vector Limited and the Ministry of Economic Development, or for any purpose other than that for which it was prepared.

A handwritten signature in blue ink, appearing to read 'KPMG'.

22 February 2012
Auckland

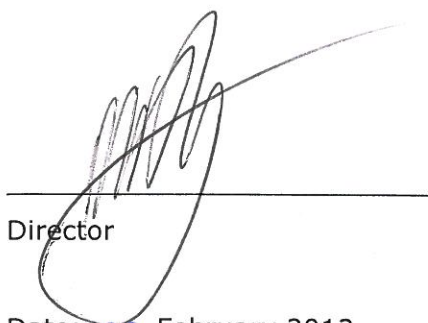


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**CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES,
AND STATISTICS DISCLOSED BY PIPELINE OWNERS OTHER THAN THE
CORPORATION**

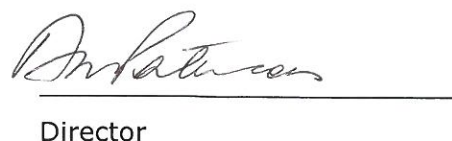
We, Michael Peter Strauss and Alison Mae Paterson,
directors of Vector Limited, certify that, having made all reasonable enquiry, to
the best of our knowledge, –

- (a) The attached audited financial statements of Vector Limited, prepared
for the purposes of regulation 6 of the Gas (Information Disclosure)
Regulations 1997, comply with the requirements of that regulation;
and
- (b) The attached information, being the financial performance measures,
efficiency performance measures, energy delivery performance
measures and statistics, and reliability performance measures in
relation to Vector Limited, and having been prepared for the purposes
of regulations 15 to 19 of the Gas (Information Disclosure) Regulations
1997, complies with the requirements of those regulations.



Director

Date: 22 February 2012



Director

Date: 22 February 2012

VECTOR LIMITED
&
SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES
2011

INFORMATION FOR DISCLOSURE

PURSUANT TO THE
GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

VECTOR LIMITED & SUBSIDIARIES
GAS DISTRIBUTION ACTIVITIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$000	2010 \$000
Operating revenue		80,465	80,765
Total income		80,465	80,765
Network and asset maintenance expenses		(8,193)	(7,651)
Personnel expenses		(10,703)	(9,268)
Other expenses		(7,443)	(6,437)
Operating expenditure		(26,339)	(23,356)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		54,126	57,409
Depreciation and amortisation		(11,551)	(11,924)
Profit before interest and income tax	1	42,575	45,485
Finance costs	2	(17,915)	(18,673)
Profit before income tax		24,660	26,812
Income tax expense	3	(6,853)	(4,292)
Net profit for the period		17,807	22,520
Total comprehensive income for the period		17,807	22,520



VECTOR LIMITED & SUBSIDIARIES
GAS DISTRIBUTION ACTIVITIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	NOTE	2011 \$000	2010 \$000
CURRENT ASSETS			
Receivables and prepayments	5	11,186	10,035
Inventories		13	13
Total current assets		11,199	10,048
NON-CURRENT ASSETS			
Intangible assets	7	170,921	170,756
Property, plant and equipment	8	419,152	408,361
Total non-current assets		590,073	579,117
Total assets		601,272	589,165
CURRENT LIABILITIES			
Payables and accruals	9	14,974	12,669
Provisions	10	1,172	735
Income tax		-	3,301
Notional borrowings	11	32,244	25,482
Total current liabilities		48,390	42,187
NON-CURRENT LIABILITIES			
Payables and accruals	9	23	66
Notional borrowings	11	219,366	236,050
Deferred tax	4	62,168	57,344
Total non-current liabilities		281,557	293,460
Total liabilities		329,947	335,647
EQUITY			
Notional reserves	6	271,325	253,518
Total equity		271,325	253,518
Total equity and liabilities		601,272	589,165



VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

REPORTING ENTITIES

These financial information disclosure statements comprise the gas distribution activities of Vector Limited and its subsidiaries. The gas distribution activities involve the ownership and supply of pipeline function services for the distribution of gas.

Vector Limited and its subsidiaries are companies registered under the Companies Act 1993. The gas distribution activities are undertaken by Vector Limited and its subsidiaries, the financial statements of which are consolidated into the Vector Limited financial statements for the year ended 30 June 2011 which have been prepared in accordance with New Zealand International Financial Reporting Standards. These financial statements have been prepared in accordance with accounting policies detailed below and the disclosures correspond accordingly.

These financial information disclosure statements for the gas distribution activities are special purpose financial reports.

STATUTORY BASE

The consolidated financial information disclosure statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

MEASUREMENT BASE

The consolidated financial information disclosure statements are prepared on the basis of historical cost and should be read in conjunction with the accounting policies in Vector Limited's annual report for the year ended 30 June 2011.

The avoidable cost allocation methodology (ACAM) as described in the Electricity Information Disclosure Handbook 31 March 2004 has been adopted, for the allocation of revenues, costs, assets and liabilities between the regulated activities and other activities of the company. Under the Gas (Information Disclosure) Regulations 1997, there is no mandated allocation methodology, thus ACAM as prescribed in the Electricity Information Disclosure Handbook has been applied.

The gas distribution activities undertaken by Vector Limited and the gas distribution activities undertaken by Vector's subsidiaries are treated as separate regulated standalone businesses and then consolidated for presentation in these information disclosure statements. This approach has been adopted as Vector Limited's Auckland gas distribution business was subject to a provisional price control authorisation issued by the Commerce Commission (Commerce Act (Natural Gas Services) Provisional Authorisation 2005), at balance date.

The allocations have been carried out on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the activity.
- For any components of financial statement items that are not directly attributable to an activity:
 - By assessing the proportions of those components which are avoidable and non-avoidable; and
 - Allocating those components amongst the activities on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are the number of employees and the book value of property, plant and equipment. Some costs, for example IT costs and non-system asset depreciation, are separately analysed and are allocated using allocators specific to those costs.

All financial statement items not allocated to the standalone gas distribution activities, are allocated to other activities within the Vector group. Other activities are not disclosed within these consolidated financial information disclosure statements.

Where appropriate comparatives have been restated to ensure consistency with current year disclosures.

GOING CONCERN

The financial statements have been prepared on a going concern basis.



VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of profit or loss and statement of financial position items have been applied consistently to all periods presented in the consolidated financial statements.

A) BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are those entities controlled, directly or indirectly by Vector Limited. The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

Goodwill arising on acquisition

Goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is measured at cost less accumulated impairment losses.

B) REVENUE

Sale of services

Sales of services are recognised at fair value of the consideration received or receivable as the services are delivered, or to reflect the percentage completion of the related services where delivered over time.

Customer Contributions

Third party contributions towards the construction of property, plant and equipment are recognised in the statement of comprehensive income to reflect the percentage completion of construction of those related items of property, plant and equipment. Contributions received in excess of those recognised in the statement of comprehensive income are recognised as deferred income in the statement of financial position. Where a portion of the contribution is subject to rebates based on connection targets, the expected amount of future rebates is also recognised as deferred income in the statement of financial position.

C) GOODS AND SERVICES TAX (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST.

D) RECEIVABLES

Receivables are carried at estimated realisable value after providing against debts where collection is doubtful.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment is recognised when there is objective evidence that the company will not be able to collect amounts due according to the contractual terms to which the receivable relates. The amount provided is the difference between the receivable's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. Discounting is not applied to receivables where collection is expected to occur within the next twelve months.

E) INVENTORIES

Inventories are measured at lower of cost and net realisable value. The cost of inventories is determined on a weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price less the estimated costs of completion and selling expenses.

F) INCOME TAX

Income tax expense comprises current and deferred tax.

Income tax assets and liabilities are the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at balance date, and any adjustment to tax payable or receivable in respect of previous years. During the financial period, the income tax liability or asset is estimated based on the forecast effective tax rate for that entire financial period.

VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F) INCOME TAX (CONTINUED)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Movements in deferred tax assets and liabilities are recognised within tax expense in the statement of comprehensive income unless the temporary difference initially arose in equity or the difference resulted from application of ACAM to statement of financial position items in which case the movement is then recognised as an adjustment in equity and / or borrowings against the item to which the temporary difference relates.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance date.

Deferred tax assets including unutilised tax losses are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at balance date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible assets expected to be used during more than one financial period and include spares held for the servicing of other property, plant and equipment that is owned.

The initial cost of purchased property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and the value of other directly attributable costs, which have been incurred in bringing the property, plant and equipment to the location and condition necessary for the intended service.

The initial cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, financing costs that are attributable to the project, costs of ultimately dismantling and removing the items and restoring the site on which they are located (where an obligation exists to do so) and an appropriate proportion of the other directly attributable overheads incurred in bringing the items to working condition for their intended use. Financing costs that would have been avoided if the expenditure on qualifying assets had not been made are capitalised while the construction activities are in progress. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any costs of abnormal waste.

Uninstalled property, plant and equipment are stated at the lower of cost and estimated recoverable amount. Estimated recoverable amount is the greater of the estimated amount from the future use of the property, plant and equipment and its ultimate disposal, and its fair value less costs to sell.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure can be measured reliably and either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time. The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

H) IDENTIFIABLE INTANGIBLE ASSETS

Goodwill

Goodwill is allocated to the operating segments, being the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is then tested annually for impairment against the recoverable amount of the operating segments to which goodwill has been allocated.

Software

Software that is not integral to the functionality of the related hardware is classified as an intangible asset. It is amortised on a straight line basis over its useful life, commencing on the date it is available for use. Software assets which are integral to the operation of the related hardware are classified as computer equipment within property, plant and equipment. Software intangible assets have a useful life of between 2 and 10 years.

VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H) IDENTIFIABLE INTANGIBLE ASSETS (CONTINUED)

Other identifiable intangible assets

Other identifiable intangible assets include easements and intellectual property assets.

Easements are perpetual rights to use land owned by others for a stated purpose and are classified as intangible assets. Easements are not amortised.

Intellectual property assets include engineering standards, pricing and billing models, customer contracts and relationships and designations and other existing use rights. Intellectual property assets are amortised on a straight line basis over their useful lives.

I) DEPRECIATION

Depreciation of property, plant and equipment other than freehold land is calculated on a straight line basis so as to expense the cost of the property, plant and equipment, less any expected residual value, to the statement of comprehensive income over its useful economic life.

Depreciation commences when the item of property, plant and equipment is brought into productive use, or when such items become available for use.

ESTIMATED USEFUL LIVES YEARS

Distribution systems	10 – 100
Plant, vehicles and equipment	3 – 40

J) LEASED ASSETS

Finance leases

Property, plant and equipment under finance leases, where substantially all the risks and rewards of ownership are assumed by the gas distribution activities as lessee, are recognised as non-current assets in the statement of financial position. Leased property, plant and equipment are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment apportioned between the reduction of the outstanding liability and the finance expense. The finance expense is charged to the statement of comprehensive income in each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Leased property, plant and equipment are depreciated over the shorter of the lease term and the useful life of equivalent owned property, plant and equipment.

Operating leases

Payments made under operating leases, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are recognised in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Property, plant and equipment used under operating leases are not recognised in the statement of financial position.

Leasehold improvements

The cost of improvements to leasehold property are capitalised and depreciated over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

K) PROVISIONS

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long-term leave and other benefits are recognised when they accrue to employees.



VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K) PROVISIONS (CONTINUED)

Other provisions

Provisions are liabilities which arise where it is considered, as a result of a past event, that a constructive or legal obligation exists to settle items in the foreseeable future. A provision is recognised where the likelihood of a resultant liability is considered more probable than not and the amount required to settle the liability can be reliably estimated. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

Provisions are estimated by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where a provision is currently expected to be utilised within one year, or where the future actions of a third party could cause the liability to be settled within one year, the provision is not discounted.

The amortisation or unwinding of any discount applied in establishing the net present value of provisions is charged to finance costs in the statement of comprehensive income as the period of discounting diminishes.

L) FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions unless transactions are hedged by foreign currency derivative instruments. Foreign currency differences arising on translation are recognised in the statement of comprehensive income. At balance date foreign monetary assets and liabilities are translated at the functional currency closing rate, and exchange variations arising from these translations are included in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historic cost are not retranslated at balance date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined and are not retranslated at balance date.

M) IMPAIRMENT

The carrying amounts of the assets are reviewed at balance date to determine whether there is any evidence of impairment.

Where assets are deemed to be impaired, the impairment loss is the amount that the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of comprehensive income.

Impairment of receivables

The carrying amount of the receivables is compared to the recoverable amount which is amortised cost. Amortised cost is estimated as the present value of estimated future cash flows. Long term receivables are discounted to reflect the time value of money. An impairment loss is recognised if the carrying amount of a receivable or grouping of similar receivables exceeds its recoverable amount. Receivables with a short duration are not discounted.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue, and taking into account previous experience of doubtful or delayed collection of debts on portfolios with a similar amount of days overdue.

Impairment of non-financial assets

The carrying amounts of the non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists then the asset's carrying amount is compared to its recoverable amount to determine the level of impairment if any. For goodwill, recoverable amount is determined at least annually and compared with the carrying value for impairment testing purposes.

VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M) IMPAIRMENT (CONTINUED)

Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each balance date for any indications that the loss has decreased or no longer exists. An impairment loss may be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed to the statement of comprehensive income only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Refer to the accounting policies in Vector Limited's annual report for the year ended 30 June 2011 for detailed information.

APPROVAL OF FINANCIAL STATEMENTS

The financial information disclosure statements, performance measures and statistics were approved by the board of directors on 22 February 2012.



VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1. PROFIT BEFORE INTEREST AND INCOME TAX

	2011 \$000	2010 \$000
Profit before interest and income tax includes:		
Bad debts written off	2,094	16
Decrease in provision for doubtful debts	(100)	(144)
Rental and operating lease costs	320	602
Directors' fees	133	100
Audit fees	217	115
Personnel expenses	10,703	9,268
Loss/(profit) on disposal of property, plant and equipment and software	101	(44)
Depreciation of property, plant and equipment:		
Distribution systems	9,785	9,515
Plant, vehicles and equipment	725	1,137
Amortisation of software and other intangibles	1,041	1,272

2. FINANCE COSTS

	2011 \$000	2010 \$000
Interest expense	18,316	19,150
Capitalised interest	(401)	(477)
Total	17,915	18,673

3. INCOME TAX EXPENSE

	2011 \$000	2010 \$000
Profit before income tax	24,660	26,812
Tax at current rate of 30%	7,398	8,044
Future reduction in tax rate impacting deferred tax	(328)	(4,096)
Future change in buildings depreciation rules impacting deferred tax	2	12
Non taxable items:		
Customer contributions	-	(629)
Prior year adjustments	(195)	263
Other	(24)	698
Income tax expense	6,853	4,292
The income tax expense is represented by:		
Current income tax	2,363	3,322
Deferred income tax	4,490	970
Total	6,853	4,292

In May 2010 the Government announced a reduction in the company tax rate to 28% and the removal of depreciation deductions for buildings, effective from the 2011/2012 income year. In accordance with NZ IAS 12, the deferred tax liability has been re-measured to reflect these changes.



VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

4. DEFERRED TAX

	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS, ACCRUALS AND OTHER \$000	TOTAL \$000
2011			
Balance at beginning of the period	(58,166)	822	(57,344)
Amounts recognised in the statement of comprehensive income:			
Relating to the current period	(5,230)	494	(4,736)
Prior period adjustments recognised in the current period	(27)	(53)	(80)
Relating to future reduction in tax rate	357	(29)	328
Relating to future change in buildings depreciation rules	(2)	-	(2)
Amounts recognised directly in the statement of financial position in relation to allocated assets and liabilities	(100)	(234)	(334)
Balance at end of the period	(63,168)	1,000	(62,168)
Deferred tax assets	-	1,000	1,000
Deferred tax liabilities	(63,168)	-	(63,168)
Net deferred tax (liabilities) / assets	(63,168)	1,000	(62,168)

	PROPERTY, PLANT AND EQUIPMENT \$000	PROVISIONS, ACCRUALS AND OTHER \$000	TOTAL \$000
2010			
Balance at beginning of the period	(56,738)	107	(56,631)
Amounts recognised in the statement of comprehensive income:			
Relating to the current period	(5,444)	635	(4,809)
Prior period adjustments recognised in the current period	(20)	(225)	(245)
Relating to future reduction in tax rate	4,154	(58)	4,096
Relating to future change in buildings depreciation rules	(12)	-	(12)
Amounts recognised directly in the statement of financial position in relation to allocated assets and liabilities	(106)	363	257
Balance at end of the period	(58,166)	822	(57,344)
Deferred tax assets	-	822	822
Deferred tax liabilities	(58,166)	-	(58,166)
Net deferred tax (liabilities) / assets	(58,166)	822	(57,344)

5. RECEIVABLES AND PREPAYMENTS

	2011 \$000	2010 \$000
Current		
Trade receivables	10,578	9,217
Provision for doubtful debts	(73)	(173)
	10,505	9,044
Prepayments	681	991
Total	11,186	10,035

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GAS DISTRIBUTION ACTIVITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

6. NOTIONAL RESERVES

	2011 \$000	2010 \$000
Balance at beginning of the period	253,518	230,998
Net profit for the period	17,807	22,520
Balance at end of the period	271,325	253,518

7. INTANGIBLE ASSETS

	COST \$000	ACCUMULATED AMORTISATION \$000	CARRYING AMOUNT \$000
2011			
Goodwill	166,427	-	166,427
Software	13,736	(10,657)	3,079
Other	1,672	(257)	1,415
Total	181,835	(10,914)	170,921

	COST \$000	ACCUMULATED AMORTISATION \$000	CARRYING AMOUNT \$000
2010			
Goodwill	166,427	-	166,427
Software	11,507	(8,597)	2,910
Other	1,633	(214)	1,419
Total	179,567	(8,811)	170,756

8. PROPERTY, PLANT AND EQUIPMENT

	COST \$000	ACCUMULATED DEPRECIATION \$000	CARRYING AMOUNT \$000
2011			
Distribution systems	475,930	(58,569)	417,361
Plant, vehicles and equipment	6,821	(5,342)	1,479
Capital work in progress	312	-	312
Total	483,063	(63,911)	419,152

	COST \$000	ACCUMULATED DEPRECIATION \$000	CARRYING AMOUNT \$000
2010			
Distribution systems	446,682	(48,668)	398,014
Plant, vehicles and equipment	5,318	(4,162)	1,156
Capital work in progress	9,191	-	9,191
Total	461,191	(52,830)	408,361

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment largely at a capitalisation rate of 7% per annum. During the year \$0.4 million (30 June 2010: \$0.5 million) of interest and other costs were capitalised.



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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

9. PAYABLES AND ACCRUALS

	2011 \$000	2010 \$000
Current		
Trade payables and other creditors	11,920	9,207
Finance leases	31	86
Interest payable	3,023	3,376
Total	14,974	12,669
Non-current		
Finance leases	23	66
Total	23	66

10. PROVISIONS

	2011 \$000	2010 \$000
Balance at beginning of the period	735	1,025
Increase / (decrease) in provision for employee entitlements	437	(290)
Balance at end of the period	1,172	735

11. NOTIONAL BORROWINGS

Notional borrowings reflect the debt/equity mix of the Vector group.

The interest cost on the notional borrowings has been calculated using the Vector group's weighted average cost of debt.

12. COMMITMENTS

	2011 \$000	2010 \$000
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided	1,751	3,540
Operating lease commitments		
Within one year	286	517
One to five years	958	35
Beyond five years	935	24
Total	2,179	576

The majority of the operating lease commitments relate to premises leases.



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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

12. COMMITMENTS (CONTINUED)

	2011 \$000	2010 \$000
Finance lease commitments		
Within one year	37	98
One to five years	30	74
Total	67	172
Less: future finance costs	(13)	(20)
Present value of minimum lease payments	54	152
 Present value of finance lease liabilities		
Within one year	31	86
One to five years	23	66
Present value of minimum lease payments	54	152

Finance leases relate to motor vehicles with varying lease terms.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FOREIGN EXCHANGE RISK

Transactions are conducted in foreign currencies for the purpose of protecting the NZD value of capital expenditure. Forward exchange contracts are used to hedge forecasted foreign currency exposure arising out of the capital expenditure programme. Hence at balance date no significant exposure to foreign currency risk exists.

CREDIT RISK

In the normal course of business, there is exposure to credit risks from energy retailers and customers. Credit policies are in place, which are used to manage the exposure to credit risks.

	2011 CARRYING AMOUNT \$000	2010 CARRYING AMOUNT \$000
Receivables and prepayments	11,186	10,035

14. CONTINGENT LIABILITIES

Claims against the gas distribution activities, where appropriate, have been recognised and disclosed within provisions. No other material contingent liabilities requiring disclosure have been identified.



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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

15. TRANSACTIONS WITH RELATED PARTIES

NATURE OF THE TRANSACTION	RELATED PARTY	2011 \$000	2010 \$000
Gas distribution activities sold distribution services based on standard terms and conditions	Gas Retailing Activities	7,368	8,289

(Distribution services charges are paid by related parties at the time of billing.)



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GAS DISTRIBUTION ACTIVITIES

FINANCIAL AND EFFICIENCY PERFORMANCE MEASURES

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010	2009	2008
1 Financial performance measures				
a (i) Accounting return on total assets (excluding current borrowings in working capital)	10.31%	11.24%	9.48%	9.52%
a (ii) Accounting return on total assets (including current borrowings in working capital)	11.18%	11.71%	10.89%	11.61%
b Accounting return on equity	6.79%	9.30%	6.41%	4.27%
c (i) Accounting rate of profit (excluding current borrowings in working capital)	7.61%	9.77%	7.81%	6.75%
c (ii) Accounting rate of profit (including current borrowings in working capital)	8.25%	10.18%	8.97%	8.22%
2 Efficiency performance measures				
a Direct line costs per kilometre	\$799	\$753	\$701	\$707
b Indirect line costs per gas customer	\$120	\$104	\$109	\$116



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GAS DISTRIBUTION ACTIVITIES

ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES AND STATISTICS (UNAUDITED)

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010	2009	2008
3 Energy delivery efficiency performance measures				
Load factor	79.07%	80.32%	78.41%	80.59%
Unaccounted for gas ratio	0.94%	1.40%	1.64%	1.40%
4 Statistics				
System length (km)	10,252	10,155	10,061	9,911
Maximum monthly amount of gas entering system (GJ)	2,227,103	2,202,174	2,296,534	2,287,144
Total annual amount of gas conveyed through system (GJ)	21,132,754	21,226,186	21,607,463	22,117,219
Total annual amount of gas conveyed through system for persons not in a prescribed business relationship (GJ)	14,286,380	13,121,726	12,605,677	11,999,196
Total number of customers	151,104	150,892	148,357	145,122

VECTOR LIMITED & SUBSIDIARIES

GAS DISTRIBUTION ACTIVITIES

RELIABILITY PERFORMANCE MEASURES (UNAUDITED)

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010	2009	2008
5 Reliability performance measures				
Unplanned transmission system interruptions (hours)	2.0	n.a	n.a	n.a
Unplanned distribution system interruptions not related to transmission system interruptions (hours/customer)	0.0114	0.0259	0.0072	0.0305
Unplanned distribution system interruptions related to transmission system interruptions (hours/customer)	-	-	-	-