CORE STRENGTHS

NEW IDEAS

Vector

"VECTOR IS WELL PLACED TO ASCEND TO THE NEXT LEVEL OF ITS DEVELOPMENT. THE BUILDING BLOCKS ARE IN PLACE, BUT WE MUST BE AS EFFICIENT, FLEXIBLE AND VALUE-FOCUSED AS WE CAN BE. OUR FOCUS IS THEREFORE ON IMPROVED COST EFFICIENCY, OPERATIONAL EXCELLENCE AND DISCIPLINED GROWTH."

– MICHAEL STIASSNY, CHAIRMAN

“WE CONSTANTLY SEEK NEW WAYS TO MORE EFFICIENTLY USE THE ASSETS, RESOURCES AND SKILLS ACCUMULATED THROUGH THE SUCCESSFUL GROWTH STRATEGY OF THE LAST FEW YEARS.”

– SIMON MACKENZIE, ACTING CHIEF EXECUTIVE OFFICER

ENHANCING OUR CORE STRENGTHS

ELECTRICITY DISTRIBUTION

GAS TRANSPORTATION AND SALES

HIGH SPEED BROADBAND SERVICES

OFFERING NEW IDEAS

RENEWABLE ENERGY INVESTMENT

RENEWABLE TECHNOLOGY EVALUATION

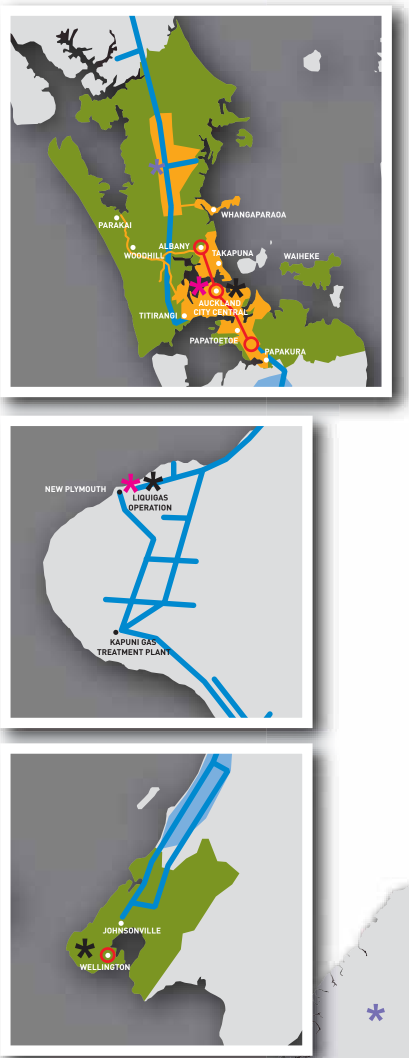
ADVANCED ENERGY METERING

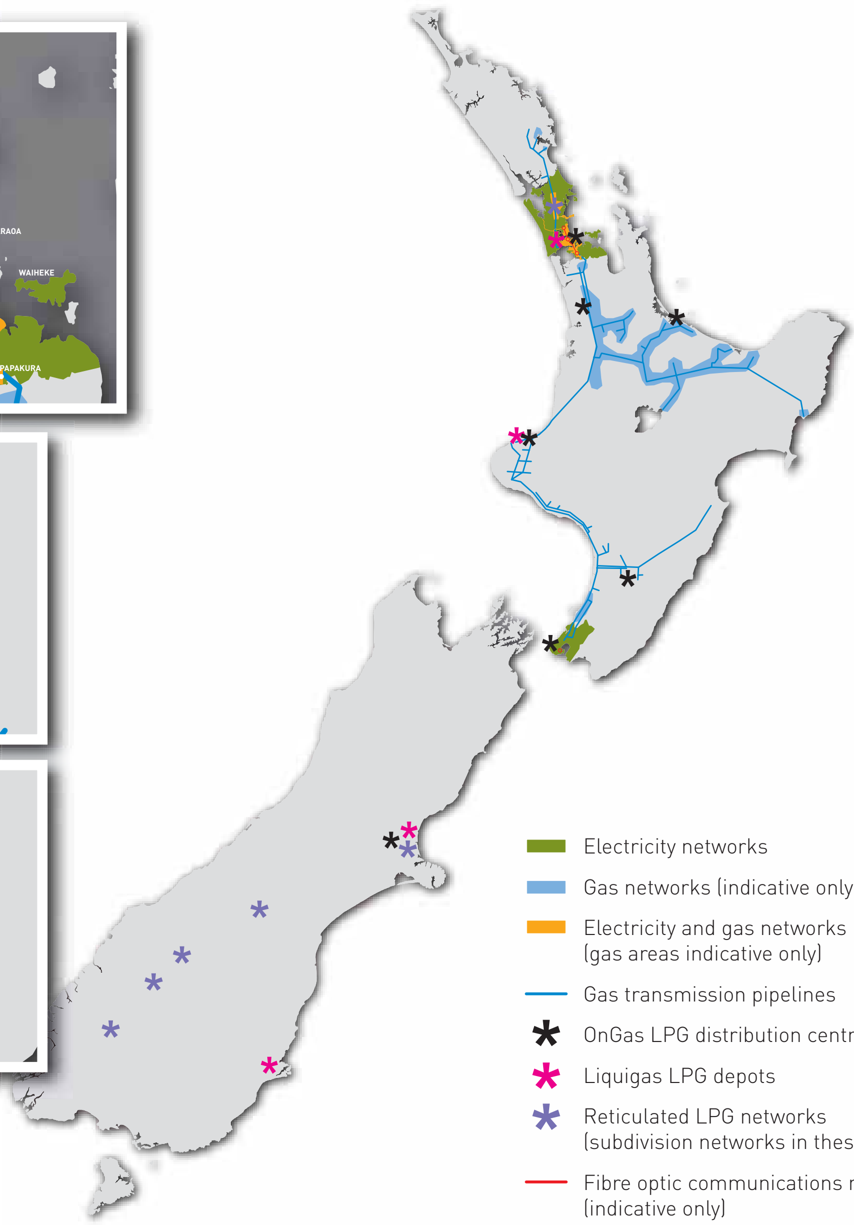
KEY FACTS

Vector's portfolio includes:

- Electricity networks servicing over 673,000 consumers in Auckland and Wellington
- A natural gas transmission system supplying all major populated areas of the North Island
- Natural gas distribution networks servicing more than 143,000 customers in over 30 towns and cities of the North Island
- Gas treatment and conditioning plants in Taranaki
- Liquefied petroleum gas (LPG) supply to almost 19,000 customers throughout New Zealand
- Electricity and gas metering services to approximately 874,000 homes and businesses throughout New Zealand
- The provision of metering data services to almost 15,000 customers in New Zealand and Australia
- Fibre-optic broadband communications networks in Auckland and Wellington
- A multi-utility training facility
- Fifty percent ownership of a professional arboriculture and vegetation management organisation

OPERATIONS COVERAGE





- Electricity networks
- Gas networks (indicative only)
- Electricity and gas networks (gas areas indicative only)
- Gas transmission pipelines
- OnGas LPG distribution centres
- Liquigas LPG depots
- Reticulated LPG networks (subdivision networks in these centres)
- Fibre optic communications networks (indicative only)

FINANCIAL PICTURE

YEARS ENDING 30 JUNE	2007 $M	2006 $M	CHANGE %
Operating revenue	1,352.9	1,133.0	+19.4
EBITDA	610.0	578.6	+5.4
Depreciation and amortisation	(241.0)	(215.9)	+11.6
EBIT	369.0	362.7	+1.7
NPAT – underlying business	61.6	45.1	+36.7
– one-off gain	40.1	–	–
Total NPAT	**101.7**	**45.1**	**+125.7**
NPATA[1] – underlying business	159.8	143.7	+11.2
– one-off gain	40.1	–	–
Total NPATA	**199.9**	**143.7**	**+39.1**
Total equity	1,903.0	1,925.9	-1.2
Total assets	5,728.9	5,718.6	+0.2
Net debt	3,127.6	3,081.1	+1.5
EBITDA / operating revenue	45.1%	51.1%	
EBIT / operating revenue	27.3%	32.0%	
Return (NPAT[2]) on equity	3.2%	2.3%	
Equity / total assets	33.2%	33.7%	
Net debt / net debt + equity	62.2%	61.5%	
Net interest cover[3]	1.6 times	1.6 times	
Earnings[2] per share[4]	6.2 cents	4.6 cents	
Dividends per share[5]	13.0 cents	12.0 cents	

1 Net profit after tax and before intangible asset amortisation

2 Excluding one-off gain

3 EBIT / net interest expense

4 2007 based on 1 billion shares; 2006 based on weighted average 972 million shares on issue throughout the year

5 All dividends fully imputed. 2006 based on 1 billion shares on issue after IPO

KEY FEATURES

- Net profit of $101.7 million includes a $40.1 million non-recurring gain from a deferred tax adjustment
- Net profit from underlying business 36.7% higher at $61.6 million
- Final dividend of 6.5 cents per share, fully imputed
- Total dividend for the year of 13.0 cents per share, fully imputed
- Improved earnings before interest, tax, depreciation and amortisation (EBITDA) contribution from all core businesses
- EBITDA increases by 5.4% to $610 million
- Successful rollover of $307.2 million capital bonds and refinancing of NZD $200 million medium term notes
- Strategic focus on core business enhancement and emerging technologies
- Initial ventures into renewable electricity generation
- Strengthened gas entitlements portfolio

PREPARING FOR A NEW ERA

Vector is entering a new phase in its growth. Our external operating environment is evolving rapidly and we are well positioned to contribute fully to growing consumer demands for first-world infrastructure and wider choice in how they source and use their energy.

For Vector, this coincides with a further consolidation of the business platform we have developed over the last few years.

In that time we have built an expanded company with the scale and competence to make a difference in developing infrastructure and delivering innovative energy management solutions for customers.

The building blocks are in place. The focus of the board and management now is to ensure that our businesses are as efficient, flexible and value-focused as they can be. A key element of our next phase is therefore to further enhance shareholder value creation and customer service improvements through a concerted drive on cost efficiency and operational excellence.

In parallel, we continue to seek appropriate growth opportunities within the disciplines of the investment environment, strategic fit and, of course, our financial capacity.

Vector is well placed to ascend to the next level of its development. Our infrastructure asset mix and expanding technical capabilities offer significant leverage potential as a multi-utility provider. In particular, we are assessing options for Vector in providing desperately needed true broadband services through our existing fibre-optic cable networks and in conjunction with our other infrastructure networks.

As international concerns over climate change drive policy developments aimed at renewable generation and energy conservation, we can expect a groundswell of customer demand for the tools and services to help them become more efficient in their energy use.

While, national policy initiatives must always have a sound economic basis and not lose sight of the country's overall economic and growth goals, there is an inevitability to significant change in the energy industry.

Infrastructure companies like Vector must evolve with it if we are to have continued relevance to future generations of energy users.

Initial ventures we have made in wind generation through a cornerstone shareholding in NZ Windfarms Limited and a trial of micro wind turbine technology, are a natural evolution for Vector and evidence of our commitment to develop in a way that delivers on Government policy expectations and changing customer requirements.

We will continue to build on this start, including progressing other work we are doing around renewable energy, such as solar.

Of course, we are aware these initiatives are just part of the answer and are in their formative stages. We don't lose sight of the fact that the quality of our financial and operational performance comes from the ongoing success of our existing core infrastructure businesses.

The desirability of our assets is evidenced by a number of approaches we have had about our electricity assets in Wellington. On behalf of shareholders, the board is obligated to explore any options for these assets and has engaged Goldman Sachs JB Were to examine them more closely. There are a variety of potential outcomes and we will update the market as any further developments occur.

Consistent with prudent strategic planning, we regularly review our asset mix and, over the coming year, our key focus will be on maximising the company's potential and the value residing within it.

REGULATION AND INVESTMENT

Elements of New Zealand's energy strategy will require major investment by industry participants. Achieving the policy objectives therefore hinges on having an investment environment that encourages and supports the financial commitment needed, while ensuring customers' needs are met.

Vector's willingness to commit to large, long-life investments will continue to reflect the regulatory regime.

A fundamental requirement is getting the regulatory framework right – one that properly balances the interests of consumers and those of shareholders of the companies that society looks to for its growing infrastructure needs.

In this regard we see encouraging signs of a more certain regulatory environment.

We have welcomed the Government's announcement that it will look at the regulatory framework to ensure there are no unnecessary regulatory impediments to achieving its infrastructure objectives. We particularly support the review of key sections of the Commerce Act as well as proposals set out in a Ministry of Economic Development discussion paper aimed at fostering investment, improving regulatory transparency and including more scope for merit review of regulatory decisions.

In seeking such outcomes, the discussion paper echoes the Government Policy Statement in August 2006, which set the context for the Commerce Act review. That policy statement continues to give us encouragement that the future investment environment will be more attractive for companies like ours.

We therefore consider the Commerce Act review to be a key regulatory event as it encompasses many of our fundamental business operations. Accordingly, we are participating to the fullest extent possible, and are pleased that Vector was represented on a working group set up by the Ministry of Economic Development as part of the review process.

We have also been pleased to reach an agreement in principle with the Commerce Commission in October 2006 on our administrative settlement offer relating to electricity network pricing. We now expect this will go to public consultation during September 2007 and we very much look forward to the conclusion of this matter.

FINANCIAL RESULT

We face the challenges of the future on a solid financial footing. Our net profit after tax of $101.7 million included a one-off gain of $40.1 million, but also reflects increased earnings contributions from all businesses.

The non-recurring $40.1 million gain arose from a change in Vector's deferred tax liability following the enactment in May 2007 of a reduction in the corporate tax rate from 33% to 30%. This required us to restate our deferred tax liabilities at the lower rate as part of our year-end accounting processes.

As a non-cash accounting entry, it had no impact on Vector's underlying profitability and cash flows, and therefore was not factored into our dividend considerations.

Excluding this non-recurring item, the net profit from our underlying business increased by a pleasing 36.7% to $61.6 million.

A substantial 19.4% increase in operating revenue to $1,352.9 million reflected volume and connection growth on our infrastructure networks, higher energy use and large, short-term gas supply contracts.

However, our costs also rose. A 34.0% increase in operating expenditure, to $742.9 million, was driven primarily by the need to buy more, higher-cost gas to meet our customers' demands, and increased costs associated with rates on our networks, infrastructure construction and regulatory compliance.

The same influences were apparent in operating cash flows, which increased by 1.4% to $358 million, and we have implemented a focused cost review programme across the company to reduce cost impacts on our overall financial performance.

During the year we wrote off, or provided for the disposal of $11 million of assets removed or replaced on our networks as part of our asset replacement programmes and on replacing assets that are damaged by third parties or fail. Of this sum, $4 million is provisional and currently under further review.

The write-offs, combined with tighter margins in the gas business, restricted growth in earnings before interest, tax, depreciation and amortisation (EBITDA), which increased by 5.4% to $610 million.

Depreciation and amortisation increased by 11.6% to $241 million, due to increased capital expenditure and higher asset depreciation from the previously reported March 2006 revaluation of our electricity networks and Auckland gas network.

Consequently, all the growth in EBITDA did not flow through to earnings before interest and tax (EBIT), which rose by 1.7% to $369 million.

The net profit was achieved after taking account of slightly higher net interest costs of $230.4 million, a reduction from $81.3 million to $32.7 million in the taxation expense and a 46.3% lower minority interest deduction due to our earlier full acquisition of NGC.

Net profit after tax and before amortisation (NPATA) of $199.9 million also incorporates the $40.1 million deferred tax adjustment. Underlying NPATA of $159.8 million represents an increase of 11.2% over the previous year.

DIVIDEND

The continued improvement in the company's financial performance has enabled the directors to declare a higher dividend for the 2006/07 financial year.

A final dividend of 6.5 cents per share, fully imputed, was paid on 4 September 2007 and brought the total dividend payment for the year to 13 cents per share, fully imputed. This compares with a fully imputed total dividend for the previous year of 12 cents per share.

Vector's dividend policy is effectively linked to NPATA, and the total dividend for 2006/07 represents 81% of NPATA, excluding the deferred tax adjustment.

CAPITAL MANAGEMENT

Vector maintains an active capital management programme which is assisted by favourable access to debt capital markets and a supportive group of both local and offshore lenders. We regularly review our financing requirements and our strategy is to have a balanced and diversified portfolio, with a key objective of maintaining our BBB+ credit rating.

During the next two years we will be seeking to refinance $1.2 billion as debt facilities mature. We go into this process in a strong position and are taking the opportunity to fully review our debt maturity profiles and new sources of funds to meet the long-term needs of the business.

As previously reported, a $70 million working capital facility expiring on 19 October 2006 was extended for a year on similar terms and in December 2006 we successfully rolled over our popular capital bonds under modified terms. They earn a competitive interest rate of 8.0% until the next election date of 15 June 2012.

> "Over the coming year, our key focus will be on maximising the company's potential and the value residing within it."

"Our newly-appointed directors bring a rich mix of talent and skills to complement those of existing directors. As a result, Vector is strongly positioned to move forward."

NZD $200 million of medium term notes matured on 4 April 2007 and were refinanced by NZD $200 million credit wrapped floating rate bonds with a duration of 10 years. We intend that AUD $260 million of medium term notes, scheduled for repayment on 14 April 2008, will be refinanced as part of our ongoing funding programme.

Our treasury policy is aimed at minimising the cost of total debt. We aim to maintain a gearing range of between 65% and 70%, which the board considers to be appropriate for a company like Vector. Our year-end net debt of $3,127.6 million was $46.5 million higher than at 30 June 2006 and represents a gearing of 62.2%.

Our total asset value increased from $5,718.6 million as at 30 June 2006 to $5,728.9 million at the end of the year under review. The $40.1 million reduction in the deferred tax liability is reflected in an identical increase in equity, via retained earnings. There have been no other material changes to our financial position.

INVESTMENTS

The first renewable energy investment under our environmental strategy was completed on 1 June 2007, with the acquisition of a 19.99% cornerstone shareholding in NZ Windfarms for $17 million.

We acquired 15,704,000 NZ Windfarms shares as part of a larger share issue by that company to fund wind farm developments and have a conditional agreement to further participate up to about $5 million, should NZ Windfarms decide to make another issue before the end of 2009. We have applied to the Commerce Commission for an exemption from the Electricity Industry Reform Act 1998 to allow Vector to appoint two directors to the NZ Windfarms' board.

In October, following a review of our business portfolio, we sold our 25.1% shareholding in Wanganui Gas Limited to Wanganui District Council Holdings Limited for $8 million.

GOVERNANCE

The appointment of four very high calibre directors during the second half of the year has brought the board to its full strength.

Alison Paterson, one of New Zealand's most experienced directors, joined the board on 7 March 2007 and, on 25 May 2007, we welcomed to the board table Peter Bird, Tony Carter and Hugh Fletcher, who individually possess a considerable breadth and depth of commercial experience and skills.

Mrs Paterson is on the boards of a number of charitable and educational organisations, is the chair of Abano Healthcare Limited, deputy chair of the Reserve Bank and a director of Metrowater Limited.

As a managing director of NM Rothschild & Sons Limited, Mr Bird offers a strong international perspective and has particular expertise in financial and regulatory issues.

Mr Carter is the managing director of one of New Zealand's largest companies, Foodstuffs (NZ) Limited, and has experience working in a business where stakeholder relationships are very important.

Mr Fletcher, a former chief executive officer of Fletcher Challenge Limited, has a deep understanding of the New Zealand economy. He is on the boards of the Reserve Bank and a range of commercial companies, is chair of IAG New Zealand Limited and Chancellor of The University of Auckland.

Taken together, our newly-appointed directors bring a rich mix of talent and skills to complement those of existing directors. As a result, Vector is strongly positioned to move forward.

VECTOR'S TEAM

On behalf of the board, I thank all Vector management and staff for the contribution they have made to the company's achievements during the year.

The board records its thanks to Mark Franklin, who has stepped down as chief executive officer after more than four years in the role. Our strong results for the year were achieved under his stewardship and he leaves the company in good shape.

We are progressing the search for a replacement and, in the interim, the company continues to be in good hands with the appointment of our chief operating officer, Simon Mackenzie, as acting chief executive officer.

As we face the challenges of the future, the board acknowledges the talented resource that we have in Vector's people and the positive impact they have on performance, innovation and decision-making. The board fully supports the company's ongoing training and development programmes and the directors are confident that Vector's people collectively have what it takes to achieve our strategic goals.

OUTLOOK

We have a very strong business platform and governance structure that underpins future company performance and new initiatives.

Our trading environment is increasingly challenging, with growing cost pressures and higher expectations for companies like Vector to lead the way in developing climate change management solutions. We therefore are focused on running our business more cost efficiently, whilst also looking for appropriate opportunities that meet both investment and national policy objectives.

The company is well positioned for these challenges and keenly anticipates the resolution of regulatory issues that will allow us to plan, and act, with greater confidence.

Michael Stiassny
Chairman

PLOTTING THE COURSE AHEAD

While we can reflect on an eventful and successful year past, our attention is firmly fixed on the road ahead. It will be a challenging journey, and we have some hard work in front of us in our drive to maximise company performance.

We therefore constantly seek new ways to more efficiently use the assets, resources and skills we have gathered through the growth strategy of the last few years, and to leverage our capabilities to deliver core business performance and to provide further demand-side energy solutions for our customers.

Our immediate focus is four-fold:

- improving cost efficiency and operational effectiveness
- managing regulatory outcomes
- meeting our customers' changing needs and provide them with greater choice in their energy decisions
- disciplined growth

The overarching objective is to maximise operating efficiencies, minimise costs, continually improve service offerings and deliver growth.

Chief among these issues is the regulatory environment. Above everything else, this is a key determinant in how we approach investment in asset renewal and growth, and how we respond to climate change and customer requirement challenges.

Close behind is the increasing costs of running an infrastructure business. Cost efficiency is therefore a central focus for the company.

While ensuring that we continue to run sustainable networks, we have initiated a number of key work streams as we shift to a new gear in driving improved cost management across the company following the acquisition of NGC.

Our structured programme covers a wide range of activity, including corporate and supply costs, ensuring our information management systems are cost-effectively aligned with our strategic direction and that our various business models are effective and streamlined. It also seeks to minimise costs from external parties.

The plan imposes four key disciplines on every initiative and decision we will make over the coming year:

- cost-effective use of capital and operating expenditure, while maintaining the integrity of our networks and services
- regulatory and customer outcomes
- operational excellence and core business enhancement
- disciplined growth that meets our investment criteria

MEETING CUSTOMERS' NEEDS – CLIMATE CHANGE

Through the draft New Zealand Energy Strategy and other policy statements New Zealand consumers are receiving clear signals of fundamental change about future energy sourcing and consumption.

Vector has every capability of being the lead provider and innovator of demand-side energy solutions. Our platform is strong, with a core infrastructure of quality electricity, gas, telecommunications and metering assets, complemented by innovative technology and service packages that can be further refined and tailored into a suite of customer-led energy solutions.

We already have a number of demand-side solutions in place and continue to build on these.

In the area of advanced technology metering applications, we have been working closely with energy retailers to introduce smart metering solutions that allow them and their customers to monitor and manage their energy use.

Our recent initiatives in renewable generation further demonstrate our willingness to take positive action when the right opportunities present themselves. We have been pleasantly surprised at the positive market and customer response to these initiatives, with the market reaction to the micro wind turbine trial, in particular, reinforcing to us that the wave of consumer demand for solutions is only starting to build.

This strengthens our resolve to ensure we are strongly positioned to meet changing customer requirements

We also have the ability to step up to provide the true broadband services that this country is crying out for.

Keeping trees clear of lines is one of the methods Vector uses to maintain network reliability.

"Our overarching objective is to maximise operating efficiencies, minimise costs, continually improve service offerings and deliver growth."

The contribution that true broadband can make to economies is acknowledged worldwide. Vector currently makes a relatively modest contribution in New Zealand through the fibre-optic networks installed in Auckland and Wellington to provide intelligent operating systems for our electricity networks and telecommunications customers.

However, these fibre-optic networks, now totalling over 500 kilometres in length, are finding increasingly wider customer demand. We have therefore accelerated an examination of whether the environment is right for Vector to do more in the broadband market – specifically, if there are the right partnerships, incentives, return on investment and regulatory conditions for us to grow.

REGULATION

Regulation remains the primary focus for the board and management. We currently have numerous regulatory and industry governance-related matters under active management within the company.

We continue to engage constructively with all parties at the policy and regulatory levels and, with a number of significant policy and regulatory issues addressed during the year, it is pleasing to see signs of improvement in the regulatory outlook.

In addition to the review of the regulatory control provisions of the Commerce Act 1993, significant matters currently before us include:

ADMINISTRATIVE SETTLEMENT OFFER

As previously reported, Vector's administrative settlement offer was agreed in principle with the Commerce Commission in October 2006. It will be the subject of further consultation during September 2007.

The offer followed a notice from the Commission on 9 August 2006 of an intention to declare control of our electricity lines business, principally as a result of the Commission's concerns about returns from different customer groups.

In its offer, Vector has undertaken to continue with the voluntary programme to rebalance its prices to achieve parity in returns from each customer group on each of Vector's networks by 31 March 2009. This programme is being undertaken within Vector's price path threshold, which permits overall prices to increase at the rate of the consumer price index each year.

ELECTRICITY THRESHOLDS RESET IN 2009

The price and quality thresholds regime for electricity lines companies, including Vector, is due to expire on 31 March 2009.

The Commerce Commission has issued a paper setting out key milestones in a process leading to the implementation of a new threshold regime on 1 April 2009. Vector is working constructively to provide information to the Commission and seeks to ensure that increasing demands for quality infrastructure are balanced with shareholders' needs for commercially appropriate returns.

There is a possibility that the reset process may ultimately be modified by new regulatory control provisions arising from the Commerce Act review.

The regulatory options may include a negotiate/arbitrate framework, a thresholds regime, a propose and respond approach and information disclosure. In our view, these options, together, provide a broader framework for working towards a more robust regulatory environment.

GAS CONTROL FINAL AUTHORISATION

Vector continues to operate under the provisional authorisation relating to our Auckland gas networks and is working with the Commerce Commission to provide information so a decision can be made on the terms of a final authorisation.

The Commission has indicated it will issue a draft decision during September 2007 and Vector is considering an option for resolving this matter by means of an administrative settlement.

"Above everything else, the regulatory environment is a key determinant in how we approach investment in asset renewal and growth, and how we respond to climate change and customer requirement challenges."

REVIEW OF ELECTRICITY INDUSTRY REFORM ACT

Changes indicated in the third review of the Electricity Industry Reform Act since 2001 are consistent with Government policy objectives to encourage investment in infrastructure, particularly renewable generation.

We believe the proposed changes are appropriate and we would welcome a relaxation of the governance rules around lines companies' involvement in generation as an opportunity for companies like ours to more confidently explore distributed generation options. In our opinion, existing competition law adequately addresses any concerns about lines companies taking advantage of their natural monopoly position.

INDUSTRY BODIES

We continue to work with the Electricity Commission on a number of fronts. Our primary concerns remain in the areas of electricity transmission investment and the transmission pricing methodology.

Vector is participating in all major work streams of the gas industry governance body, the Gas Industry Company. Significant among these are the development of code-based access arrangements for our gas transmission system, establishment of a wholesale gas trading platform and new arrangements for the industry to manage any major outage.

We also work closely with the Energy Efficiency and Conservation Authority, which has a central role in driving energy efficiency initiatives that align with the Government's policy objectives.

ENERGY SUPPLY SECURITY

Security of supply is an industry issue requiring wide input and co-operation. Vector will continue to play its full part and actively work with others to achieve supply security solutions.

Vector welcomes the Electricity Commission's recent approval of an electricity transmission grid upgrade between south Waikato and south Auckland and is confident this will help improve security of supply to the upper North Island.

Following the major Transpower outage in Auckland in June 2006, we have been working constructively with Transpower on a number of electricity supply security issues. This includes how Transpower can utilise some of Vector's assets, such as the Penrose to CBD tunnel, to strengthen supply into and across Auckland. This work continues and we are hopeful an appropriate arrangement can be reached in the near future.

In addition, Vector and Transpower jointly commissioned a review of electricity supply into Auckland by the international consulting arm of Siemens AG. The report, which is available on Transpower's website, points to a number of supply and grid stability matters that are under active consideration.

Gas supplies are in a healthy state with the commencement of production from the Pohokura field and additional gas coming to market from the Maui field, as well as smaller onshore discoveries.

Vector has a strong and flexible portfolio of entitlements to gas from New Zealand's three largest fields, Maui, Kapuni and Pohokura, which underpin our downstream sales well into the future. Our portfolio of entitlements amounted to 243 petajoules (PJ) as at 30 June 2007, compared with 186PJ a year previously.

We also have a designation for an additional transmission pipeline from Huntly to south Auckland in anticipation of additional demand from future gas-fired power generation.

"The positive response to our initiatives in renewable generation... reinforce to us that the wave of consumer demand for solutions is only starting to build."

MAINTAINING NETWORK RELIABILITY

Vector is very conscious that energy supply security includes maintaining appropriately high standards of network reliability and ensuring we are always at a high level of readiness to respond effectively to major incidents affecting our networks.

Our response framework is integral to our overall risk management processes and includes business continuity, detailed response plans, personnel training and participation in regional and national emergency exercises.

Our readiness was put to a rigorous test on 10 July 2007 by a devastating storm that, at its peak, reached hurricane force and affected over 150,000 customers on our greater Auckland electricity networks.

Storms of this magnitude are infrequent, but when they do hit they present an extreme challenge for everyone in the community. The intensity and force of this storm was not predicted making our preparations, and that of our customers, even more challenging. Vector acknowledges the inconvenience and disruption experienced by customers who were without power for extended periods.

Our approach in events where a large number of customers are affected is to prioritise response resources to restore services to as many people as possible, as quickly as possible. However, the extent of the damage was such that some customers were without power for days. We know this was difficult and trying for them.

Vector's networks are generally able to withstand storm conditions without major or prolonged disruption. This event, however, was among the worst on record, exceeding the force of Cyclone Bola.It caused widespread network damage and required extensive people and equipment resources in a week-long supply restoration effort.

I am very proud of the dedication shown by our staff and our field service partners to restore power supplies.

Although the storm proved to be much stronger than expected, we are always seeking continuous improvement in all of our business operations, including our response to emergencies.

A review of our response to the storm has highlighted a need for us to improve internal information flows, adjust effectively to changing conditions and, in conjunction with the retailers, better communicate up-to-date information to customers. We are taking action in these areas to improve.

During the year, we committed $249.3 million in capital expenditure across the group, $22.2 million more than in the previous financial year. Approximately $103 million, or 41%, of the latest year's capital expenditure was directed to energy infrastructure network replacement and compliance work, most of it in the electricity business.

We also initiated a programme with our field service contracting partners to seek further enhancements in such areas as electricity network fault reduction and faster, more efficient responses to supply interruption.

OUR PEOPLE

I acknowledge the huge contribution of our staff and their continuing devotion to excellence in our day-to-day business activities, while also rising to significant unexpected challenges, especially extreme weather events.

I am grateful for their support and I have confidence that this will continue as we further refine the way we do things to become even more efficient. Staff have not allowed the unexpected challenges to distract them from the tasks in hand and I record my thanks to all of our people for meeting challenging performance targets with loyalty and professionalism.

RISK MANAGEMENT

We are seeing many benefits from the full implementation of company-wide governance and management frameworks, as well as refreshed plans covering risk management, business continuity and health and safety management.

The management business continuity planning committee oversees our effectiveness and capability to deliver our services in adverse circumstances as well as under normal conditions. This is central to our business strategy and to our role as a lifeline utility.

A thorough analysis has been undertaken to ensure our insurance programme continues to meet the needs of our businesses as they evolve.

Risk assurance is a core discipline in our drive for operational excellence, full compliance and commercial effectiveness. To complement this focus, we have implemented a risk-based audit programme to review our business processes and systems.

HEALTH AND SAFETY MANAGEMENT

Health and safety management systems were further strengthened during the year with the implementation of a one-company management framework. While this incorporates systems tailored to the different characteristics of each business, it ensures consistent practices across the company and has raised health and safety performance standards.

Our safety record for the year ended 30 June 2007 is an improvement on the previous year, with a lost time injury frequency rate of 1.25. However, this is still higher than we find acceptable and we expect further improvements in the year ahead from the work programme initiated during 2006/07 and as operating practices improve across the company.

ENVIRONMENTAL STRATEGY

Vector's environmental strategy has the twin objectives of managing and reducing our own environmental footprint and, through proactive, customer-focused solutions, helping to achieve national energy and climate change policy objectives.

The strategy is broad and takes a long-term view. We continue to use the electricity demand-side exchange that we established in 2003, participate in the New Zealand Exchange working group on carbon emissions trading, and have an association with Project CO_2 ReMoVe, a European research initiative on carbon capture and storage.

We are closely engaged with the Government on climate change policy objectives and mechanisms, including carbon emissions trading, through submissions and participation in focused workshops.

Internally, environmental considerations are part of all our business decisions. We are committed to minimising our environmental and social impacts by conducting our day-to-day operations in a manner that respects and protects the natural environment.

We have made good progress during the year. In line with expected Government decisions, we are developing an accounting process for greenhouse gas emissions from our operations and are party to an electricity industry agreement with the Ministry for the Environment on containment of SF6, a coolant used in electricity transformers.

Our Kapuni gas treatment plant is achieving reductions in environmental emissions per unit of product as it continues to implement initiatives taken following an earlier voluntary agreement with the Government on greenhouse gas emissions.

> "Our environmental strategy is aimed at managing and reducing our environmental footprint and, through proactive customer-focused solutions, helping to achieve national energy and climate change policy objectives."

"Underlying any new dimension to our business as the industry around us evolves are the strengths of our core assets and the skilled, technically proficient and innovative staff who operate them."

This purpose-built multi detector gas chromatograph at Vector's Kapuni gas treatment plant laboratory is at the forefront of natural gas specification testing in this country.

Over the longer term we will make changes within our day-to-day operations to meet environmental challenges. We are in the process of converting our pool vehicle fleets to electricity hybrids as the leases on current vehicles expire.

A basic objective of our environmental policy is that we meet or exceed all relevant environmental legislation, regulations and codes.

IN SUMMARY

We continue to accomplish much in our business and will continue to do so through our focus on the four key planks of our strategic framework:

- cost efficiency
- regulatory and customer outcomes
- operational excellence
- disciplined growth

The future requirements of energy consumers offer exciting prospects in the ongoing technological development of New Zealand's energy markets. We have been travelling the advanced-technology road for many years and have established within the company an expert team to ensure we remain abreast of new developments worldwide that have potential application in the New Zealand context.

Innovations in our business will be driven by further technological convergence, to help our customers become more energy efficient.

Underlying any new dimension to our business as the industry around us evolves are the strengths of our core assets, the skilled, technically proficient and innovative staff who operate them, and those who provide professional support services to our operating businesses.

Subject to regulatory outcomes and a supportive investment environment, Vector looks forward to investing in enterprise growth, the expansion of New Zealand's utility infrastructure capacity and the achievement of energy policies targeted at managing climate change.

Simon Mackenzie
Acting Chief Executive Officer

FINANCIAL REVIEW

FINANCIAL TRENDS YEAR ENDING 30 JUNE	2007[1] $M	2006[1] $M	2005[1] $M	2004 $M	2003[2] $M
Financial performance					
Operating revenue	1,352.9	1,133.0	871.0	572.2	460.1
Operating expenditure	(742.9)	(554.4)	(404.9)	(231.1)	(191.4)
EBITDA	**610.0**	**578.6**	**466.1**	**341.1**	**268.7**
Depreciation & amortisation	(241.0)	(215.9)	(158.9)	(111.8)	(95.2)
EBIT	**369.0**	**362.7**	**307.2**	**229.3**	**173.5**
Net interest expense	(230.4)	(228.5)	(193.4)	(141.0)	(118.7)
Operating surplus before income tax	**138.6**	**134.2**	**113.8**	**88.3**	**54.8**
Income tax expense	(32.7)	(81.3)	(59.0)	(30.9)	(22.3)
Operating surplus	**105.9**	**52.9**	**54.8**	**57.4**	**32.5**
Minority interests	(4.2)	(7.8)	(14.0)	0.4	0.1
NPAT[3]	**101.7**	**45.1**	**40.8**	**57.8**	**32.6**
NPATA[4]	199.9	143.7	104.3	96.7	61.2
Funds employed					
Equity	1,903.0	1,925.9	1,045.6	945.2	920.0
Borrowings	3,134.6	3,090.6	3,148.8	1,787.4	1,844.7
Other non-current liabilities	465.3	490.9	487.8	249.6	214.3
	5,502.9	**5,507.4**	**4,682.2**	**2,982.2**	**2,979.0**
Utilisation of funds					
Non-current assets	5,503.6	5,491.5	4,643.7	2,971.3	2,983.9
Working capital[5]	(0.7)	15.9	38.5	10.9	(4.9)
	5,502.9	**5,507.4**	**4,682.2**	**2,982.2**	**2,979.0**
Cash flow					
Net cash from operating activities	358.0	353.1	244.5	180.1	100.9
Dividends paid[6]	(128.8)	(117.5)	(54.7)	(32.2)	(42.8)
Capital expenditure payments	(262.6)	(225.3)	(165.0)	(99.5)	(86.9)
Cash flow before external funding and investments	**(33.4)**	**10.3**	**24.8**	**48.4**	**(28.8)**
External source/(use) of funds					
Issue of ordinary shares (net of issue costs)	–	203.3	–	–	–
Borrowings	35.5	(83.3)	865.8	(57.3)	551.4
Investing activities (excluding capital expenditure)	(4.6)	(122.0)	(892.9)	11.0	(531.8)
(Decrease)/increase in cash	**(2.5)**	**8.3**	**(2.3)**	**2.1**	**(9.2)**

1 Incorporates NGC Holdings Limited (majority ownership from 14 December 2004; full ownership from 10 August 2005)
2 Pro forma 12 months to 30 June 2003. The audited and reported period to 30 June 2003 was for 15 months due to a change in the balance date from 31 March to 30 June
3 2007 NPAT includes a one-off gain of $40.1 million from a deferred tax adjustment; 2004 NPAT includes a one-off tax benefit of $14 million
4 Net profit after tax and before intangible asset amortisation
5 Current assets less current liabilities excluding borrowings
6 Includes dividends paid to minority interests

FINANCIAL PERFORMANCE

REVENUE

Group operating revenue increased by $220 million (19.4%), due to volume and connection growth on Vector's infrastructure networks, higher energy use as a result of the return to more regular winter conditions following the warmer winter of 2005 and higher natural gas and LPG sales, including one-off contracts.

Electricity business revenues increased by $31.3 million (5.4%) to $611.5 million, primarily from a 1.9% increase in electricity deliveries to customers and a CPI-related price increase during the year.

Gas business revenues were $182.1 million (37.5%) higher at $668.2 million, reflecting:

- a $115 million increase in wholesale gas sales. Three large contracts accounted for the majority of this increase. Of these, one ceased in November 2006 and another will cease in September 2007
- a $28 million increase in retail gas sales as a result of new customers and additional load
- a $30 million increase in LPG sales, due to higher volumes and increasing use of higher-priced imported product
- an $8.8 million increase in gas transportation revenues

Technology business revenues increased by $6.7 million (11.0%) to $66.9 million due to higher customer numbers and proceeds related to the North Shore Urban Fibre Network rollout project under the Government's Broadband Challenge programme.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

Group EBITDA increased by $31.3 million (5.4%) to $610.0 million, reflecting the higher revenues and after taking into account a $188.6 million (34.0%) increase to $742.9 million in operating expenses.

Most of the operating expenditure increase arose from increased gas volumes purchased to meet customer demand, as well as a change in the weighted average cost of Vector's gas entitlements as lower-cost legacy Maui gas entitlements expire and greater use is made of higher-cost alternative entitlements to supply customers. There have also been higher costs associated with rates on the company's infrastructure networks and regulatory compliance. In addition, EBITDA was affected by the write-off, or provision for write-off, of $11.0 million of infrastructure network assets removed or replaced during the year.

Electricity EBITDA increased by $13.4 million (3.7%) to $378.0 million; gas business EBITDA improved by $36.0 million (17.4%) to $243.0 million, including a $22.0 million benefit relating to the transfer of costs from that business to the corporate cost centre under Vector's shared services model; and the technology business EBITDA was up $5.9 million (14.1%) at $47.8 million.

EARNINGS BEFORE INTEREST AND TAX (EBIT)

Group EBIT rose by $6.2 million (1.7%) to $369.0 million, after allowing for a $25.5 million increase in depreciation arising from asset additions during the year as well as the previously reported revaluation of Vector's electricity networks and Auckland gas network as at 31 March 2006.

NET PROFIT

Total group net profit after tax (NPAT) of $101.7 million includes a one-off gain of $40.1 million as a result of the change in Vector's deferred tax liability.

The change arises from a reduction in the corporate tax rate from 33% to 30%, which was enacted in May 2007 and will take effect from 1 July 2008. It required the carrying value of the deferred tax liability to be restated as part of the year-end accounting processes for the 2006/07 financial year.

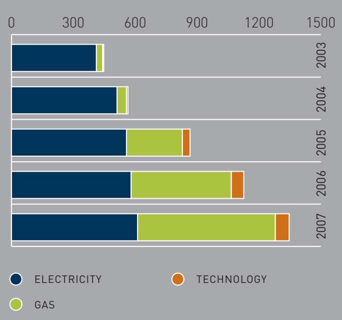
The deferred tax adjustment was a one-off, non-cash accounting entry and had no impact on Vector's underlying profitability and cash flows.

A total reduction of $48.6 million (59.8%) in the taxation expense also includes a $9.6 million benefit relating to the resolution of prior year taxation matters.

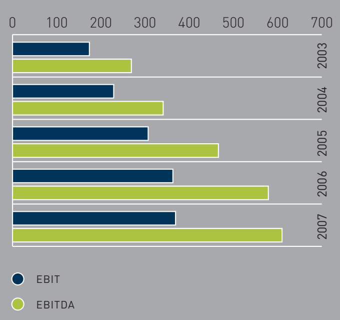
The net interest expense of $230.4 million was $1.9 million (0.8%) higher than for the previous year and reflects additional net debt carried during the year, while the minority interest deduction was $3.6 million (46.3%) lower as a result of Vector's earlier full acquisition of NGC Holdings Limited.

Excluding the non-recurring deferred tax adjustment, the net profit from Vector's underlying business increased by $16.5 million (36.7%) to $61.6 million. This is at the upper end of a guidance range of $58 million to $63 million disclosed by Vector in May 2007.

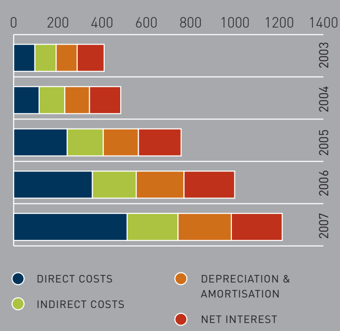
OPERATING REVENUE
$ MILLION



EBITDA & EBIT
$ MILLION



EXPENDITURE
$ MILLION



Net profit after tax and before amortisation (NPATA) of $199.9 million also included the $40.1 million deferred tax adjustment. NPATA from Vector's underlying business increased by $16.1 million (11.2%) to $159.8 million.

CASH FLOWS

Operating cash flow increased by $4.8 million (1.4%) to $358.0 million, as a result of the higher EBITDA and improved working capital management, offset by higher interest, tax and capital expenditure cash outflows.

Cash interest costs increased by $6.9 million (3.2%) to $222.3 million, and a $39.8 million (205.3%) increase to $59.2 million in cash tax outflow reflects the timing of tax payments.

Dividend payments to Vector Limited shareholders increased by $11.4 million (10.0%) to $125.0 million, due to changes to Vector's shareholding structure in August 2005 and a higher per-share interim dividend in the 2006/07 financial year.

DIVIDEND

A final dividend of 6.5 cents per share, fully imputed, was paid on 4 September 2007, to registered shareholders as at 29 August 2007. With the interim dividend of 6.5 cents per share, fully imputed, paid on 10 April 2007, the total dividend in respect of the financial year ended 30 June 2007 was 13.0 cents per share, fully imputed.

Vector's dividend policy is effectively linked to NPATA from its underlying business. The total dividend for the 2006/07 year is an 8.3% increase over the previous year, and represents 81% of NPATA, excluding the $40.1 million one-off deferred tax adjustment.

The previous year's total dividend of 12.0 cents per share, fully imputed, equated to 83% of NPATA for that year.

CAPITAL EXPENDITURE

Capital expenditure incurred increased by $22.2 million (9.8%) to $249.3 million. Most of the increase occurred in the electricity business, where total capital expenditure of $161.2 million was $14.9 million (10.2%) higher than in the previous year.

Increased expenditure was also directed to the technology business, up $3.9 million (14.5%) to $30.8 million as a result of the North Shore Urban Fibre Network project, and in the corporate environment where most of a $6.8 million (70.1%) increase to $16.5 million was applied to information and business systems integration and development.

While continuing to expand and improve the gas business infrastructure, capital expenditure in this area declined by $3.3 million (7.5%) to $40.9 million.

Company-wide, capital expenditure for asset replacement and compliance purposes accounted for $111.0 million, or 44.6%, of the capital spend, with the balance of $138.3 million directed to growth-related projects.

FINANCIAL POSITION

Vector's total assets grew by $10.3 million to $5,728.9 million as at 30 June 2007 with capital projects offsetting higher depreciation and asset write offs.

The $40.1 million reduction in the carrying value of the deferred tax liability is reflected in a matching increase in equity, via retained earnings. There are no other material changes in either the source of funds or total assets compared with the position as at 30 June 2006, when they amounted to $5,718.6 million.

KEY RATIOS

Net debt of $3,127.6 million as at 30 June 2007 was $46.5 million (1.5%) higher than the previous year, but less than in 2005. The slight increase in the year under review reflects capital expenditure and the acquisition of the cornerstone 19.99% shareholding in NZ Windfarms Limited.

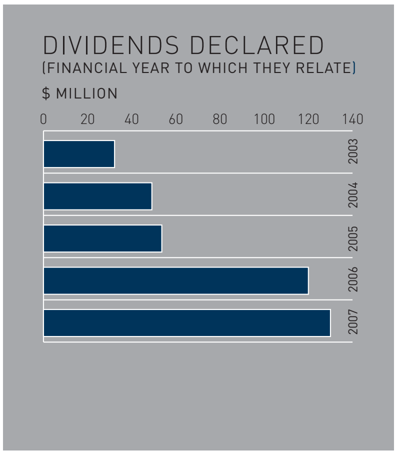
Vector's gearing (net debt/net debt + equity) increased slightly from 61.5% to 62.2%, but remains well within an acceptable range for the company.

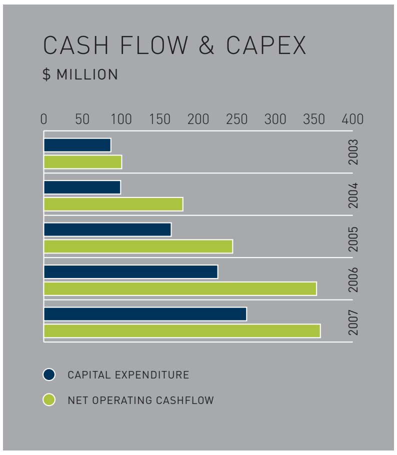
The equity/total assets ratio of 33.2% is largely consistent with the 33.7% ratio in 2006, and the net interest cover is unchanged at 1.6 times.

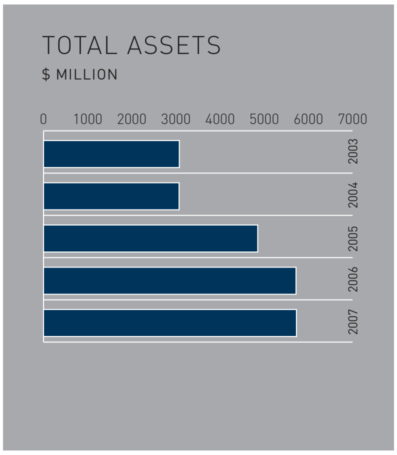
Vector's financing metrics are therefore consistent with the previous year and the ratings agency Standard & Poor's confirmed its BBB+ (stable) credit rating in July 2007 following its annual review.

A decline in the EBITDA operating margin from 51.1% to 45.1% is due mainly to reduced margins on the major gas supply contracts as a result of higher gas purchase costs for on-sale to downstream customers.

The EBIT operating margin also declined, from 32.0% to 27.3%, because of both the declining gas margins and a higher depreciation charge.







OPERATIONS TRENDS YEARS ENDING 30 JUNE	2007	2006	2005	2004	2003[1]
Electricity					
Customers	673,576	663,404	654,075	645,215	634,625
Volume distributed (GWh)	10,595	10,400	10,309	9,959	9,690
Networks length (km)[2]	21,795	21,300	21,111	21,020	20,929
Gas					
Distribution customers	143,047	139,007	134,770	72,342	68,926
Distribution volume (PJ)	22.0	22.8	23.6	12.0	5.3
Distribution networks length (km)	6,708	6,598[3]	6,483	4,910	4,802
Transmission volume (PJ)	94.6	105.3	94.2	–	–
Transmission system length (km)	2,286	2,286	2,286	–	–
Transmission systems operated/managed for others (km)	1,219	1,195	1,192	–	–
Natural gas sales[4] (PJ)	53.7	35.5	47.1	–	–
Gas liquids sales[5] (tonnes)	218,359	212,528	211,442	–	–
Energy metering					
Electricity: Simple	783,910	786,046	793,246	–	–
Electricity: Prepay	8,507	7,105	8,530	–	–
Electricity: Time of Use	11,148	10,809	10,383	4,200	3,600
Gas	70,417	65,300	61,300	–	–
Data management services – New Zealand & Australia	15,124	14,860	13,910	4,000	3,200

1 Twelve months ended 30 June 2003

2 Electricity network lengths as at 31 March. Lengths exclude auxiliary cables and lines

3 Restated to reflect GIS data review

4 Natural gas sales volumes exclude gas sold as gas liquids as these are incorporated in the gas liquids sales tonnes

5 Includes LPG production and retailing, plus wholesale and tolling volumes by Vector's 60.25%-owned subsidiary, Liquigas Limited

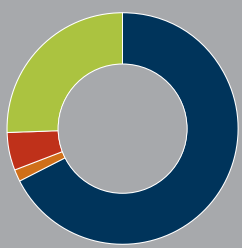
PEOPLE YEARS ENDING 30 JUNE	2007	2006	2005	2004	2003
Vector staff	713	700	701	268	250

SOURCE OF FUNDING

AS AT 30 JUNE 2007

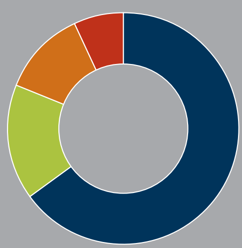
FIXED ASSETS

TOTAL 2007 $3.9 BILLION



GROUP CAPEX

BY BUSINESS



These lower operating margins were more than offset by the one-off deferred tax adjustment, with the NPAT/operating revenue margin increasing from 4.0% to 7.5%. On an underlying business basis, the NPAT margin was 4.6%.

CAPITAL AND INVESTMENT MANAGEMENT

WORKING CAPITAL FACILITY

A $70 million working capital facility expiring on 19 October 2006 was extended for a year on similar terms, and is expected to again be refinanced on similar terms on its anniversary on 19 October 2007.

CAPITAL BONDS

Vector's $307,205,000 capital bonds were successfully rolled over under modified terms on 15 December 2006. The reset interest rate was 8.0%. Existing holders accounted for the uptake of approximately 89% of the bonds, both through renewal and acquiring further bonds from a resale facility. The next election date for the bonds is 15 June 2012.

NZD MEDIUM TERM NOTES

NZD $200 million of medium term notes matured on 4 April 2007 and were refinanced by NZD $200 million of credit wrapped floating rate bonds that will expire on 4 April 2017. These bonds were credit wrapped by Ambac Assurance Corporation and were placed with domestic institutional investors.

AUD MEDIUM TERM NOTES

AUD $260 million of medium term notes are scheduled for repayment on 14 April 2008. It is intended that these will be refinanced as part of Vector's ongoing funding programme.

WANGANUI GAS LIMITED

On 30 October 2006, following a review of the business portfolio, Vector sold its 25.1% shareholding in Wanganui Gas Limited to Wanganui District Council Holdings Limited for $8 million.

NZ WINDFARMS LIMITED

The acquisition of a 19.99% shareholding in NZ Windfarms Limited was completed on 1 June 2007. Vector acquired 15,704,000 NZ Windfarms shares for $17 million as part of a $75 million share issue by NZ Windfarms to fund the ongoing development of its successful Te Rere Hau wind farm joint venture and to develop further wind farm assets. Vector has conditionally agreed to participate, to a level of about $5 million, in a further subsequent share issue of approximately $25 million if NZ Windfarms decides to make such an issue before the end of 2009.

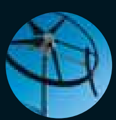
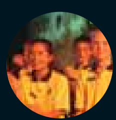
NZ IFRS

Vector has adopted the New Zealand International Financial Reporting Standards (NZ IFRS) from 1 July 2007 and will meet the requirement for its first annual financial statements prepared under NZ IFRS to be published for the year ending 30 June 2008.

Further details on Vector's implementation of NZ IFRS, and its expected impacts, are contained in the notes to the financial statements.

RECENT EVENTS

NEW INITIATIVES

Rising to the broadband challenge

Vector has been instrumental in bringing to Auckland's North Shore City a super fast broadband service that will help revolutionise educational and commercial opportunities in the region.

Shortly after year end, we completed installation of the North Shore Urban Fibre Network (UFN) project under the Government's Broadband Challenge. Vector Communications was selected to provide its high performance broadband services to over 40 schools, six libraries and 15 council facilities in North Shore City. A number of North Shore businesses can also take advantage of the broadband network.

The project was the result of a $4.6 million award to Vector Communications and the North Shore City Council from their successful joint bid under the $24 million Broadband Challenge Fund, established by the Government to provide seed funding to improve the availability and quality of broadband services. It aims to establish a series of urban fibre networks by 2009, and to develop broadband access solutions for rural and poorly served communities.

The North Shore City project involved the rollout of fibre-optic cable spanning from Browns Bay to Devonport and from Birkdale to Takapuna. The Vector built network is owned, managed and maintained by the company and operates under open access principles.

As schools are progressively connected to the core network, over 30,000 students on the North Shore will have the opportunity to connect together, share educational resources, and develop applications to enhance their development and their opportunities.

The use of state-of-the-art communications in schools is expected to lead to growth opportunities by serving as a catalyst to stimulate wider community pickup of broadband services.

Vector Communications is looking at opportunities to build further on the North Shore Broadband Challenge network and recently received planning consents for additional cabling that will allow more schools to be connected.

Smart meters put power in customers' hands

Energy metering technology is undergoing rapid evolution internationally, as the increasing cost of energy and demand growth prompts demand-side management solutions for consumers and national economies.

As solutions must meet the objectives of government and industry stakeholders, Vector has actively engaged with other industry participants to develop advanced technology metering solutions that are practical in the New Zealand market, and deliver the quality services and products that our retailer customers and end-use consumers want.

Over the last four years, Vector has developed information platforms to deliver data used in demand-side tariffs and customer connections in New Zealand and Australia.

Our work in the past year on confirming and crystallising service and product options has culminated in an initial deployment in Auckland, Wellington and Christchurch of meters utilising advanced power line carrier and point-to-point cellular telecommunications technologies. The project is being implemented by our NGC Energy Services business in conjunction with a number of energy retailers.

These advanced technology meters offer multiple benefits to electricity retailers, lines companies and end-use consumers.

Making energy consumption data available online allows consumers to analyse their power consumption and modify their usage to use their energy more efficiently and save money.

For energy retailers, the ability to obtain scheduled monthly automatic meter readings does away with physical meter reading and bi-monthly estimates. Ad hoc metering readings can be carried out at any time, such as when a customer moves out of a property, and the meters can be remotely connected and disconnected.

For lines companies, access to this level of data enables the possibility to develop tariffs that promote demand-side management. This technology can also provide information on outages, power quality and network utilisation that can assist in improving asset planning.

It can also be linked with gas meters for remote gas use readings and we are looking at opportunities to expand the use of these meters in New Zealand and possibly overseas, while continuing to follow closely new technological developments in this competitive market.

Capturing the wind

Vector this year took its first steps into wind generation – a cornerstone 19.99% shareholding in NZ Windfarms Limited and the trial of new micro wind turbines in the New Zealand environment. These are part of our demand-side response to the changing energy demands of the country and individual customers and to ensure our business considers a range of sustainable solutions for the future.

Wind farm investment

NZ Windfarms sells sustainably-generated electricity from wind turbines and is developing the first of what will be a portfolio of wind farms in New Zealand.

Its first project – Te Rere Hau, an $80 million 48.5 megawatt wind farm on the Tararua Ranges near Palmerston North – received resource consents in May 2005 for up to 97 turbines on the 243-hectrare site.

The turbines will be installed in stages and, when completed, will generate enough power for 18,000 homes. The first stage, comprising five turbines, was commissioned in September 2006 and power is now being exported to the regional grid.

Te Rere Hau – Maori for "wind flow" – utilises locally designed and manufactured Windflow 500 kilowatt turbines, with technology that allows for easy connection to both the electricity transmission and distribution networks. The turbines themselves employ a revolutionary two-bladed design providing for significant weight and cost advantages. They are smaller than their counterparts from the large wind farm developments overcoming some of the barriers associated with the larger models.

The site is world class for wind generation, and is being developed as a 50/50 joint veture between NZ Windfarms and international wind power developers Babcock & Brown. The land itself continues to be used for mixed cattle and sheep farming.

Micro turbine trial

Vector is partnering with two large local authorities for the assessment of micro wind turbines in New Zealand conditions.

Part of Vector's commitment to explore a range of energy efficient options for customers, the trial of 10 wind turbines in a range of locations in Auckland and Wellington is designed to evaluate their performance in the urban environment as well as their technical viability and commercial potential.

The trial programme is supported by the Waitakere and Wellington City Councils, and the installation of the first turbine on the Waitakere City Council building in June 2007 attracted considerable interest from potential customers. A second turbine in the trial project was installed in Wellington in September 2007.

Vector has an exclusive arrangement with the turbine producer, Scottish company Renewable Devices Swift Turbines Limited.

Already successfully installed in the United Kingdom and other countries, the Swift turbines operate efficiently in the relatively low and turbulent winds that occur at rooftop level. They have five blades with a diameter of about two metres and weigh about 50 kilograms.

They are virtually silent and, with an output of 1.5 kilowatts, can provide between 2,000 and 3,000 kilowatt hours of electricity a year, which equates to about a quarter of the average New Zealand household electricity needs.

The trial will be particularly useful in assessing the benefits of renewable distributed electricity generation in New Zealand, especially its role in supplementing generation from the more traditional fossil-fuel power stations connected to the grid.

Renewable energy powers remote terminals

Renewable energy is providing a practical solution for powering communications equipment on Vector's North Island-wide gas transmission system.

Until recently remote terminal unit communications used for system monitoring and control required connection to electricity and telecommunications lines. The units required a considerable amount of power and, without ready access to electricity and telecommunications lines, systems installations such as main line valves could not be operated remotely. Any action needed at such sites required a field technician visit.

Recent advances in remote terminal unit technology, however, have led to the creation of mini-sized units with a much lower power requirement that can be met by solar panels or small wind turbines.

Vector is taking advantage of this technology development and has commenced a remote actuation programme to install solar or wind powered mini units at around 30 sites on the system.

The two forms of energy are complementary – solar being used in sheltered locations, and small wind turbines in areas where the equipment is shaded from the sun.

Vector is considering using the same solar/wind units and cellular communications on portable gas analysers, so that Vector's gas control centre in New Plymouth can obtain gas quality data remotely.

The mini remote terminal unit technology offers a number of benefits, including the ability to remotely monitor and operate system equipment that was not possible previously, collect electronic data and strengthen customer service by providing instant information.

Their use also represents a further step towards our longer-term environmental policy objective of utilising renewable energy wherever practical.

Storm causes widespread damage

Heavy rain and hurricane-force winds associated with the severe storm that swept the upper North Island on 10 July 2007 created challenging conditions for Vector's repair crews and a difficult time for some of our customers.

The powerful winds, gusting up to 180 kilometres per hour, caused widespread damage to our electricity infrastructure. The 24-hour storm caused 168 high voltage line outages and at its peak left more than 150,000 customers without power. About 80% of the damage was caused by falling trees, despite the fact that we trimmed about 100,000 trees during the past year.

At times, conditions were too dangerous for field crews to continue working safely and, as safety is an absolute priority, crews were at times stood down.

Notwithstanding often hazardous working conditions, we were able to restore power to about 100,000 customers – two thirds of the total affected – within a day of the storm's arrival.

The majority of faults occurred in the North Shore and Rodney areas. Overall, about 100 power poles and 20 kilometres of electricity lines had to be replaced, and a further 100 kilometres of existing lines required re-stringing.

Extensive repairs were also required to the separate network cable – or pilot system – that controls electricity for hot water supply. As the backbone of the high voltage network and pilot system were progressively restored, field personnel were redeployed to reinforce other crews servicing individual or small groups of customers still without power or hot water due to localised faults.

Approximately 500 field staff, including reinforcements from other regions, were committed to the restoration effort and worked in round-the-clock shifts until full restoration was achieved. We also brought in additional call centre and office-based operations staff.

Despite these efforts, a number of individual customers were without power for about a week which was both disruptive and difficult for those people. These customers were generally in remote rural locations or areas where fallen trees had caused considerable network damage.

Repairs in these cases took longer, and nine helicopters were needed to reinstall power cables, lift heavy poles and remove fallen trees, particularly in difficult terrain. Pilots flying throughout the night wore night vision goggles to locate faults and direct ground crews.

During the storm, Vector worked closely with Civil Defence, the Ministry of Social Development and local councils to ensure relief was provided to people affected by the storm for long periods. Eight portable electricity generators were despatched to customers facing a prolonged outage, and a freephone call facility was made available for vulnerable customers or those suffering hardship.

Collaborative effort transforms skyline

Vector, in collaboration with other utility services and a local authority, has completed one of the largest and most ambitious undergrounding projects carried out in Auckland.

As a result, the area of Howick in Manukau City has an improved skyline and a fresh new look, following streetscape enhancements and the removal of overhead power and phone lines.

The project was carried out in conjunction with Telecom Limited, Manukau City Council and Manukau Water. For Vector, it involved the removal of more than 700 power poles, the replacement of 29 kilometres of overhead lines with underground cables, and the upgrading of the company's gas network.

In addition to the undergrounding of power and telecommunications lines, new street lighting was installed, water mains replaced and other street enhancements carried out.

The project took about a year to complete and improved the outlook for approximately 2,000 homes and businesses. The new state-of-the-art infrastructure is designed to accommodate future demand growth and will last well into the future.

The Howick undergrounding project utilised Vector's 'Dig Once' initiative, which involves working with councils and other utilities at the same time on projects to upgrade services and revitalise an area. This enables participants to share resources and minimise disruption to residents.

Vector's undergrounding programme is made possible through the support of our major shareholder, the Auckland Energy Consumer Trust (AECT). With the AECT's support Vector is spending $10 million each year on undergrounding the remaining overhead lines in the urban areas of Auckland, Manukau and Papakura. More than two thirds of Vector's electricity network in these areas is already underground.

OUR BUSINESS PERFORMANCE
ELECTRICITY

	2007 $ M	2006 $ M	CHANGE %
Operating revenue	611.5	580.1	+5.4
Operating expenditure	(233.5)	(215.6)	+8.3
EBITDA	378.0	364.5	+3.7
EBIT	266.5	269.8	-1.2
Capital expenditure	161.2	146.3	+10.2
Assets employed	3,224.3	3,213.0	+0.3

- Revenue increase of 5.4% from volume and connection growth
- Increased capital expenditure on network growth and improvements
- Further future-proofing of networks

MONTHLY SAIDI* MINUTES vs CUSTOMER SATISFACTION

*System Average Interruption Duration Index

The electricity business comprises Vector's electricity networks in the greater Auckland and Wellington regions.

FINANCIAL RESULT

The electricity business achieved its key performance objectives in the areas of financial outcome, network reliability, customer response and health and safety.

Total electricity distributed to customers increased by 1.9% to 10,595 gigawatt hours (GWh), as a result of 10,172 new customer connections and higher per-customer electricity consumption as a result of the return to normal weather patterns in 2006 after the warmer conditions in the previous year.

Electricity business revenues of $611.5 million, compared with $580.1 million in 2006, also include previously reported adjustments to our electricity line charges from 1 April 2007 as allowed under our regulatory price path.

EBITDA increased by 3.7% to $378 million, with cost efficiencies offsetting a $9.2 million write off of assets removed or replaced on the networks.

A 1.2% decline, to $266.5 million, in electricity business EBIT is due to higher depreciation resulting from the revaluation of our electricity networks as at 31 March 2006 (also previously reported).

PRICING

The electricity line charge adjustment on 1 April 2007 included annual pass through costs allowed under the Commerce Commission's price path threshold regime, as well as a rebalancing component, consistent with the voluntary rebalancing programme we commenced in 2005 and formalised in the administrative settlement offer accepted in principle by the Commission in October 2006. The rebalancing programme is revenue neutral for Vector and will be completed by 2009.

ELECTRICITY OPERATIONS

NETWORK RELIABILITY

We continue to upgrade and enhance network performance, with $88 million of the total $161.2 million of capital expenditure by the electricity business during the year directed to network compliance and improvements.

Targeted automation projects undertaken in recent years to improve supply reliability have saved a significant amount of customer disruption. Automated equipment provides monitoring and protection to minimise the number of customers affected by a fault, and enhances system control functionality to provide faster fault location and restoration.

During the year, 76 automation projects were carried out across the greater Auckland networks to improve system performance through reduced frequency and duration of supply interruption.

The regulatory year ended 31 March 2007 was completed with supply interruptions arising from normal operations slightly below the 85.5 minutes System Average Interruption Duration Index (SAIDI) threshold for supply quality.

We recorded 83.8 SAIDI minutes arising from normal operations, and a further 31.8 minutes attributable to extreme events (applying our extreme event methodology), including severe storms. The Commerce Commission has yet to formally define extreme events.

In the last quarter of our financial year – also the first quarter of the new regulatory year – our SAIDI minutes from normal operations amounted to 21.3, with only an additional 0.1 minutes attributable to extreme conditions. However, the extreme weather minutes will increase when the effects of the hurricane-force storm that struck upper North Island regions on 10 July 2007 are factored into our SAIDI calculations.

We have extended the scope of our annual electricity customer satisfaction monitoring programme from those experiencing outages to include a wider range of customer interactions. During the year, customers who came into contact with Vector through projects performed on the network and through our tree trimming programme were also surveyed, along with key customers and energy retailers and those experiencing power outages.

Our overall customer satisfaction level of 83% met our targets. The survey results from our interactions with the wider customer group will be used to prioritise future continuous improvement initiatives to meet or exceed our customers' expectations.

NETWORK DEVELOPMENT

While continuing to closely monitor the investment criteria for network growth, electricity network capacity was further expanded during the year to accommodate increased demand.

Ongoing network loading analyses identified a number of areas requiring capacity reinforcement, particularly in greater Auckland. We have committed to a number of projects, including new zone substations, sub-station transformer capacity reinforcements, additional 11kV distribution feeders and further upgrading of the 6.6kV network to 11kV.

FUTURE GROWTH

Vector's networks are located in some of the fastest-growing regions of the country. We have successfully tendered for energy reticulation in a number of new subdivisions. For two large Auckland developments, at Mt Wellington and Silverdale North, we are providing multiple utility services.

The 110 hectare Stonefields community at the former Mt Wellington quarry will be developed over the next five years with potentially 2,900 dwellings, comprising a mix of standard size residential lots, medium density apartments, a small town centre and a school. It will be home to about 6,500 people.

The Silverdale North development, when completed, is expected to provide an additional 3,500 residential connections to our northern electricity network.

Good progress is being made with other major developments, at Highbrook in East Tamaki and at Sylvia Park, for which Vector was granted infrastructure development rights in 2005.

The 110-hectare Highbrook commercial project is being developed in stages over 12 years and will cater for up to 12,000 workers. A new zone substation with two 20MVA transformers to supply the Sylvia Park retail and business centre, as well as to meet increased demand from a neighbouring commercial operation, was completed during the year.

EMERGING ENERGY TECHNOLOGIES

Vector has further advanced the implementation of technologies that will ensure we optimise cost management, safeguard today's operations and, in progressing the development of intelligent networks, future-proof our operations in times ahead.

Technology initiatives include standardised communication and control architecture and devices. We continue with planned automation projects that will increase our ability to remotely manage the network and improve fault management.

We closely monitor international technology developments with implications for our business. Our micro wind turbine pilot programme arose from this monitoring programme, and we continue to investigate solar energy options.

OUR BUSINESS PERFORMANCE
GAS

	2007 $ M	2006 $ M	CHANGE %
Operating revenue	668.2	486.1	+37.5
Operating expenditure	(425.2)	(279.0)	+52.4
EBITDA	243.0	207.1	+17.4
EBIT	152.1	121.7	+24.9
Capital expenditure	40.9	44.2	-7.5
Assets employed	1,903.3	1,950.1	-2.4

- Capital expenditure includes over 100 kilometres of new mains pipes
- Natural gas sales volumes increase by 51.3%
- Strengthened gas entitlements portfolio
- OnGas LPG sales volumes increase by 10.4%

The gas business comprises natural gas transportation (transmission and distribution), processing and sales, and gas liquids (LPG and natural gasoline) production and sales, and the LPG wholesaling and tolling activities of our 60.25% owned subsidiary, Liquigas Limited.

FINANCIAL RESULT

The gas business achieved all of its key performance objectives in the areas of financial outcome, network reliability, customer response and health and safety.

A significant 37.5% increase to $668.2 million in revenue from the gas business is attributable to substantially higher natural gas and LPG sales arising from general demand growth, new longer-term supply contracts to electricity generators and one-off contracts with petrochemical producers.

Revenues also incorporate previously reported gas transportation price adjustments that took effect from the new contract year on 1 October 2006.

As Vector's lower-cost legacy Maui gas entitlements diminish, gas business margins are tightening as we purchase increasing volumes of higher-cost gas from new field entitlements.

Gas business EBITDA for the year ended 30 June 2007 increased by 17.4% to $243.0 million. In addition to the increase arising from increased volumes, EBITDA included a reallocation of $22 million of corporate costs now reported within corporate shared services.

Gas business EBIT increased by 24.9% to $152.1 million, after allowing for increased depreciation and amortisation, which included higher depreciation associated with the previously reported revaluation of the Auckland gas networks as at 31 March 2006.

PRICING

The gas transmission price adjustments on 1 October 2006 represented an average movement in our posted transmission prices of 6.7%, compared with a PPI increase of 8.1%.

Pricing on the Auckland gas network remains subject to the Commerce Commission's provisional authorisation, while no changes were made to prices for gas distribution services on our non-Auckland gas networks.

OPEN ACCESS TRANSPORTATION

The specially designed Open Access Transmission Information System (OATIS) software platform for administering open access for both the Maui and Vector gas transmission systems went live during the year. Following a smooth transition from the previous manual systems, users have now been successfully operating the OATIS online processes since last year.

We have been consulting with the industry on a proposal to replace our standard Transmission Services Agreements (TSAs) with a Vector Transmission Code (VTC). The proposal is in response to a voluntary action request from the industry governance body, the Gas Industry Company (GIC), for Vector to consider developing code type arrangements for transmission services. This followed a GIC review of the Vector and Maui transmission pipelines access regimes.

We have had common provisions in our TSAs for a number of years and see merit in developing the VTC, which is planned to be implemented at the start of the new contract year on 1 October 2007. Once the VTC is implemented we will commence further industry discussions on the transmission pricing methodology.

It is intended that the code will be simple, robust and enforceable, foster gas industry growth, maintain non-discriminatory access, and facilitate products and services that meet shippers' needs.

SYSTEMS OPERATIONS

TRANSMISSION

Lower gas transmission throughput of 94.6PJ reflects the unusually high volumes transported during the previous year for thermal power generation at a time of constrained hydro resources. As this gas is transported predominantly under fixed price contract arrangements, the movement has little effect on revenues.

Since April 2007 transmission volumes have included deliveries to a newly commissioned 45 megawatt peaking plant at the Southdown power station.

An opportunity to increase the gas transmission system capacity in the Auckland region may eventuate if plans to construct new thermal power stations in the region proceed. System developments may include duplication of pipelines from Rotowaro (near Huntly) to East Tamaki, for which Vector has previously secured a planning designation, and a new pipeline north of Auckland. Upgrade proposals would also enhance gas transmission security for other gas users in the Auckland region.

Vector is working with generators to understand their requirements and is progressing resource consent and landowner consultation processes necessary for building a new pipeline. Any pipeline construction, however, remains subject to the investment environment and the wider issues of regulation.

Under our pipeline integrity management plan, which ensures the ongoing protection of our pipeline assets, we are progressing a long-term programme of formal designation in local authority district plans of the current transmission system, and continue a range of projects to further protect the pipes from the effects of severe weather events, including erosion.

The management plan includes routine operational procedures such as landowner and third-party awareness programmes, pipeline patrols, corrosion prevention and pipeline defect monitoring.

DISTRIBUTION

Total connections to Vector's natural gas networks increased by almost 3% to 143,047 as at 30 June 2007.

A net gain of 4,040 connections included 215 higher load commercial businesses, generally in the hospitality, retail and processing sectors.

The load gains, however, were offset by the loss of two large wood processing customers and, as a result, total gas network throughput declined by 3.5% to 22PJ.

Our networks continue to evolve to meet demand growth and urban expansion. During the year, we laid 110 kilometres of new natural gas pipelines, compared with 115 kilometres in the previous year.

We have progressed a number of major pipeline relocation projects and have continued a replacement programme for older low pressure gas networks in Auckland, with approximately 27 kilometres of mains replacement and 1,700 connections completed during the year.

We are maintaining a steady rate of connections, and subdivision reticulation projects provide new opportunities, subject to the regulatory and investment climate.

A major reinforcement of the Hamilton gas network system, involving the laying of almost 10 kilometres of high pressure polyethylene pipe, is planned for 2007/08.

NATURAL GAS SALES

New sales contracts with petrochemical producers and significantly higher sales to electricity generators resulted in a 51.3% increase in natural gas sales volumes during 2006/07.

While sales for petrochemical production in the 2006 financial year amounted to just 0.3PJ, the 53.7PJ total sales for the year ended 30 June 2007 include 12.6PJ to petrochemical customers. This volume is not carrying through to the 2007/08 year as short-term petrochemical contracts ceased in November 2006 and another will cease in September 2007.

Sales for electricity generation amounted to 11.4PJ, compared with 4.2PJ in 2006 as a result of new contract arrangements.

Our wholesale sales to gas retailers declined by 16.9% to 4.9PJ, due mainly to the expiration of a short-term supply contract.

Supply competition in the large industrial and commercial sector of the gas market has increased due to a short-term gas production flush from new and existing fields. Competition from other suppliers, and from other forms of energy, is reflected in a small reduction from 20.8PJ to 20.4PJ in sales volumes to our industrial and commercial customers during the year.

However, we remain competitive in our offers to existing and new customers over the longer term. Importantly, we have secured a number of supply contracts beyond 2010 on the strengths of our robust, flexible and enduring gas entitlements portfolio.

NATURAL GAS SUPPLIES

As at 30 June 2007 Vector held entitlements to 243PJ of natural gas from New Zealand's largest producing fields – Maui, Kapuni and Pohokura.

The portfolio was significantly strengthened in October 2006 with agreements with Maui Development Limited (MDL) for long term entitlements to an additional 105PJ of Maui gas under a pre-existing right of first refusal (ROFR) process. The arrangements commenced in April 2007 and will run until December 2014.

At the time of the ROFR agreement, approximately 60PJ of the 105PJ was contingent on being confirmed as part of the P85 Maui field reserves (being the quantity of gas reserves expected to be recovered with an 85% degree of certainty). In May 2007 Vector received confirmation that MDL had converted 23.3PJ of previously contingent gas to firm contracted entitlements for Vector. Of this amount, 15.3PJ will become available from 2011, and 8PJ from 2012.

During the contract period, the Maui ROFR reserves will be monitored regularly, and revised as necessary as they are confirmed as P85 reserves and converted to contract gas.

The contracts contain annual take-or-pay obligations, which are offset by our downstream supply arrangements with industrial and commercial customers, as well as significant new supply agreements we have reached with electricity generators Genesis and Mighty River Power.

Aspects of the ROFR arrangements have been challenged by Todd Energy which, in November 2006, requested the Commerce Commission seek a cease and desist order preventing the agreements from being effected. The Commission is investigating matters raised by Todd Energy, but decided on 5 December 2006 not to seek a desist order at that time. We remain confident in the appropriateness of our ROFR contracts and entitlements.

The ROFR entitlements significantly improve the flexibility and longevity of our gas portfolio. With our existing entitlements to gas from the Maui, Kapuni and Pohokura fields, they allow us to optimise our supply/demand balance while having the flexibility to pursue potential future acquisitions as new discoveries occur.

Our Pohokura post-commissioning gas supply contract began on 30 September 2006 and we have since also started taking deliveries of Pohokura gas under longer-term arrangements.

GAS LIQUIDS (LPG/ NATURAL GASOLINE)

New Zealand's LPG market continues to expand. Bulk and cylinder LPG sales through our OnGas business were 10.4% higher at 49,789 tonnes due to a combination of the return to more seasonable winter conditions during 2006/07, and general market and customer growth.

OnGas customer numbers increased by 3,367 during the year, to total 18,856 as at 30 June 2007. These include customers associated with the acquisition during the year of two small LPG retailers in Whangarei and Wanaka, both of which were previously LPG wholesale customers of OnGas.

LPG delivered to the New Zealand market by the bulk distributor Liquigas Limited (60.25%-owned by Vector), increased by 7.4% to 109,561 tonnes. LPG importation is now a regular feature of the market supply mix as indigenous production, in conjunction with natural gas production, increasingly reflects a decline in Maui output and the transition to a multi-field gas supply environment. This includes increasing use of Pohokura gas, which has no associated LPG recovery.

Our LPG infrastructure expansion during the year included the commissioning of a new storage, filling and distribution centre adjacent to the Liquigas Limited facility at Wiri, Auckland, and the installation of LPG reticulation pipes at a major residential subdivision near Warkworth. The capacity of the new Wiri depot, which serves the upper half of the North Island, is significantly greater than the depot it replaced and positions OnGas to capitalise on growth potential in the region.

We are reviewing options to establish greater capacity depots in New Plymouth, Palmerston North, Nelson and Christchurch.

Market growth has required further expansion of our cylinder delivery fleet, which now numbers 50 trucks nationwide, and we are progressively upgrading LPG filling facilities through the BP service station network for the 9kg bottle and automotive market segments.

MARKETING

Following the establishment of a single OnGas retail presence in the national gas market, we have achieved synergies in both LPG and reticulated gas marketing initiatives and have been developing strong strategic arrangements with a number of other industry participants.

The objective of our marketing approach is to simplify the gas connection process for customers, reduce costs and increase effectiveness. We are reviewing a number of promotional campaigns to support gas connection and utilisation initiatives.

GAS PROCESSING

Continuing attention to operational excellence has provided significant cost savings across the different products produced at our Kapuni gas treatment plant.

Best practice initiatives at the plant and the increased focus on plant reliability are reflected in an improved uptime of 99.5% during the year, compared with 96% in 2006, and an associated saving of about $1.6 million.

Reduced gas availability from the Kapuni field continued to constrain gas processing output. Treated gas production declined slightly from 19.3PJ in 2006 to 18.9PJ in the latest year, although the plant's gas liquids production (LPG and natural gasoline) increased by 5% to 58,458 tonnes.

Liquid carbon dioxide production has increased significantly due to the commissioning during the 2006 financial year of expanded CO_2 purification and liquefaction facilities. The increase in production capability from 85 to 120 tonnes per day has allowed us to broaden our customer base for liquid carbon dioxide in the New Zealand market, and annual sales have risen by over 3,300 tonnes.

Operational effectiveness has been improved by a new quality management system covering all critical processes, product quality assurance processes have been enhanced and, in a busy year of maintenance, all three processing trains and other key equipment were surveyed and found to be in good condition.

OUR BUSINESS PERFORMANCE
TECHNOLOGY

	2007 $ M	2006 $ M	CHANGE %
Operating revenue	66.9	60.3	+11.0
Operating expenditure	(19.1)	(18.4)	+4.1
EBITDA	47.8	41.9	+14.1
EBIT	20.6	12.9	+59.2
Capital expenditure – Communications	18.4	12.6	+46.0
– Energy metering	12.4	14.3	-13.3
Total capital expenditure	30.8	26.9	+14.5
Assets employed	455.4	438.7	+3.8

- Further deployment of advanced energy meter technology
- Strategic partnership to strengthen metering capabilities
- Vector Communications implements significant Broadband Challenge project
- Strong demand for true broadband service

The technology business incorporates energy metering – NGC Energy Services and Stream Information (70% owned) – and Vector Communications. Their combined EBITDA contribution of $47.8 million, up 14.1% on the previous year, was driven by increased revenues and cost management.

ENERGY METERING

Energy metering technology is undergoing rapid evolution internationally, as the increasing cost of energy and demand growth prompts demand-side management solutions for consumers and national economies.

This is a significant move away from simple meters that have served customers for many decades, to technologically advanced meters that provide real time information to help consumers monitor and manage their energy use.

The transition is driven largely by retailers wanting to improve the efficiency of their operations and offer their customers energy management solutions in what has become a highly competitive market activity. Vector is currently engaged in a process of tendering our advanced metering services to a number of retailers.

To strengthen our capabilities in the metering services field, we are partnering with the international arm of Siemens to combine Siemens' global technological and operational expertise in energy services with Vector's experienced team and leading market position. This partnership positions us well to achieve growth in New Zealand and overseas and to extend smart metering solutions to other utility services, such as water, as well as in the energy sector.

As a service provider in the market, we have been actively engaged with retailers and other industry participants for a number of years to introduce advanced meters in the New Zealand market.

Energy Services recorded increased revenue from new technology prepay meter equipment leasing, data management services growth in both New Zealand and Australia, and higher numbers of gas and time-of-use electricity metering installations.

Stream Information continued new installation growth and, in addition to increased organic sales, concluded the purchase of all current and voltage transformers at a major retailer's time-of-use installations.

Stream is increasingly involved in mass market metering associated with embedded networks, typically premises such as shopping malls and commercial buildings with a gateway meter and separate metering for individual customers.

VECTOR COMMUNICATIONS

Vector Communications increased its fibre-optic network by over 70 kilometres and recorded strong growth in major accounts and other services.

A significant achievement was the North Shore Urban Fibre Network implementation arising from a $4.6 million award to Vector Communications and the North Shore City Council from their successful joint bid under the Government's Broadband Challenge.

Service growth also reflects customer demand for innovative new products and services being offered by Vector Communications. Products such as Netflex, a new high-speed corporate internet product, has enabled large businesses to obtain a long-sought high quality broadband service.

Growth has also been achieved with connections to the Government Shared Network (GSN) and the Kiwi Advanced Research and Education Network (KAREN). Vector Communications was selected to provide the Auckland access point to these public sector initiatives, providing high capacity and ultra high speed connectivity between New Zealand's tertiary institutions, research organisations, libraries, schools, museums, and with the rest of the world.

Vector Communications' fibre-optic network in Auckland and Wellington now totals over 500 kilometres.

Installation of fibre-optic cable on Auckland's North Shore.

OUR BUSINESS PERFORMANCE
SERVICES

- Continued expansion of industry training services
- Treescape revenue increase from new contracts in New Zealand and Australia

A Utilitech gas trainer delivers 'hands on' training on polyethylene pipe butt jointing at a client's premises.

UTILITECH

Utilitech is a stand alone private training establishment within Vector that provides skills training for our own network operations and other energy utility employers.

It continued to expand the range of training and associated services offered to the electricity and gas distribution industries, and the broader utilities sector. Substantial growth also occurred in Utilitech's candidate achievement reporting role within the tertiary education sector.

Revenue remained consistent with last year as the increase in electricity supply industry trainee numbers experienced in 2006 to address a skills shortage appears to have reached a plateau.

Utilitech is well placed to provide a new dimension of training to ensure New Zealand has skilled resources in the installation, operation and maintenance of new energy technologies.

TREESCAPE LIMITED (50% OWNED)

Treescape Limited, Vector's 50%-owned vegetation management company, had a solid year, developing its operations throughout New Zealand and on Australia's Gold Coast.

It achieved revenue growth of 33% in a year of further expansion of its services as it successfully completed the first year of both a five year vegetation maintenance contract in Brisbane, Australia, and a five year contract for vegetation management of New Zealand's rail network.

OUR BUSINESS PERFORMANCE

BUILDING OUR PEOPLE'S CAPABILITIES

The year saw Vector continue to build on its award winning people strategies in order to provide a work environment that is both challenging and fulfilling.

Aligned to reward, our people development programme has been designed to support our core values and behaviours and further build on our capabilities. Playing a key role in determining our people's remuneration, this initiative provides an insight into how an individual is doing in each of Vector's four leadership dimensions – results, thinking, people and change.

Our VectorLife initiative further complements our stable of employment advantages. We believe that by supporting members of our team in all facets of life, we create an environment where people can achieve their potential.

As well as offering a work life balance environment, we provide our people with the best technology that is appropriate for the type of work they do.

Looking after health and wellbeing, our annual fitness grants, free life and income protection insurance and group medical discounts enable our people to meet work and family commitments in the best possible way.

As part of our assistance in the financial wellbeing of our people, we support the national KiwiSaver saving programme and have ensured our staff have good advice and choice regarding their participation in the programme.

Vector will continue to build on its current programmes to ensure the company remains a 'first choice' employer for both current and potential new staff.

HEALTH, SAFETY AND ENVIRONMENT

During the year, we took the opportunity to refresh our health and safety policy which is designed to create and maintain a safe and injury-free work environment for staff, contractors, suppliers and the public.

All staff are responsible at all times, and on all work assignments, for working safely and helping others to work safely.

Our comprehensive Safe Work Practices programme sets out Vector's commitment to working safely and prescribes minimum acceptable safe working standards. Our executive health and safety committee ensures strong and consistent leadership in this area across the company.

OUR COMMUNITY FOCUS

As one of New Zealand's largest multi-network infrastructure companies Vector recognises the need to contribute to its communities. The company is involved in a number of community initiatives and sponsorships, some of which are detailed below.

PUBLIC SAFETY PROGRAMME

Vector's commitment to safety is a core value within its business which extends to the local communities in which it operates.

We have a number of external safety programmes in place to educate people about how to keep safe around our electricity, gas and telecommunications networks. These include:

- a public safety campaign which has a proactive focus on informing the public (particularly DIYers) on how to avoid risks, as well as what actions they need to take should an incident occur
- a children's safety programme which has been successfully running since its introduction in 2005. This continues to gather momentum and the number of schools adopting the programme has increased considerably
- a Guide for Working Safely booklet is the cornerstone of our third-party contractor safety campaign and was developed to promote safe work practices to external contractors whose work brings them in close proximity to Vector's networks. Reducing third-party strikes on the network also protects public safety, which can be compromised when incidents occur, and helps ensure a safe, reliable electricity and gas supply to customers

The company was awarded the Electricity Engineers' Association Safety Award for 2007 for its public safety education programme.

Rayna Young, from Ruapotaka School, one of the winners of the Stay Safe Around Electricity poster competition.

VECTOR ARENA

A highlight of our sponsorship programme during the year was the opening of the Vector Arena – a world-class entertainment venue which will contribute to the cultural and sporting vitality of the country. Since its official opening in April 2007 the Vector Arena has attracted a feast of top class performers. It has lifted the standard and scope of entertainment available to the public and is a great community asset for all New Zealanders.

PROJECT K

During the year Vector, as a founding sponsor for the youth development programme Project K in Waitakere City and Porirua, assisted in a programme to raise $100,000 by supporting a celebrity debate in Auckland and Wellington. Project K was developed in 1995 in consultation with leading educationalists and youth workers as a catalyst for positive change by equipping young people to reach their potential.

VECTOR WELLINGTON ROUND THE BAYS

The 2007 Vector Wellington Round the Bays fun run/walk attracted record entries. In the eight years that Vector, in partnership with Sport Wellington Region, has supported the event the number of participants has doubled.

VECTOR WELLINGTON ORCHESTRA

Arts and culture add value to the economic and social fabric of our communities. Performances by the Vector Wellington Orchestra during the year increased by 30% over the previous year and reached a total audience of more than 100,000.

BOARD OF DIRECTORS

MICHAEL STIASSNY
BCom, LLB, CA

Chairman
Independent Director

Michael Stiassny is a chartered accountant and senior partner of Ferrier Hodgson & Co in Auckland. He has significant experience in investigating accountant work, company restructuring, due diligence and insolvency. He is a director of a number of public and private companies, including The Horticulture & Food Research Institute of New Zealand Limited and New Zealand Racing Board. Michael is an Auckland Branch Committee Member for the Institute of Directors and a Fellow of the Institute of Directors.

PETER BIRD
BA MA PhD

Independent Director

Peter Bird is a managing director of NM Rothschild & Sons and has extensive international experience in the energy and utility sectors. Peter's investment banking experience includes advising leading corporates on acquisitions/disposals; advising governments on privatisations; advising on arranging project finance, on acquisition financing, on mutualisation and on insolvency/debt restructuring. He has also advised utilities and public sector bodies on competitive solicitations and tender design and worked with governments on energy industry restructuring. Before joining Rothschild, Peter worked as an economic consultant with Coopers and Lybrand; as an economic researcher in the oil and nuclear sectors and as an academic economist at Stirling University. He has a PhD from Cambridge and has published over 30 articles in economics journals.

TONY CARTER
BEng (Hons), ME, MPhil

Independent Director

Antony (Tony) Carter is managing director of Foodstuffs (Auckland) Limited and managing director of Foodstuffs (NZ) Limited. He began his career working for the family company Carter Group Limited and in 1986 became involved in a number of Mitre 10 hardware stores. He later became a director and chairman of Mitre 10 New Zealand Limited but resigned from that board in 1994. In 1995 he became chief executive of Foodstuffs (South Island) Limited, a position he held until 2001 when he took up his current role.

SHALE CHAMBERS
LLB

Shale Chambers is a trustee and former deputy chair of the Auckland Energy Consumer Trust, deputy chair of the SOE MetService and its international subsidiary Metra Information, a member of the Institute of Directors, and managing partner in the legal firm ChambersCraigJarvis. Shale specialises in property, commercial and trust law.

HUGH FLETCHER

BSc, MCom (Hons), MBA (Stanford)

Independent Director

Hugh Fletcher is a former chief executive officer of Fletcher Challenge Limited and is currently a non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited and Rubicon Limited. He is also non-executive chairman of IAG New Zealand Limited, Chancellor of The University of Auckland, a member of the L.E.K. Consulting New Zealand Advisory Board and chairman of the venture capital fund No 8 Venture's Advisory Board.

ALISON PATERSON

FCA, ADistFInstD, QSO

Independent Director

Alison Paterson holds a number of directorships. She is chairman of the Electricity and Gas Complaints Commission, BPAC New Zealand Limited, Abano Healthcare Limited, the Governing Board of the Centre of Research Excellence for Growth and Development (University of Auckland) and the Oversight Committee at Ambulance NZ. She is also deputy chairman of the Reserve Bank of New Zealand; a board member of Metrowater Limited and Nga Pae o Te Maramatanga (Maori CoRE) and a councillor of Massey University.

KAREN SHERRY

MA (Hons), LLB (Hons)

Karen Sherry is a trustee and former chair of the Auckland Energy Consumer Trust, a principal of the firm Bell-Booth Sherry, deputy chair of Energy Trusts of New Zealand, a former trustee of Challenge Trust and a trustee of Auckland Healthy Houses Trust. She has been involved in the electricity industry since 1994 and was a director of Mercury Energy for six years. Karen specialises in commercial and trust law.

BOB THOMSON

BEng (Electrical), DipBS

Independent Director

Bob Thomson was chief executive of Transpower Limited from 1993 until his retirement in 2003 and has been acting as an adviser to the Energy Trusts of New Zealand since 2004. He held a range of senior management and engineering positions in the New Zealand Electricity Department and Electricity Corporation of New Zealand Limited prior to his appointment with Transpower. He was involved in the reform of the electricity industry, including being a board member of the Electricity Market Company Limited from 1994 to 1998. He is a Fellow of the New Zealand Institute of Engineers.

EXECUTIVE TEAM

SIMON MACKENZIE
Grad DipBS (Dist), Dip Fin, NZCE

Group Chief Executive Officer (Acting)

Simon has extensive experience in the energy sector, including strategy, regulation, network management, information technology, and telecommunications. He has completed the Advanced Management Programme at the Wharton School, University of Pennsylvania.

STEVE BIELBY
BA, LLB (Hons), LLM (London)

Group General Counsel

Steve transferred from his role as NGC General Counsel to Group General Counsel at Vector. He had previously spent 13 years in private practice. His role incorporates:

- Company secretary and corporate governance
- Risk management and assurance
- Legal services
- Public affairs
- Property and information management

MICHAEL CUMMINGS
BE (Hons) Edinburgh, MIPENZ

Divisional CEO Gas

Michael has significant energy experience in New Zealand and overseas including a range of commercial, regulatory and technical roles. Prior to Vector's acquisition of NGC Michael had accountability for NGC's gas processing, transmission and distribution businesses and was instrumental in expanding the company's LPG business. Michael is currently chairman of the Gas Association of New Zealand, and is a director of Liquigas. He is responsible for:

- Gas processing
- Gas transmission
- Gas distribution
- Gas wholesale and retail
- LPG distribution and sales

CHRIS GALLAHER
BCom, CA

Chief Financial Officer (Acting)

Chris has had an extensive international career in finance, general management and chief executive roles with Arthur Young chartered accountants (partner), Brierley Investments, Carter Holt Harvey, Village Roadshow and Envotec. Chris' role incorporates:

- Financial management
- Treasury
- Taxation
- Mergers and acquisitions

ANDREW KNIGHT

BMS (Hons), CA

Metering Business General Manager

Andrew was previously Vector's General Manager Strategic Development. Prior to that he held executive management roles with NGC in corporate development and energy sales. Andrew has also worked with other energy and accounting companies in New Zealand and Australia. Andrew's role encompasses:

- Mass market electricity and gas metering
- Large customer time-of-use electricity metering
- Data management services in New Zealand and Australia

HANNO SCHUPP

Dipl. Betrw. (FH)

Chief Information Officer

Hanno was previously the director/principal of an international IT consulting firm, managing large IT work programmes. He has significant experience in telecommunications, utilities and large industry, working in quality and risk management, IT operations strategies and architecture, and system integration. As manager of Vector's information technology functions, Hanno's accountabilities include:

- IT strategy and architecture
- IT governance and risk management
- IT portfolio management and implementation projects
- IT operations and service delivery
- Continuous improvement of IT practices through best practice frameworks (COBIT, ITIL and PRINCE2)

DAVID TOMPKINS

BA Sc, M Eng, MIPENZ, Dip B Mgt, Dip Int Fin

Divisional CEO Electricity

David has extensive experience in asset development, partnership management and contracting, as well as business development. He joined Vector in January 2002 as General Manager Service Delivery after returning from Canada where he managed a number of North American power developments. He has also held roles in New Zealand, Australia and South Africa in the energy and construction sectors. David is responsible for:

- Network development and investment
- Network operations and maintenance
- Service delivery and customer services
- Commercial and business development

GOVERNANCE STATEMENT

Vector's board is committed to maintaining the highest standards of corporate governance incorporating principles and behaviours that ensure transparency, fairness and recognition of the interests of the company's stakeholders.

The governance standards are founded on the formal disciplines of relevant laws, the New Zealand Exchange Limited (NZX) Listing Rules (the Rules) and the provisions of the company's constitution, as well as formal policies and procedures. Vector has adopted by reference the voting and governance provisions required by Rule 3.1.1 (a) to be contained, or incorporated by reference, in the constitution.

The standards also recognise the New Zealand Securities Commission governance principles and the NZX Corporate Governance Best Practice Code (the NZX Code), and take into account contemporary best practice standards in New Zealand and Australia, the New Zealand Institute of Directors' Code of Proper Practice, and practice statements issued by the institute from time to time.

Together, these establish business practices, ethical standards and codes of conduct for the company's directors and employees.

The board is currently reviewing all of the governance documents in keeping with its commitment to ensure the continuing appropriateness and relevance of the company's governance policies and practices.

GUIDING PRINCIPLES AND GOVERNANCE OBJECTIVES

In its charter the board has adopted a range of principles to guide the company's business objectives. These are that Vector will:

- be a leading commercial enterprise with a reputation for delivering results through sound business strategy
- have entrepreneurial agility, with an ability to identify opportunities and bring them to fruition
- be an employer of choice which values knowledge and talent
- deal fairly and honestly with its customers
- be a good corporate citizen

Underpinning these principles are governance objectives to:

- observe and foster high ethical standards
- balance independence, skill, knowledge experience and perspectives among directors so that the board works effectively
- use committees where this will enhance the board's effectiveness in key areas while retaining board responsibility
- regularly review the performance of board committees in accordance with their charters
- demand integrity both in financial reporting and in the timeliness and balance of disclosures on Vector's affairs
- ensure that the remuneration of directors and executives is transparent, fair and reasonable
- regularly verify that Vector has appropriate processes that identify and manage potential and relevant risks
- ensure the quality and independence of the external audit process
- foster constructive relationships with stakeholders that encourage them to engage with the company
- respect the interests of stakeholders

The following key corporate governance documents can be found on Vector's website at www.vector.co.nz

- constitution
- code of conduct
- board charter
- directors' code of practice
- board audit committee charter
- board risk and assurance committee charter
- board nominations committee charter
- board remuneration committee charter
- remuneration policy
- director and executive remuneration policy
- insider trading policy
- environment policy

BOARD OF DIRECTORS

In addition to statutory, regulatory and constitution requirements, Vector's board operates in accordance with a formal charter detailing practices and procedures in respect of board governance, committees, roles and responsibilities and accountabilities.

COMPOSITION

Vector's constitution sets the board size at between a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand.

As at 30 June 2007, the board comprised eight directors, all of whom are non-executive directors. Seven are ordinarily resident in New Zealand. Six directors have been formally confirmed by the board as independent on the prescribed basis that they have no relationship with Vector (either directly, throughassociated persons or as a partner, shareholder, or executive officer of an organisation that has a material relationship with Vector) that could compromise their ability to exercise unfettered judgment. Only independent directors are eligible to be the board chairperson.

Directors are elected by shareholders. The constitution requires at least a third of directors to retire at each annual meeting. These are, firstly, those wishing to retire, then those who have been longest in office since their last election. Directors retiring by rotation are eligible for re-election. There is no maximum term for which a non-executive director can remain a director.

The constitution also requires directors appointed by the board to fill casual vacancies to retire at the next annual meeting and to stand for election by shareholders.

There were no alternate directors during the year.

ROLES AND RESPONSIBILITIES

The board of directors has statutory responsibility for the affairs and activities of Vector. In practice, day-to-day business management is delegated to the chief executive officer and senior management.

The board usually meets monthly in accordance with an annual schedule determined prior to the end of each calendar year. If required, additional meetings may be convened, including by telephone or video conference. If an urgent decision is required between board meetings, it may be dealt with by written resolution in accordance with the constitution.

The board is responsible for:

- charting the direction, strategies and financial objectives of Vector and monitoring the implementation of the strategies and objectives
- monitoring compliance with regulatory requirements and ethical standards
- appointing and reviewing the performance of the chief executive officer and determining his/her terms and conditions, including remuneration
- protecting and enhancing the value of Vector's assets
- ensuring that the board risk and assurance committee, and management, identify areas of significant business risk and that arrangements are in place to adequately monitor those risks
- ensuring the chief executive officer and senior management are appropriately qualified and experienced

Powers specifically reserved for the board are:

- any matters in excess of discretions that it may have from time to time delegated to the chief executive officer and senior management in relation to transactions, market risk limits and expenditure
- approval of:
  - the budget and business plan, at least annually
  - the acquisition, establishment, disposal or cessation of any significant business of Vector, including seeking shareholder approval where this is required
  - the issue of any securities in Vector, including seeking shareholder approval where this is required
- reviewing Vector's performance against the strategic objectives

DELEGATED AUTHORITIES

The board formally approves delegated authorities for the chief executive officer and senior managers, which set limits on expenditure and other commitments to be made on behalf of the company. The delegated authorities carry individual accountability and are monitored by the board through the audit function.

The chief executive officer and senior management are responsible for:

- the day-to-day operation and administration of the company
- developing company strategies and making recommendations on specific strategic initiatives
- implementing and managing strategic initiatives approved by the board
- implementing and managing the risk management strategy set out by the board
- formulating and implementing policies and reporting procedures for management.

Under Vector's finance sign-off policy, proposed expenditure or investments that require board approval are assessed on a valuation basis and for financial impacts on the overall business. Such proposals must be supported by an underlying financial model, and the models themselves must be robust, accurate and include all relevant assumptions.

DIRECTORS' CODE OF PRACTICE

In addition to the board charter, directors observe a director's code of practice in which they acknowledge that, in carrying out their duties, they will:

- act honestly, in good faith and in what they consider to be the best interests of the company
- exhibit a high standard of moral and ethical behaviour and comply with the company's code of conduct
- devote sufficient time to enable them to perform as a director to the best of their abilities
- act with the care, diligence and skill reasonably expected of a director of a major infrastructure company with listed securities
- be independent in judgment when making decisions
- make reasonable inquiries that the company is operating towards the achievement of its strategic goals

INFORMATION AND ADVICE

Newly appointed directors are provided with an induction programme and materials to assist their understanding of Vector and the business environment in which it operates. All directors are expected to continuously educate themselves to ensure they can appropriately and effectively perform their duties.

A director is entitled to seek independent advice at the company's expense if he/she perceives an irregularity in a company related matter. The chairman must be advised beforehand, and the independent advice obtained made available to the rest of the board.

CONFLICTS OF INTEREST

Directors minimise the possibility of conflict of interest in their involvement with Vector by restricting their involvement in businesses that could lead to such a conflict. Where conflicts of interest exist, directors disclose the nature of their interest to fellow directors and, where appropriate, excuse themselves from discussion in respect of those interests, and do not exercise their right to vote.

BOARD PERFORMANCE

The board, with the assistance of professional advisers, reviews its performance and the performance of each director annually. The board also conducts an annual performance review of each board committee and each committee charter to ensure performance is consistent with the charter and that the charter itself remains appropriate.

BOARD COMMITTEES

There are currently four board committees, each with a charter, to assist the board on key areas of its responsibilities. They are:

- audit committee
- risk and assurance committee
- nominations committee
- remuneration committee

Committee chairpersons and members are appointed by the board.

The committees review and analyse company policies, strategy and proposals, usually developed by management, within the terms of their charters, and report their decisions and recommendations to the board. Committees do not take actions or make decisions on behalf of the board unless they have a prior specific mandate from the board to do so.

Each board committee is required to regularly review its performance and charter to ensure that its performance is consistent with the charter and that the charter itself continues to be appropriate. The findings of these self reviews are reported to the board.

AUDIT COMMITTEE

The audit committee comprises a minimum of three members, the majority of whom must be independent directors. Members must also be non-executive directors of the company and at least one must meet the NZSX Rules criteria in respect of an accounting or financial background. The audit committee chairman must be an independent director and cannot also be the chairman of the Vector board.

Audit committee members as at 30 June 2007 were Alison Paterson (chair), Shale Chambers, Hugh Fletcher, Michael Stiassny and Bob Thomson. The board has determined that Mrs Paterson, Mr Fletcher and Mr Stiassny meet the accounting or financial background criteria.

The audit committee:

- assists the board in performing its oversight responsibilities relating to financial reporting and regulatory compliance
- reviews the reporting process, internal financial control systems, the external audit process and the company's process for monitoring compliance with statutes and company policies
- reviews treasury policy and risk management controls, as well as Vector's funding policies
- reviews legal, taxation and other company compliance
- receives and reviews regular reports from the board risk and assurance committee relating to internal audit practices and programmes

It also ensures full communication between the board, the external auditors and management. Where appropriate, the committee will extend invitations to other directors, the chief executive officer and chief financial officer to attend committee meetings. The external auditors are invited to attend parts of committee meetings relevant to their responsibilities.

At least twice a year, the committee meets the external auditors without company employees present. It is authorised by the board to seek any information it requires from employees and external parties and to obtain external legal or other professional advice.

The audit committee meets formally at least three times a year, and will meet at such other times it considers appropriate, including any meetings requested by the external auditors.

APPOINTMENT OF AUDITORS

The audit committee considers and recommends to the board the appointment of the external auditors, and monitors the auditors' performance. Consideration of auditor independence includes reviewing the range of services provided by the auditors in the context of all consulting services bought by the company. The board has determined that the external auditors are precluded from conducting non-audit work for the company.

Rotation of audit firms is not required, but the committee ensures that the same audit partner does not lead the company's audit for more than five consecutive years. The current external audit partner has been leading the audit for approximately two years.

RISK AND ASSURANCE COMMITTEE

The risk and assurance committee assists the board to identify, analyse and manage risk which may have a significant influence on the company's performance. Its role is to consider and, if appropriate, approve recommendations of the executive risk management committee (ERMC) for submission to the board, and to provide strategic guidance and feedback to the board and ERMC on Vector's risk management policy.

In particular, this committee:

- approves the risk management policy for recommendation to the board
- approves the ERMC charter
- reviews ERMC reports, including the company's risk registers
- approves and oversees the internal audit programme
- regularly reports to the board audit committee in respect of internal audit practices and facilitates access to the internal auditors by the audit committee as the audit committee sees necessary
- oversees the company's insurance programme
- refers items of financial risk to the audit committee for consideration
- conducts an annual review of Vector's risk system to ensure systematic and consistent risk management practices across the company's operations

The risk and assurance committee comprises at least three directors and meets quarterly. There is a standing invitation to the chair of the ERMC to attend committee meetings. Risk and assurance committee members as at 30 June 2007 were Karen Sherry (chair), Tony Carter, Alison Paterson, Michael Stiassny and Bob Thomson.

NOMINATIONS COMMITTEE

The nominations committee is responsible for:

- establishing and reviewing criteria for determining the suitability of potential directors
- identifying and recommending suitably qualified candidates for director nomination or appointment
- the formal engagement and induction of new directors
- making determinations as to the independence status of all directors
- reviewing the board composition from time to time to ensure it is of an appropriate size and contains a balance of appropriate skills, qualifications, background and experience
- board and director performance evaluation procedures

The committee's charter provides that, while the Auckland Energy Consumer Trust (AECT) holds not less that 50.01% of the shares of Vector, the nominations committee will undertake non-binding consultation with the AECT prior to finalising any board recommendation regarding a director nomination or appointment.

Vector's constitution requires that AECT approval be obtained to the appointment or removal of directors of subsidiary companies, except listed and non-trading subsidiaries.

The nominations committee comprises not less than three directors, a majority of whom will, wherever possible, be independent non-executive directors. The committee meets at least twice a year.

Members of the nominations committee as at 30 June 2007 were Michael Stiassny (chair), Tony Carter, Hugh Fletcher and Alison Paterson.

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for year ended 30 June 2007 are provided in the table below:

	FULL BOARD	AUDIT COMMITTEE	RISK & ASSURANCE COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
Total meetings	**15**	**5**	**5**	**1**	**3**
Current directors					
Michael Stiassny	15	5	5	1	3
Peter Bird	2				
Tony Carter	2				1
Shale Chambers	14	5	5	1	3
Hugh Fletcher	2				
Alison Paterson	7	3	3	1	2
Karen Sherry	14	5	5	1	3
Bob Thomson	15	5	5	1	3
Former directors					
Brian Plimmer	4	1			
Tony Gibbs	7		1		
John Goulter	7		2		1
Greg Muir	4	1			

1. Shale Chambers and Karen Sherry were appointed as directors on 24 July 2006
2. Alison Paterson was appointed as a director on 7 March 2007
3. Peter Bird, Tony Carter and Hugh Fletcher were appointed as directors on 25 May 2007
4. Brian Plimmer retired as a director on 18 October 2006
5. Tony Gibbs, John Goulter and Greg Muir resigned as directors on 13 December 2006

REMUNERATION COMMITTEE

The remuneration committee's role is to consider all appointments and contractual terms at the executive management level, monitor policy implementation outcomes at this level, review the company's remuneration policy annually and review directors' remuneration from time to time. Committee meetings are held as required.

Members of the remuneration committee as at 30 June 2007 were: Shale Chambers (chair), Tony Carter, Alison Paterson and Michael Stiassny.

DIRECTOR AND EXECUTIVE REMUNERATION

Vector will provide fair and reasonable, yet competitive, remuneration for its directors and executives to ensure that the company attracts and retains high calibre individuals with the skills, experience and knowledge to increase entity value to the benefit of shareholders.

Directors' remuneration is reviewed from time to time, normally annually, taking into account:

- an independent assessment of the competitive market
- Vector's remuneration practices compared with similar companies and market trends
- the competitiveness of the prevailing level of remuneration and its ability to attract and retain high quality directors
- changes in directors' workloads

Directors' remuneration is approved by shareholders.

Through incorporation by reference in the constitution to NZSX Listing Rules relating to payments to directors upon cessation of office, it is open to Vector to consider payments to directors ceasing to hold office. However, Vector has not made such payments to date.

Remuneration of members of Vector's executive management team is established by reference to:

- market survey data
- job size, including responsibilities, skills, competencies and accountabilities

Executive remuneration is reviewed annually and includes "at risk" incentive payments based on predetermined financial and operational performance measures.

Vector's approach to director and executive remuneration augments the company's over-arching remuneration policy applicable to all employees.

REMUNERATION POLICY

Vector takes a total cash approach to remuneration, with the remuneration structure taking account of external market trends, individual performance, internal relativities and company budget considerations.

The remuneration system therefore balances competitive pay with affordability and ensures a clear link exists between remuneration and the company's strategic objectives, business performance and internal values and culture. Vector's total cash approach, representing a mix of fixed and "at risk" incentive payments based on pre-set performance targets, provides flexibility to reward outstanding individual contributions.

Vector uses a job evaluation methodology to assign positions to bands which take account of the nature of the work being done, accountabilities, business impact and the knowledge, experience and expertise required to perform the job.

The company regularly participates in external remuneration surveys and compares its fixed remuneration against the median remuneration levels of the New Zealand private sector.

Fixed pay is reviewed, but not necessarily increased, annually. As an incentive, rather than an entitlement, "at risk" payments must be re-earned each performance year and the incentive plan itself is reviewed each year to ensure appropriate alignment with the company's business strategy.

SHAREHOLDER & MARKET COMMITTEE

During the year, the board decided to discontinue the shareholder and market committee, established at the time of Vector's listing on the NZSX in 2005.

CODE OF CONDUCT

Vector's code of conduct sets the ethical standards expected of the directors, employees and contractors of Vector and its subsidiaries (Vector people), is reviewed annually and approved by the board. Many of its provisions are also reflected in various company policies and in employees' employment contracts. Vector people are required to comply with these policies and contracts.

The code of conduct covers:

- standards of behaviour that reflect credit on both the company and the individual, including professionalism, integrity, loyalty, fairness and honesty
- conflicts of interest
- receipt and use of company information, assets, gifts and property, including intellectual property
- compliance with delegated authorities
- compliance with Vector's policies, frameworks and processes and, as required by the company's legal compliance policy, with all applicable legislation, regulations, local authority by-laws and securities markets rules (including the Rules)
- employees rights under the Protected Disclosures Act 2000 to report concerns, and procedures to investigate such reports
- disciplinary measures and processes

Implementation and ongoing monitoring of the code of conduct is the responsibility of the people and culture division. There are no incidents of unethical behaviour to report.

INSIDER TRADING POLICY

Vector people are required to adhere to procedures set out in the company's insider trading policy when trading in the company's securities. This policy will be reviewed against impending changes to insider trading legislation and amended as required.

STAKEHOLDER RELATIONS

Vector's commitments to its various stakeholders, including shareholders, are part of the board charter and the company's code of conduct.

The board charter states that, in carrying out its responsibilities and powers, the board will at all times recognise its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of Vector's shareholders and other stakeholders, including its employees, customers and the wider community.

It promotes these principles as basic guidelines for all employees and company representatives at all times.

Acknowledging its accountability to all stakeholders, the board seeks to identify stakeholder expectations, including at the regulatory and ethical levels.

SHAREHOLDERS

In particular, Vector recognises the rights of shareholders as the owners of the company and encourages their ongoing active interest in the company's affairs. It seeks to foster a constructive relationship with its shareholders and encourage their engagement by:

- ensuring they have full and timely access to information about the company, including through the Vector website
- conducting shareholder meetings in a location and at a time convenient to the majority of shareholders
- providing shareholders with adequate opportunity to ask questions about and comment upon relevant matters, and to directly question the external auditors, at shareholder meetings
- inviting shareholders to contact the company to ask questions, or express a view, about matters affecting the company

The board also recognises the special status of majority shareholders in companies. Vector's constitution includes provisions relating to its majority shareholder, the AECT and, in addition, Vector and the AECT are parties to a Deed Recording Essential Operating Requirements, which includes certain consultation and reporting provisions.

STAKEHOLDERS

The board acknowledges the rights of stakeholders with a legitimate interest in the company's affairs. Such stakeholders include customers, business partners, communities hosting the company's physical operations (in particular, local authorities, landowners, special interest groups and emergency services), contractors, suppliers and professional advisers, other energy industry participants, government and regulatory authorities, securities market participants, the general public, and Vector employees including, where applicable, their trade union representatives.

Vector seeks constructive relationships with its stakeholders and to meet their expectations by:

- operating its assets in a safe and responsible manner
- eliminating or mitigating risk
- open communication and providing timely access to information, including safety information, about the company's operations, goods and services;
- direct liaison and consultation
- establishing partnerships with communities and providing mutually-beneficial practical support
- complying with all laws and regulations
- creating and maintaining a positive employment environment for Vector people and treating them at all times with respect and dignity

ACCESSIBLE INFORMATION

Vector ensures that public information about the company is readily accessible to all stakeholders. The company maintains an up-to-date website containing a comprehensive range of information, including a business description, market announcements, company reports and public presentations. These regularly include communication of Vector's goals, strategies and performance.

Vector issues quarterly reports on its financial and operational performance and conducts detailed market briefings in conjunction with the release of its annual and interim reports. Information presented at these briefings, and public announcements made at other times, are available on Vector's website immediately they clear the information disclosure protocols with the NZX.

Stakeholders can register online, free of charge, to receive electronic notification immediately new information is posted on the Vector website.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

2007 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2007.

For and on behalf of directors

Director 15 August 2007

Director 15 August 2007

For and on behalf of management

Acting Chief Executive Officer 15 August 2007

Acting Chief Financial Officer 15 August 2007

AUDITORS REPORT

FOR THE YEAR ENDED 30 JUNE 2007

TO THE SHAREHOLDERS OF VECTOR LIMITED

We have audited the financial statements on pages 49 to 85. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 54 to 57.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries in relation to general accounting services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 49 to 85:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 15 August 2007 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

STATEMENT OF
FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Operating revenue	2	**1,352,923**	1,132,990	**657,891**	741,021
Operating expenditure	3	**(742,944)**	(554,346)	**(326,842)**	(268,934)
Earnings before interest, income tax, depreciation and amortisation		**609,979**	578,644	**331,049**	472,087
Depreciation and amortisation	4	**(241,007)**	(215,890)	**(133,752)**	(113,133)
Operating surplus before interest and income tax		**368,972**	362,754	**197,297**	358,954
Net interest expense	5	**(230,348)**	(228,521)	**(204,951)**	(193,117)
Operating surplus before income tax		**138,624**	134,233	**(7,654)**	165,837
Income tax (expense)/benefit	6	**(32,721)**	(81,345)	**14,394**	(35,945)
Operating surplus		**105,903**	52,888	**6,740**	129,892
Minority interests	14	**(4,203)**	(7,820)	**–**	–
Net surplus for the year		**101,700**	45,068	**6,740**	129,892

STATEMENT OF
MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

		GROUP		PARENT	
	NOTE	2007 $000	2006 $000	2007 $000	2006 $000
RECOGNISED REVENUES AND EXPENSES					
Net surplus for the year:					
Group and parent		101,700	45,068	6,740	129,892
Minority interests	14	4,203	7,820	–	–
Movement in revaluation reserve	12	–	470,599	–	470,599
Total recognised revenues and expenses for the year		105,903	523,487	6,740	600,491
Decrease in minority interests on completion of acquisition of NGC Holdings Limited	14	–	(109,313)	–	–
Issue of shares (net of issue costs)	10	–	583,703	–	583,703
DISTRIBUTIONS TO OWNERS					
Dividends	11	(125,000)	(113,600)	(125,000)	(113,600)
Supplementary dividends	11	(662)	(321)	(662)	(321)
Foreign investor tax credits	11	662	321	662	321
Dividends to minorities	11	(3,776)	(3,935)	–	–
Movements in equity for the year		(22,873)	880,342	(118,260)	1,070,594
Equity at beginning of the year		1,925,914	1,045,572	1,997,723	927,129
Equity at end of the year		1,903,041	1,925,914	1,879,463	1,997,723

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2007

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
CURRENT ASSETS					
Cash and bank overdraft		**7,008**	9,507	**689**	1,371
Receivables and prepayments	15	**170,857**	171,503	**89,631**	92,236
Prepaid gas	16	**4,210**	7,950	**–**	–
Inventories	17	**10,019**	7,998	**57**	69
Income tax	8	**25,102**	21,010	**24,410**	10,586
Capitalised finance costs	18	**5,413**	5,363	**5,413**	5,363
Intangible assets	22	**2,639**	3,793	**–**	–
Advances to subsidiaries		**–**	–	**396,071**	518,955
Total current assets		**225,248**	227,124	**516,271**	628,580
NON-CURRENT ASSETS					
Receivables and prepayments	15	**4,716**	3,253	**1,693**	1,664
Prepaid gas	16	**–**	4,987	**–**	–
Income tax	8	**1,137**	1,251	**–**	–
Capitalised finance costs	18	**26,322**	24,567	**26,322**	24,567
Investments	19	**28,259**	17,814	**1,423,436**	1,406,421
Intangible assets	22	**1,573,751**	1,672,426	**591,188**	629,853
Property, plant and equipment	23	**3,869,427**	3,767,166	**2,948,241**	2,861,656
Total non-current assets		**5,503,612**	5,491,464	**4,990,880**	4,924,161
Total assets		**5,728,860**	5,718,588	**5,507,151**	5,552,741
CURRENT LIABILITIES					
Payables and accruals	24	**225,902**	211,173	**156,528**	119,942
Borrowings	29	**361,025**	535,830	**359,018**	533,990
Advances from subsidiaries		**–**	–	**14,791**	13,715
Total current liabilities		**586,927**	747,003	**530,337**	667,647
NON-CURRENT LIABILITIES					
Payables and accruals	24	**7,790**	8,770	**929**	912
Borrowings	29	**2,773,568**	2,554,784	**2,770,520**	2,552,333
Deferred tax	9	**457,534**	482,117	**325,902**	334,126
Total non-current liabilities		**3,238,892**	3,045,671	**3,097,351**	2,887,371
Total liabilities		**3,825,819**	3,792,674	**3,627,688**	3,555,018
EQUITY					
Share capital	10	**883,703**	883,703	**883,703**	883,703
Asset revaluation reserve	12	**1,017,982**	1,017,982	**1,016,288**	1,016,288
Retained earnings	13	**(10,066)**	13,234	**(20,528)**	97,732
Parent shareholders equity		**1,891,619**	1,914,919	**1,879,463**	1,997,723
Minority shareholders equity	14	**11,422**	10,995	**–**	–
Total equity		**1,903,041**	1,925,914	**1,879,463**	1,997,723
Total equity and liabilities		**5,728,860**	5,718,588	**5,507,151**	5,552,741

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
OPERATING ACTIVITIES					
Cash provided from:					
Receipts from customers		1,352,008	1,112,390	663,545	620,870
Interest portion of repayments on finance leases		120	120	120	120
Interest received on deposits		3,824	10,191	2,127	5,939
Income tax refund received		–	1,055	–	–
Dividends received		263	577	–	110,897
		1,356,215	1,124,333	665,792	737,826
Cash applied to:					
Payments to suppliers and employees		(712,776)	(524,963)	(284,548)	(267,541)
Income tax paid		(59,183)	(20,443)	(53,984)	–
Interest portion of payments under finance leases		(682)	(504)	(3)	–
Interest paid		(225,605)	(225,274)	(226,447)	(208,621)
		(998,246)	(771,184)	(564,982)	(476,162)
Net cash from operating activities		357,969	353,149	100,810	261,664
INVESTING ACTIVITIES					
Cash provided from:					
Advances repaid by subsidiaries		–	–	217,917	–
Proceeds from sale of investments		8,000	–	–	–
Proceeds from sale of property, plant and equipment		4,381	587	332	229
Receipts from loans repaid		135	137	73	75
Capital portion of repayments on finance leases		11	11	11	11
		12,527	735	218,333	315
Cash applied to:					
Advances to subsidiaries		–	–	(17,316)	(246,006)
Acquisition of shares in NGC Holdings Limited		–	(122,178)	–	(122,178)
Purchase and construction of property, plant and equipment		(262,596)	(225,245)	(195,792)	(168,959)
Purchase of investment		(17,015)	(600)	(17,015)	(600)
Issue of security deposits		(101)	–	(101)	–
		(279,712)	(348,023)	(230,224)	(537,743)
Net cash used in investing activities		(267,185)	(347,288)	(11,891)	(537,428)
FINANCING ACTIVITIES					
Cash provided from/(applied to):					
Issue of ordinary shares		–	208,715	–	208,715
Equity raising costs incurred		–	(5,393)	–	(5,393)
Proceeds from borrowings		660,172	1,863,761	658,000	1,751,499
Repayment of borrowings		(615,000)	(1,921,745)	(615,000)	(1,540,944)
Debt raising costs incurred		(7,595)	(24,506)	(7,595)	(24,203)
Capital portion of payments under finance leases		(2,084)	(810)	(6)	–
Dividends paid to shareholders of parent	11	(125,000)	(113,600)	(125,000)	(113,600)
Dividends paid to minority interests	11	(3,776)	(3,935)	–	–
Net cash from financing activities		(93,283)	2,487	(89,601)	276,074
Net (decrease)/increase in cash balances		(2,499)	8,348	(682)	310
Cash balances at beginning of the year		9,507	1,159	1,371	1,061
Cash balances at end of the year		7,008	9,507	689	1,371

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES				
Net surplus for the year	101,700	45,068	6,740	129,892
Minority interests	4,203	7,820	–	–
Operating surplus	105,903	52,888	6,740	129,892
ITEMS CLASSIFIED AS INVESTING AND FINANCING ACTIVITIES				
Net loss/(gain) on disposal of non-current assets	9,208	(1,167)	9,609	(198)
	9,208	(1,167)	9,609	(198)
NON-CASH ITEMS IMPACTING NET SURPLUS				
Depreciation and amortisation	241,007	215,890	133,752	113,133
Amortisation of the mark to market adjustment	(2,816)	(2,605)	(1,022)	(2,304)
Amortisation of prepaid gas	8,672	13,501	–	–
Amortisation of capitalised finance costs	5,790	5,088	5,790	4,884
(Decrease)/increase in deferred tax	(23,231)	22,345	(8,224)	28,152
(Decrease)/increase in provisions	(8,664)	773	2,516	193
Equity earnings (surplus)/deficit	(656)	365	–	–
	220,102	255,357	132,812	144,058
CASH ITEMS NOT IMPACTING NET SURPLUS				
Dividend from associate	–	200	–	–
	–	200	–	–
MOVEMENT IN WORKING CAPITAL				
Increase/(decrease) in payables and accruals	29,435	22,500	9,865	(40,467)
(Increase)/decrease in inventory	(1,839)	802	12	(69)
(Increase)/decrease in receivables and prepayments	(862)	(16,402)	2,595	(7,544)
(Increase)/decrease in income tax assets	(3,978)	38,971	(60,823)	35,992
	22,756	45,871	(48,351)	(12,088)
Net cash from operating activities	357,969	353,149	100,810	261,664

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2007

ENTITIES REPORTING

Vector Limited is a company registered under the Companies Act 1993. Vector Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Financial statements for Vector Limited (the parent) and consolidated financial statements are presented. The consolidated financial statements comprise the parent and its subsidiaries (the group) and the group's share of any interest in associates, partnerships and joint ventures.

STATUTORY BASE

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

MEASUREMENT BASE

The financial statements are prepared on the basis of historical cost modified by the revaluation of certain items of property, plant and equipment as identified in specific accounting policies below.

Where a change in the presentational format of the financial statements has been made during the period, comparative figures have been restated accordingly.

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following specific accounting policies that materially affect the measurement of financial performance, financial position and cash flows have been applied.

A) BASIS OF CONSOLIDATION

Subsidiaries

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

Associates

Associates are entities in which the group has significant influence but not control over the operating and financial policies. The group's share of the net surplus of associates is recognised as a component of operating revenue in the statement of financial performance after adjusting for the amortisation of goodwill arising on acquisition and differences between the accounting policies of the group and the associates. The group's share of other gains and losses of associates is recognised as a component of total recognised revenues and expenses in the statement of movements in equity. Dividends received from associates are credited to the carrying amount of the investment in associates.

Partnerships

Partnerships are those relationships that the group has with other persons whereby the partners carry on a business in common with a view to generating a profit. The group has joint and several liability in respect of all liabilities incurred by the partnerships. Where the group has a controlling interest in a partnership, it is accounted for in the consolidated financial statements as a subsidiary. Where the group has significant influence but not control over the operating and financial policies of the partnership, it is accounted for in the consolidated financial statements as an associate.

Acquisition or disposal during the period

Where an entity becomes or ceases to be a part of the group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets and liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. Where an entity that is part of the group is disposed of, the gain or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying amount of the identifiable assets and liabilities and related goodwill of that entity.

Intra-group amalgamations

Where an intra-group reconstruction occurs through a subsidiary amalgamating into its parent by way of a short form amalgamation, the assets and liabilities are recognised in the financial statements of the amalgamated entity at the carrying value in the subsidiary accounts at the point of amalgamation. The investment in the subsidiary is reduced to zero. Goodwill previously recognised in the group financial statements on consolidation is recognised in the amalgamated entity financial statements on amalgamation. Any excess of the carrying amount of the subsidiary's net assets and the goodwill over the investment in the subsidiary is recognised in the statement of changes in equity. The results of the subsidiary amalgamated are recognised in the net surplus of the amalgamated entity from the date of the amalgamation.

Joint ventures

Joint ventures are joint arrangements with other parties in which the group is jointly and severally liable in respect of costs and liabilities, and shares in any resulting output. The group's share of the assets, liabilities, revenues and expenses of joint ventures is incorporated in the consolidated financial statements on a line-by-line basis using the proportionate method.

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 net assets acquired. Goodwill is amortised to the statement of financial performance on a straight line basis over the period during which benefits are expected to be derived up to a maximum of 20 years.

Fees and other costs incurred in raising debt or equity finance directly attributable to the acquisition of a subsidiary are recognised as part of the cost of acquisition within goodwill and amortised on a straight line basis over a period of up to 20 years.

Transactions eliminated on consolidation

The effects of intra-group transactions are eliminated in preparing the consolidated financial statements.

B) INCOME RECOGNITION

Income from the provision of goods and services is recognised as goods and services are delivered. Interest and rental income is accounted for as earned. Income from customer contributions is recognised on a percentage of completion basis.

C) GOODS AND SERVICES TAX (GST)

The statement of financial performance and statement of cash flows have 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 invoiced.

D) RECEIVABLES

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

E) GAS CONTRACTS AND PREPAID GAS

The group may from time to time prepay for gas and these payments may entitle the group to delivery of gas in subsequent years without further payment. Gas prepayments are capitalised as an asset and are expensed to cost of goods sold in the statement of financial performance as the prepaid gas is utilised. The amortisation rate per unit of gas is based on the amount of prepaid gas which the group expects to access over the term of the contract.

Where the group recognises an estimated liability for future obligations to provide gas at a later date, fees associated with those gas advances are amortised to the statement of financial performance over the expected life of the contract.

F) INVENTORIES

Inventories are stated at lower of cost and net realisable value. Cost is determined on a first-in-first-out or weighted average cost basis.

G) INCOME TAX

The income tax expense recognised for the period is based on the operating surplus before taxation, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of tax losses carried forward, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

H) IDENTIFIABLE INTANGIBLE ASSETS

Gas entitlements

Gas entitlements are initially recognised at fair value and are amortised to the statement of financial performance as the entitlements to gas volumes are exercised.

I) INVESTMENTS

Non-current investments are stated at cost.

J) PROPERTY, PLANT AND EQUIPMENT

The 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. All feasibility costs are expensed as incurred.

The cost of constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, costs of obtaining resource management consents, financing costs that are attributable to the project and an appropriate proportion of the variable and fixed overheads. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any inefficiency costs.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure 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.

Distribution systems and some classes of land and buildings are revalued by independent experts. Revalued assets are valued to fair value in accordance with Financial Reporting Standard No. 3, applying a depreciated replacement cost or a discounted cash flow methodology as appropriate. Revaluations of distribution systems and distribution land and buildings are carried out at least every three years.

Other classes of property, plant and equipment are not revalued. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance. Estimated recoverable amount is the greater of the estimated amount from the future use of property, plant and equipment and its ultimate disposal, and its net market value. Annual impairment reviews are undertaken for these classes of property, plant and equipment.

K) DEPRECIATION

Depreciation of property, plant and equipment, other than gas turbines and freehold land, is calculated on a straight line or diminishing value basis so as to expense the cost, or revalued amount, less any expected residual value of the property, plant and equipment to the statement of financial performance over its useful economic life.

	USEFUL LIVES YEARS
Distribution systems	15 – 100
Distribution and other buildings	40 – 100
Electricity and gas meters	5 – 30
Generation assets (excluding gas turbines)	10 – 20
Leasehold improvements	6 – 20
Motor vehicles and mobile equipment	3 – 20
Computer and telecommunication equipment	3 – 40
Other plant and equipment	5 – 20

Gas turbines disclosed within generation assets are depreciated on a units of production basis over a period of 20 years. All other generation assets are depreciated on a straight line basis over their useful life.

L) LEASED ASSETS

Finance leases

Property, plant and equipment under finance leases 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 allocated between the liability and the interest expense. Leased property, plant and equipment are depreciated on the same basis as equivalent owned property, plant and equipment.

Operating leases

Lease payments under operating leases, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are expensed to the statement of financial performance in equal instalments over the lease term.

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.

M) PROVISIONS

Employee entitlements

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

Onerous contracts

Where the benefits expected to be derived from a contract are lower than the unavoidable costs of meeting the group's obligation under the contract, a provision is recognised. The provision is initially stated at the present value of the future net cash outflows expected to be incurred in respect of the contract. Subsequent to initial recognition, the provision is expensed to the statement of financial performance over the life of the contract as the services are delivered.

Other provisions

A provision is recognised as a liability where the group considers 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. Where the likelihood of a resultant liability is more than remote but insufficient to warrant a provision, such events are disclosed as contingent liabilities.

N) FINANCIAL INSTRUMENTS

The group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items.

The group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Fees and other costs incurred in raising debt finance not directly attributable to the acquisition of subsidiaries are capitalised and amortised over the term of the debt instrument or debt facility.

Interest income and expenses are recognised on an accrual basis. Where a debt instrument is issued at a discount or premium, the discount or premium is capitalised and amortised over the life of the instrument.

Fair value adjustments on derivative instruments acquired are initially recognised in the statement of financial position as a mark to market adjustment. Subsequent to initial recognition, the mark to market adjustment is amortised to the statement of financial performance over the period of the underlying derivative.

O) FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities not hedged by foreign currency derivative instruments are translated at the closing rate, and exchange variations arising from these translations are included in the statement of financial performance.

Monetary assets and liabilities in foreign currencies at balance date hedged by foreign currency derivative instruments are translated at contract rates.

P) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the statement of cash flows:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.

Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

Cash is cash on hand and in current accounts in banks, net of bank overdrafts.

Q) DISCONTINUED OPERATIONS

Discontinued operations are clearly distinguishable activities of the group's business that have been sold or terminated before the earlier of three months after balance date and the date that the financial statements are approved. In order for the activities to be classified as discontinued, they must have a material effect on the nature and focus of the business and represent a material reduction in either operating facilities or turnover.

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a basis consistent with those applied in the annual report of Vector Limited for the year ended 30 June 2006.

1. SEGMENT INFORMATION

The group operates in the following areas in the infrastructure sectors in New Zealand. Intersegment sales are on an arms length basis.

Electricity

Ownership and management of electricity distribution networks.

Gas transportation

Ownership and management of gas transmission lines and distribution networks.

Gas wholesale

Natural gas acquisition, processing and retailing, LPG (distribution, storage and retailing) and electricity generation.

Technology

Telecommunications services, electricity and gas metering.

Corporate / other

Corporate activities, investments and other energy and utility industry-related businesses.

GROUP 2007	ELECTRICITY $000	GAS TRANSPORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE/ OTHER $000	TOTAL $000
Segment revenue	611,476	173,954	534,763	67,558	6,292	1,394,043
Less: Intersegment revenue	–	(35,129)	(5,385)	(606)	–	(41,120)
Operating revenue	611,476	138,825	529,378	66,952	6,292	1,352,923
Earnings before interest, income tax, depreciation and amortisation	377,968	135,492[1]	107,526[1]	47,787[1]	(58,794)	609,979
Depreciation and amortisation	(111,487)	(60,822)	(30,122)	(27,204)	(11,372)	(241,007)
Operating surplus before interest and income tax	266,481	74,670[1]	77,404[1]	20,583[1]	(70,166)	368,972
Net interest expense						(230,348)
Operating surplus before income tax						138,624
Income tax expense						(32,721)
Operating surplus						105,903
Minority interests						(4,203)
Net surplus for the year						101,700
Total assets	3,224,254	1,442,238	461,086	455,410	145,872	5,728,860

[1] Figures are reported inclusive of transactions that are eliminated on consolidation. Vector's results for announcement to the market on 15 August 2007 reported these figures exclusive of transactions eliminated on consolidation. Both methods of presentation can be used; the change in presentation from the 15 August 2007 results for announcement to the market has been made to maintain consistency with previous periods.

GROUP 2006	ELECTRICITY $000	GAS TRANSPORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	CORPORATE/ OTHER $000	TOTAL $000
Segment revenue	580,148	164,393	361,066	61,213	6,491	1,173,311
Less: Intersegment revenue	-	(34,346)	(5,057)	(918)	-	(40,321)
Operating revenue	580,148	130,047	356,009	60,295	6,491	1,132,990
Earnings before interest, income tax, depreciation and amortisation	364,522	112,504	94,562	41,876	(34,820)	578,644
Depreciation and amortisation	(94,730)	(59,497)	(25,822)	(28,948)	(6,893)	(215,890)
Operating surplus before interest and income tax	269,792	53,007	68,740	12,928	(41,713)	362,754
Net interest expense						(228,521)
Operating surplus before income tax						134,233
Income tax expense						(81,345)
Operating surplus						52,888
Minority interests						(7,820)
Net surplus for the year						45,068
Total assets	3,213,027	1,449,479	500,637	438,693	116,752	5,718,588

2. OPERATING REVENUE

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Trading revenue		1,313,247	1,101,356	630,364	599,771
Dividend income		263	377	–	110,897
Equity accounted earnings of associates surplus/(deficit)	20	656	(365)	–	–
Gain on disposal of property, plant and equipment		2,106	1,167	319	198
Customer contributions		32,909	26,229	25,616	26,014
Miscellaneous income		3,742	4,226	1,592	4,141
Total operating revenue		1,352,923	1,132,990	657,891	741,021
Interest revenue	5	3,944	10,002	31,298	30,220
Total revenue		1,356,867	1,142,992	689,189	771,241

3. OPERATING EXPENDITURE

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Operating expenditure includes:				
Bad debts written-off	60	32	36	–
Increase/(decrease) in provision for doubtful debts	1,015	(182)	750	–
Rental and operating lease costs	4,642	4,572	3,653	2,714
Loss on disposal of property, plant and equipment	11,314	–	9,928	–
Donations	5	31	5	31
Directors fees	759	845	680	764
Auditors remuneration:				
Audit fees paid to principal auditors – KPMG	672	338	597	293
Audit fees paid to other auditors – PwC	15	226	10	–
Fees paid for other assurance services provided – KPMG	358	190	358	190
Fees paid for other assurance services provided – PwC	26	–	26	–
Fees paid for other non-assurance services provided – PwC	504	142	504	48

4. DEPRECIATION AND AMORTISATION

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Depreciation of property, plant and equipment					
Distribution systems		**106,103**	89,992	**83,751**	68,041
Distribution buildings		**1,250**	1,295	**1,250**	1,295
Electricity and gas meters		**10,457**	8,796	**–**	–
Generation power stations and equipment		**1,337**	1,449	**–**	–
Buildings		**291**	290	**51**	51
Leasehold improvements		**512**	386	**228**	386
Motor vehicles and mobile equipment		**926**	779	**35**	14
Computer and telecommunications equipment		**17,160**	9,501	**9,476**	4,431
Other plant and equipment		**4,741**	4,752	**296**	250
		142,777	117,240	**95,087**	74,468
Amortisation of intangible assets					
Amortisation of goodwill	22	**94,383**	93,036	**38,665**	38,665
Amortisation of gas entitlement intangible assets	22	**3,847**	5,614	**–**	–
		98,230	98,650	**38,665**	38,665
Total		**241,007**	215,890	**133,752**	113,133

5. NET INTEREST EXPENSE

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Interest paid and accrued	**236,351**	239,758	**235,564**	223,794
Amortisation of capitalised finance costs	**5,790**	5,088	**5,790**	4,884
Amortisation of the mark to market adjustment	**(2,816)**	(2,605)	**(1,022)**	(2,304)
Total interest expense	**239,325**	242,241	**240,332**	226,374
Interest revenue:				
External	**(3,944)**	(10,002)	**(2,248)**	(6,059)
Intercompany	**–**	–	**(29,050)**	(24,161)
Total interest revenue	**(3,944)**	(10,002)	**(31,298)**	(30,220)
Capitalised interest	**(5,033)**	(3,718)	**(4,083)**	(3,037)
Total	**230,348**	228,521	**204,951**	193,117

6. INCOME TAX EXPENSE

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Operating surplus before income tax	138,624	134,233	(7,654)	165,837
Prima facie tax at 33%	45,746	44,297	(2,526)	54,726
Plus/(less) tax effect of permanent differences:				
Prior period adjustment	267	436	(231)	407
Depreciation	19,806	15,886	19,428	15,302
Customer contributions	(10,859)	(9,013)	(8,452)	(8,584)
Goodwill amortisation	28,604	28,448	10,330	10,345
Intercompany dividend	–	–	–	(36,596)
Adjustment to deferred tax for change in company tax rate	(40,114)	–	(28,889)	–
Other	(10,729)	1,291	(4,054)	345
Income tax expense/(benefit)	32,721	81,345	(14,394)	35,945
The income tax expense/(benefit) is represented by:				
Current tax	52,640	58,035	(6,170)	7,793
Deferred tax	(19,919)	23,310	(8,224)	28,152
Total	32,721	81,345	(14,394)	35,945

In May 2007, the Government changed the corporate tax rate to 30% effective from the 2008/2009 income year. In accordance with SSAP 12, Vector has restated its deferred tax liability, reflecting the change in corporate tax rate, which applies for Vector from 1 July 2008. The impact of the deferred tax restatement is a reduction in the group deferred tax liability of $40.1 million and a corresponding credit to income tax expense in the statement of financial performance.

7. IMPUTATION BALANCES

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year	(23,562)	8,968	(25,233)	259
Prior period adjustment	(1,180)	1,888	724	–
Income tax payments during the year	58,929	19,396	53,938	34
Imputation credits attaching to dividends received	129	284	3,483	54,621
Imputation credits attaching to dividends paid	(60,698)	(55,631)	(60,698)	(55,631)
Transfer to subsidiary company	–	–	–	(28,000)
Other	(1,138)	1,533	–	3,484
Balance at end of the year	(27,520)	(23,562)	(27,786)	(25,233)
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	(32,306)	(25,233)	(27,786)	(25,233)
Through indirect shareholding in subsidiaries	4,786	1,671	–	–
Total	(27,520)	(23,562)	(27,786)	(25,233)

Vector Limited is the nominated representative company of the Vector Imputation Group and in this respect the balance in the parent refers to the balance in the Group Imputation Account.

8. INCOME TAX

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Current				
Prepaid tax	24,309	10,360	24,410	2,549
Future income tax benefit	793	10,650	–	8,037
Total	25,102	21,010	24,410	10,586
Non-current				
Future income tax benefit	1,137	1,251	–	–
Total	1,137	1,251	–	–

9. DEFERRED TAX

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year	482,117	468,086	334,126	275,001
On acquisition of NGC Holdings Limited	(2,176)	(39,287)	–	–
Increase on revaluation of property, plant and equipment	–	30,973	–	30,973
Prior period adjustment	1,493	2,096	(302)	3,871
Transfer to current tax	(2,488)	(965)	–	–
Decrease relating to change in company tax rate	(40,114)	–	(28,889)	–
On surplus for the year	18,702	21,214	20,967	24,281
Balance at end of the year	457,534	482,117	325,902	334,126

The decrease in the group deferred tax liability of $40.1 million resulting from the change in the corporate tax rate to 30% effective from the 2008/2009 income year is explained in Note 6 above.

10. SHARE CAPITAL

	GROUP & PARENT 2007 NUMBER 000'S	GROUP & PARENT 2007 VALUE $000	GROUP & PARENT 2006 NUMBER 000'S	GROUP & PARENT 2006 VALUE $000
Ordinary shares (issued and fully paid)				
Balance at beginning of the year	1,000,000	883,703	751,000	300,000
Issue of shares on initial public offering	–	–	249,000	589,096
Issue costs	–	–	–	(5,393)
Balance at end of the year	1,000,000	883,703	1,000,000	883,703

All ordinary shares carry equal voting rights and equal rights to a surplus on winding up of the parent.

In August 2005, 249 million additional ordinary shares were issued pursuant to an initial public offer at $2.38 per share. The total issue costs incurred in respect of the initial public offer were $14.1 million, including $0.6 million paid to the group's principal auditors, KPMG. Of this total, $8.7 million has been capitalised as goodwill relating to the acquisition of subsidiaries during the year ended 30 June 2006.

11. DIVIDENDS

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Dividends paid to shareholders of the parent:				
Final dividend on prior year earnings	60,000	53,600	60,000	53,600
Interim dividend on current year earnings	65,000	60,000	65,000	60,000
Dividends paid to minority interests of Liquigas Limited	3,776	3,935	–	–
Total	128,776	117,535	125,000	113,600

Vector Limited's final dividend for the year ended 30 June 2006 of 6.0 cents per share was paid on 31 August 2006 with a supplementary dividend of $379,670 (equating to 0.04 cents per share). The interim dividend for the current year of 6.5 cents per share was paid on 10 April 2007 with a supplementary dividend of $463,626 (equating to 0.05 cents per share). Both dividends gave rise to foreign investor tax credits equal to the amount of supplementary dividends paid. During the year $181,627 of refunds of overpaid supplementary dividends were received.

12. ASSET REVALUATION RESERVE

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year	1,017,982	547,383	1,016,288	545,689
Revaluation of property, plant and equipment	–	470,599	–	470,599
Balance at end of the year	1,017,982	1,017,982	1,016,288	1,016,288

13. RETAINED EARNINGS

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year		13,234	81,766	97,732	81,440
Net surplus attributable to shareholders		101,700	45,068	6,740	129,892
Dividends paid to shareholders of parent	11	(125,000)	(113,600)	(125,000)	(113,600)
Balance at end of the year		(10,066)	13,234	(20,528)	97,732

14. MINORITY INTERESTS

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year		10,995	116,423	–	–
Decrease on completion of acquisition of NGC Holdings Limited		–	(109,313)	–	–
Share of operating surplus in subsidiary companies		4,019	7,644	–	–
Share of operating surplus in partnership		184	176	–	–
Dividends paid to minority interests	11	(3,776)	(3,935)	–	–
Balance at end of the year		11,422	10,995	–	–

15. RECEIVABLES AND PREPAYMENTS

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Current				
Trade receivables	168,331	168,959	85,708	90,147
Provision for doubtful debts	(3,546)	(2,531)	(900)	(150)
	164,785	166,428	84,808	89,997
Prepayments	6,058	5,051	4,809	2,215
Other receivables	14	24	14	24
Total	170,857	171,503	89,631	92,236
Non-current				
Trade receivables	2,898	1,400	–	–
Other receivables	1,818	1,853	1,693	1,664
Total	4,716	3,253	1,693	1,664

16. GAS CONTRACTS AND PREPAID GAS

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Current				
Maui prepaid gas	4,210	7,950	–	–
Total	4,210	7,950	–	–
Non-current				
Maui prepaid gas	–	4,987	–	–
Total	–	4,987	–	–

Maui Gas

At 30 June 2007, Vector has 4.8PJ (30 June 2006: 12.7PJ) of remaining historic Maui gas entitlements including 4.4PJ (30 June 2006: 11.6PJ) which is likely to be delivered with no further payment to the Crown except for payment of the energy resource levy. The remaining 0.4PJ (30 June 2006: 1.1PJ) can be uplifted by Vector at the previous contract prices. As part of the variations executed on 1 June 2004, Vector also has a right of first refusal (ROFR) at market price along with Contact Energy over any additional gas found after first reserving 40PJ for Methanex New Zealand Limited. Vector has now entered into a series of ROFR contracts with Maui Development Limited (MDL) for 105PJ to be delivered between 1 April 2007 and 31 December 2014. Of that quantity, 60PJ was contingent on being confirmed as economically recoverable. In May 2007 Vector received confirmation that MDL had converted 23.3PJ of previously contingent gas to firm contracted entitlements for Vector. The ROFR contracts contain annual take or pay provisions and Vector has entered into back to back arrangements with other parties for the on-sale of ROFR gas to cover Vector's take or pay liability through to December 2009.

Kapuni Gas

Vector currently has entitlement to 50% of the recoverable gas reserves of the Kapuni field as they were determined to be at 1 April 1997. At 30 June 2007, this is estimated to be approximately 64PJ (30 June 2006: 76.8PJ), of which 50.3PJ (30 June 2006: 56.3PJ) is at current Kapuni gas contract prices while the balance will be at a price yet to be negotiated.

Vector has reached an agreement with Shell (Petroleum Mining) Company Ltd (Shell) to purchase Shell's share of Kapuni gas, after Shell has met its pre-existing contract commitments, for the period from 1 January 2005 to 31 December 2013. Deliveries of this Kapuni gas will be dependent on the daily production from the field, but Vector expects that approximately 45PJ of gas will be delivered under this contract. The maximum total quantity of gas to be delivered under the contract is 70PJ less any amounts credited to this contract from the Pohokura Gas contracts discussed on page 65.

16. GAS CONTRACTS AND PREPAID GAS (CONTINUED)

Pohokura Gas

Vector currently purchases a portion of Shell's entitlements to gas from Pohokura, which commenced in September 2006 and runs until 30 September 2007. The rates of gas able to be purchased under this contract vary over the term of the contract and Vector may purchase a total amount of up to 35PJ of gas under this contract. The first 10PJ of gas purchased under this contract has been credited to Vector's entitlement to 70PJ of gas as described on page 64 under Kapuni Gas.

Vector has also agreed with Shell to purchase a further portion of Shell's entitlements to gas from Pohokura from 1 January 2007 until 30 June 2010. Delivery of such gas is dependent on Shell's share of Pohokura's daily production, but Vector will have up to 30TJ/day available. Vector may purchase a total amount of up to 38PJ of gas under this contract. Fifty percent of this gas will be credited to Vector's entitlement to 70PJ of Kapuni gas from Shell as described on page 64.

Both of the above Pohokura contracts contain daily fixed quantity provisions.

Kahili Joint Venture

Vector agreed with the Kahili Joint Venture (Kahili JV) in 2004 to purchase all the wet gas produced from the Kahili field. The Kahili JV comprises Austral Pacific Energy (NZ) Limited and Tag Oil (NZ) Ltd. The field is currently closed pending a re-drilling in 2008. The volume expected from any new well is uncertain but estimated to be 5PJ.

17. INVENTORIES

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Natural gas and by-products	1,467	149	–	–
Trading stock	3,328	3,066	–	–
Consumable spares	5,224	4,783	57	69
Total	10,019	7,998	57	69

18. CAPITALISED FINANCE COSTS

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Total capitalised costs				
Cost	53,568	45,973	53,568	45,973
Accumulated amortisation	(21,833)	(16,043)	(21,833)	(16,043)
Total	31,735	29,930	31,735	29,930
Current				
Capitalised finance costs	5,413	5,363	5,413	5,363
Total	5,413	5,363	5,413	5,363
Non-current				
Capitalised finance costs	26,322	24,567	26,322	24,567
Total	26,322	24,567	26,322	24,567

19. INVESTMENTS

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Non-current					
Investments in subsidiaries		–	–	1,403,537	1,403,537
Investments in associates	20	28,259	10,588	19,899	2,884
Other investments		–	7,226	–	–
Total		28,259	17,814	1,423,436	1,406,421

The group's investments in subsidiaries comprise shares at cost. Investments in group companies comprise:

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2007	PERCENTAGE HELD 2006
Subsidiaries			
NGC Holdings Limited	Investment	100%	100%
– Vector Management Services Limited	Management services	100%	100%
– Vector Gas Limited	Natural gas sales, processing and transportation	100%	100%
– Vector Gas Contracts Limited	Natural gas sales	100%	100%
– Vector Gas Investments Limited	Investment	100%	100%
– Vector Kapuni Limited	Investment	100%	100%
– Liquigas Limited	LPG sales and distribution	60%	60%
– On Gas Limited	LPG purchases and sales	100%	100%
– NGC Metering Limited	Metering services	100%	100%
– Vector Metering Data Services Limited	Investment & contracting metering data services	100%	100%
– Vector Metering Data Services (Australia) Limited	Investment	100%	100%
– Elect Data Services (Australia) Pty Limited	Energy metering data management	100%	100%
Vector Communications Limited	Telecommunications network provider	100%	100%
Vector Stream Limited	Investment	100%	100%
– Stream Information Limited	Agent for partnership	70%	70%
– Stream Information (partnership)	Metering services	70%	70%

During the year, the following subsidiaries changed their name:

	FORMER NAME
Subsidiaries	
Vector Management Services Limited	NGC Management Limited
Vector Gas Limited	NGC New Zealand Limited
Vector Gas Contracts Limited	NGC Contracts Limited
Vector Gas Investments Limited	NGC Investments Limited
Vector Kapuni Limited	NGC Kapuni Limited
Vector Metering Data Services Limited	NGC Metering Data Services Limited
Vector Metering Data Services (Australia) Limited	NGC Australia Metering Data Services Limited

19. INVESTMENTS (CONTINUED)

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2007	2006
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	100%	100%
– MEL Silverstream Limited	Dormant	100%	100%
– MEL Network Limited	Holding company	100%	100%
– Mercury Geotherm Limited (in receivership)	Investment	100%	65%
– Poihipi Land Limited (in receivership)	Investment	100%	65%
Vector Power Limited	Dormant	100%	100%
Auckland Network Limited	Dormant	100%	100%
Energy North Limited	Dormant	100%	100%
UnitedNetworks Limited	Dormant	100%	100%
Salamanca Holdings Limited	Investment	75%	75%
– Pacific Energy Limited	Dormant	62%	62%
Broadband Services Limited	Dormant	100%	100%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	100%	100%
NGC Limited	Dormant	100%	100%
Associates			
Treescape Limited	Vegetation management	50%	50%
– Treescape Australasia Pty Limited	Vegetation management	50%	50%
Energy Intellect Limited	Metering services	25%	25%
NZ Windfarms Limited	Power generation	20%	–
Joint venture interests			
Kapuni Energy Joint Venture	Electricity generation	50%	50%
Other investments			
Wanganui Gas Limited	Gas distribution and retailing	–	25%

In June 2007 Vector acquired a 19.99% stake in NZ Windfarms Limited for $17.0 million.

During the year Vector acquired the remaining shares in Mercury Geotherm Limited and Poihipi Land Limited for nominal consideration.

On 30 October 2006 Vector sold its 25% stake in Wanganui Gas Limited for $8.0 million.

All entities have a balance date of 30 June, apart from Treescape Limited, Treescape Australasia Pty Limited, Salamanca Holdings Limited, Pacific Energy Limited, Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which all have a balance date of 31 March.

All entities are incorporated in New Zealand except Elect Data Services (Australia) Pty Limited and Treescape Australasia Pty Limited which are incorporated in Australia.

20. INVESTMENT IN ASSOCIATES

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Carrying amount of associates				
Carrying amount at beginning of the year	10,588	10,553	2,884	2,284
On further investment in existing associate	–	600	–	600
Purchase of investment in NZ Windfarms Limited	17,015	–	17,015	–
Equity accounted earnings of associates	656	(365)	–	–
Dividends received from associates	–	(200)	–	–
Carrying amount at end of the year	28,259	10,588	19,899	2,884
Equity accounted earnings of associates				
Operating surplus/(loss) before income tax	979	(415)	–	–
Income tax (expense)/benefit	(323)	50	–	–
Net surplus/(deficit)	656	(365)	–	–
Total recognised revenues and expenses	656	(365)	–	–

The amount of goodwill included in the carrying amount of investments in associates is $15.4 million (30 June 2006: nil).

21. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

The group has a 50% interest in a joint venture that owns a cogeneration plant producing electricity and steam in Kapuni, Taranaki. The group's interest in the joint venture is included in the consolidated financial statements under the classifications shown below.

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Net assets employed in the joint venture				
Property, plant and equipment	6,609	7,196	–	–
Current assets	1,445	2,771	–	–
Current liabilities	(1,038)	(1,737)	–	–
Total	7,016	8,230	–	–
Net contribution to operating surplus before income tax				
Revenue	10,957	10,321	–	–
Expenditure	(8,786)	(9,123)	–	–
Total	2,171	1,198	–	–

22. INTANGIBLE ASSETS

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Goodwill					
Balance at beginning of the year		1,669,733	1,336,510	629,853	668,518
On acquisition of NGC Holdings Limited		(2,570)	426,259	–	-
On acquisition of other businesses		971	-	–	-
Amortisation in the financial year	4	(94,383)	(93,036)	(38,665)	(38,665)
Balance at end of the year		1,573,751	1,669,733	591,188	629,853
Gas entitlements					
Balance at beginning of the year		6,486	12,100	–	-
Amortisation in the financial year	4	(3,847)	(5,614)	–	-
Balance at end of the year		2,639	6,486	–	-
Total		1,576,390	1,676,219	591,188	629,853
Current					
Gas entitlements		2,639	3,793	–	-
Total		2,639	3,793	–	-
Non-current					
Goodwill		1,573,751	1,669,733	591,188	629,853
Gas entitlements		–	2,693	–	-
Total		1,573,751	1,672,426	591,188	629,853

Goodwill is amortised over a period of up to 20 years in accordance with the group's accounting policy.

Gas entitlements are amortised as the entitlements to the gas volumes are exercised.

The group completed its acquisition of NGC Holdings Limited on 10 August 2005. During the year, the carrying value of the net assets acquired have been adjusted to reflect their fair value at 10 August 2005. The total impact on the carrying value of goodwill is $2.6 million, comprising a $1.5 million fair value adjustment to provisions ($1.0 million net of tax) and a $1.8 million fair value adjustment to deferred tax, offset by a $0.2 million fair value adjustment to property, plant and equipment.

During the year the group purchased other businesses, The Gas Man Limited and Alpine Oil & Gas Limited, giving rise to additional goodwill of $1.0 million.

23. PROPERTY, PLANT AND EQUIPMENT

GROUP 2007	COST / VALUATION $000	ACCUMULATED DEPRECIATION $000	NET BOOK VALUE $000
Distribution systems	3,399,870	(161,651)	3,238,219
Distribution land	76,660	–	76,660
Distribution buildings	44,659	(1,659)	43,000
Electricity and gas meters	174,649	(25,602)	149,047
Generation power stations and equipment	10,334	(3,085)	7,249
Computer and telecommunications equipment	164,423	(72,718)	91,705
Motor vehicles and mobile equipment	6,818	(2,299)	4,519
Other plant and equipment	78,057	(12,902)	65,155
Freehold land	15,441	–	15,441
Buildings	7,889	(1,119)	6,770
Leasehold improvements	11,673	(3,611)	8,062
Capital work in progress	163,600	–	163,600
Total	4,154,073	(284,646)	3,869,427

GROUP 2006	COST / VALUATION $000	ACCUMULATED DEPRECIATION $000	NET BOOK VALUE $000
Distribution systems	3,268,219	(56,345)	3,211,874
Distribution land	74,755	–	74,755
Distribution buildings	39,415	(444)	38,971
Electricity and gas meters	159,725	(16,038)	143,687
Generation power stations and equipment	8,950	(1,748)	7,202
Computer and telecommunications equipment	107,259	(55,645)	51,614
Motor vehicles and mobile equipment	4,954	(1,373)	3,581
Other plant and equipment	67,747	(8,142)	59,605
Freehold land	16,169	–	16,169
Buildings	11,650	(828)	10,822
Leasehold improvements	5,182	(3,099)	2,083
Capital work in progress	146,803	–	146,803
Total	3,910,828	(143,662)	3,767,166

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

PARENT **2007**	**COST / VALUATION $000**	**ACCUMULATED DEPRECIATION $000**	**NET BOOK VALUE $000**
Distribution systems	2,739,422	(103,676)	2,635,746
Distribution land	76,660	–	76,660
Distribution buildings	44,659	(1,659)	43,000
Computer and telecommunications equipment	92,239	(50,859)	41,380
Motor vehicles and mobile equipment	504	(202)	302
Other plant and equipment	10,018	(2,024)	7,994
Freehold land	11,681	–	11,681
Buildings	1,451	(332)	1,119
Leasehold improvements	8,386	(3,327)	5,059
Capital work in progress	125,300	–	125,300
Total	3,110,320	(162,079)	2,948,241

PARENT **2006**	**COST / VALUATION $000**	**ACCUMULATED DEPRECIATION $000**	**NET BOOK VALUE $000**
Distribution systems	2,620,580	(21,130)	2,599,450
Distribution land	74,755	–	74,755
Distribution buildings	39,415	(444)	38,971
Computer and telecommunications equipment	64,024	(41,451)	22,573
Motor vehicles and mobile equipment	230	(167)	63
Other plant and equipment	9,183	(1,732)	7,451
Freehold land	9,191	–	9,191
Buildings	1,451	(281)	1,170
Leasehold improvements	5,182	(3,099)	2,083
Capital work in progress	105,949	–	105,949
Total	2,929,960	(68,304)	2,861,656

Distribution systems assets acquired as a result of the acquisition of NGC Holdings Limited on 14 December 2004 were restated to reflect their fair value at that date. Distribution systems, distribution land and distribution buildings in the parent were revalued in March 2006 to a total of $2,772.8 million consistent with the group's accounting policy to revalue those classes of property, plant and equipment at least every three years. The basis of valuation was the lesser of depreciated replacement cost and the estimated amount from the future use of these distribution assets.

As indicated in the accounting policies, interest and other costs are capitalised to property, plant and equipment while under construction. During the year $30.3 million (year ended 30 June 2006: $27.8 million) of interest and other costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity meters, motor vehicles and mobile equipment and distribution systems at net book values of $4.9 million (30 June 2006: $4.5 million), $0.3 million (30 June 2006: $nil) and $1.8 million (30 June 2006: $1.9 million) respectively.

24. PAYABLES AND ACCRUALS

	NOTE	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Current					
Trade payables and other creditors		168,849	131,756	114,227	84,730
Gas advance		–	17,075	–	–
Deferred consideration payable		986	967	–	–
Provision for employee entitlements	25	7,186	8,371	6,048	2,945
Provision for onerous contracts	26	–	1,200	–	–
Other provisions	27	12,570	19,189	231	231
Mark to market adjustment		596	1,659	307	1,080
Interest payable		35,715	30,956	35,715	30,956
Total		225,902	211,173	156,528	119,942
Non-current					
Deferred consideration payable		3,022	4,166	–	–
Mark to market adjustment		289	2,042	94	343
Other non-current payables		4,479	2,562	835	569
Total		7,790	8,770	929	912

The gas advance relates to the delivery by Contact Energy Limited of 2.5PJ of gas (sourced from Maui) under a swap arrangement during the year ended 30 June 2005. This amount of gas was returned to Contact Energy Limited during the year ended 30 June 2007.

25. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year	8,371	8,418	2,945	2,520
(Utilised)/additions	(1,185)	(47)	3,103	425
Balance at end of the year	7,186	8,371	6,048	2,945

26. PROVISION FOR ONEROUS CONTRACTS

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Balance at beginning of the year	1,200	1,723	–	–
Utilised	–	(523)	–	–
Reversed to the statement of financial performance	(1,200)	–	–	–
Balance at end of the year	–	1,200	–	–

27. OTHER PROVISIONS

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Balance at beginning of the year	19,189	12,149	231	465
On acquisition of NGC Holdings Limited	(1,467)	5,131	–	–
Additions	699	2,743	–	–
Utilised	(2,440)	(834)	–	(234)
Reversed to the statement of financial performance	(3,411)	–	–	–
Balance at end of the year	12,570	19,189	231	231

Other provisions include provisions for various commercial matters expected to be settled during the next two financial years but which could require settlement at any time. The group completed its acquisition of NGC Holdings Limited on 10 August 2005. During the year, the carrying value of provisions acquired has been adjusted to reflect their fair value at 10 August 2005. The total impact on the carrying value of other provisions is $1.5 million ($1.0 million net of tax).

28. COMMITMENTS

The following amounts have been committed to by the group and parent, but not recognised in the financial statements.

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided	48,421	49,443	43,512	42,611
Operating lease commitments				
Within one year	4,314	4,528	3,757	2,591
One to two years	3,583	4,021	3,322	2,420
Two to five years	6,281	9,326	5,840	6,208
Beyond five years	1,756	3,578	1,206	1,135
Total	15,934	21,453	14,125	12,354

The majority of the operating lease commitments relate to premises leases. These, in the main, give the group the right to renew the lease.

29. BORROWINGS

GROUP 2007	WEIGHTED AVERAGE INTEREST RATE %	TOTAL $000	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000
Bank loans	8.52	395,000	–	395,000	–	–
Working capital loan	8.16	40,000	40,000	–	–	–
Medium term notes – floating rate A$	7.02	569,018	319,018	–	250,000	–
Capital bonds	8.00	307,205	–	–	307,205	–
Fixed interest rate bonds	6.81	200,000	–	200,000	–	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
NZ floating rate notes	8.41	1,200,000	–	–	–	1,200,000
Other	6.36	5,055	2,007	1,205	1,842	1
		3,134,593	361,025	596,205	559,047	1,618,316

GROUP 2006	WEIGHTED AVERAGE INTEREST RATE %	TOTAL $000	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000
Bank loans	7.77	365,000	–	–	365,000	–
Working capital loan	7.50	27,000	27,000	–	–	–
Medium term notes - fixed rate NZ$	6.50	199,785	199,785	–	–	–
Medium term notes - floating rate A$	6.15	569,018	–	319,018	250,000	–
Capital bonds	8.25	307,205	307,205	–	–	–
Fixed interest rate bonds	6.81	200,000	–	–	200,000	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
NZ floating rate notes	7.86	1,000,000	–	–	–	1,000,000
Other	6.74	4,291	1,840	1,057	1,393	1
		3,090,614	535,830	320,075	816,393	1,418,316

29. BORROWINGS (CONTINUED)

PARENT 2007	WEIGHTED AVERAGE INTEREST RATE %	TOTAL $000	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000
Bank loans	8.52	395,000	–	395,000	–	–
Working capital loan	8.16	40,000	40,000	–	–	–
Medium term notes - floating rate A$	7.02	569,018	319,018	–	250,000	–
Capital bonds	8.00	307,205	–	–	307,205	–
Fixed interest rate bonds	6.81	200,000	–	200,000	–	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
NZ floating rate notes	8.41	1,200,000	–	–	–	1,200,000
		3,129,538	359,018	595,000	557,205	1,618,315

PARENT 2006	WEIGHTED AVERAGE INTEREST RATE %	TOTAL $000	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000
Bank loans	7.77	365,000	–	–	365,000	–
Working capital loan	7.50	27,000	27,000	–	–	–
Medium term notes - fixed rate NZ$	6.50	199,785	199,785	–	–	–
Medium term notes - floating rate A$	6.15	569,018	–	319,018	250,000	–
Capital bonds	8.25	307,205	307,205	–	–	–
Fixed interest rate bonds	6.81	200,000	–	–	200,000	–
Private placement senior notes	5.65	418,315	–	–	–	418,315
NZ floating rate notes	7.86	1,000,000	–	–	–	1,000,000
		3,086,323	533,990	319,018	815,000	1,418,315

All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.

Interest rates for all bank loans are floating based on the bank bill rate plus a margin. Bank loans are arranged through various facility agreements. Facilities with total committed amount of $700 million will expire in October 2008. The working capital facility with total commitment of $70 million is due to expire in October 2007.

Medium term notes – floating rate A$ mature April 2008 and April 2011. The interest on A$ medium term notes is paid quarterly, based on BBSW plus a margin.

Capital bonds are unsecured, subordinated debt with the next election date set as 15 June 2012. The interest is fixed at 8.00% per annum and is paid semi-annually. In December 2006, the capital bonds were offered to existing capital bond holders under new conditions, with the option to either retain all of their capital bonds, retain all of their capital bonds and apply to purchase additional bonds, or sell some capital bonds and retain some capital bonds, or sell all of their capital bonds. The outcome of the election notice process was $250 million bonds were retained by existing holders, $24 million additional bonds were sold to existing holders, and the remaining $33 million bonds were allocated to market participants.

Fixed interest rate bonds have a coupon rate of 6.81% and are due to mature in March 2009.

Private placement senior notes of US$15 million, US$65 million and US$195 million, with maturity periods of 8, 12 and 15 years respectively were placed with US investors in September 2004 at a contract exchange rate of 0.6574 US$ for every NZ$.

NZ floating rate notes totalling $1 billion were issued in October 2005 in three tranches with different maturity periods ($250 million 10 year, $400 million 12 year, and $350 million 15 year). Medium term notes – fixed rate NZ$ matured in April 2007 and were refinanced with $200 million of 10 year NZ floating rate notes at that time. All of the NZ floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) or Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007). NZ floating rate notes have credit ratings of AAA from Standard and Poor's and Aaa from Moody's. Interest on these notes is paid quarterly based on BKBM plus a margin.

Borrowings are classified between current and non-current dependent on expected repayment dates. Borrowings are subject to various lending covenants. These have all been met for the years ended 30 June 2007 and 30 June 2006.

30. FINANCIAL INSTRUMENTS

The group has a comprehensive treasury policy approved by the board of directors to manage the risks of financial instruments. The policy outlines the objectives and approach that the group will adopt in the treasury management processes. The policy covers, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk.

INTEREST RATE RISK

The group actively manages interest rate exposures in accordance with treasury policy. In this respect, at least forty percent of all debt must be at fixed interest rates or effectively fixed using interest rate swaps, forward rate agreements, options and other derivative instruments.

The weighted average interest rates of borrowings are as follows.

	GROUP 2007		GROUP 2006	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	8.52	395,000	7.77	365,000
Working capital loan	8.16	40,000	7.50	27,000
Medium term notes – fixed rate NZ$	–	–	6.50	200,000
Medium term notes – floating rate A$	7.02	569,018	6.15	569,018
Capital bonds	8.00	307,205	8.25	307,205
Fixed interest rate bonds	6.81	200,000	6.81	200,000
Private placement senior notes	5.65	418,315	5.65	418,315
NZ floating rate notes	8.41	1,200,000	7.86	1,000,000
Other	6.36	5,055	6.74	4,291
		3,134,593		3,090,829

	PARENT 2007		PARENT 2006	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	8.52	395,000	7.77	365,000
Working capital loan	8.16	40,000	7.50	27,000
Medium term notes – fixed rate NZ$	–	–	6.50	200,000
Medium term notes – floating rate A$	7.02	569,018	6.15	569,018
Capital bonds	8.00	307,205	8.25	307,205
Fixed interest rate bonds	6.81	200,000	6.81	200,000
Private placement senior notes	5.65	418,315	5.65	418,315
NZ floating rate notes	8.41	1,200,000	7.86	1,000,000
		3,129,538		3,086,538

30. FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE RISK (CONTINUED)

The weighted average interest rates of interest rate swaps and cross currency swaps are as follows.

	GROUP & PARENT 2007		GROUP & PARENT 2006	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Interest rate swaps (floating to fixed)				
Maturing in less than 1 year	7.20	310,000	7.22	100,000
Maturing between 1 and 2 years	6.66	70,000	7.13	417,500
Maturing between 2 and 5 years	6.85	930,000	6.79	422,500
Maturing after 5 years	6.77	400,000	6.85	600,000
		1,710,000		1,540,000
Interest rate swaps (fixed to floating)				
Maturing in less than 1 year	–	–	6.50	200,000
Maturing between 1 and 2 years	6.81	200,000	–	–
Maturing between 2 and 5 years	–	–	6.81	200,000
		200,000		400,000
Forward starting interest rate swaps				
Floating to fixed maturing between 2 and 5 years	–	–	6.70	200,000
Floating to fixed maturing after 5 years	6.25	350,000	6.45	460,000
		350,000		660,000
Interest rate cap				
Floating to fixed maturing between 2 and 5 years	7.95	400,000	–	–
		400,000	–	–
Cross currency swaps (pay leg) – floating	8.73	987,333	7.69	987,333
Cross currency swaps (receive leg) – floating	6.44	987,333	5.94	987,333

Bank loans, working capital loans, A$ medium term notes are at floating rates. A portion of the bank loans are hedged through interest rate swaps which convert the floating rate into a fixed rate.

The A$ medium term notes are hedged through cross currency swaps (eliminating the foreign currency risk) and interest rate swaps (floating to fixed).

The NZ$ medium term notes were fixed interest rate notes which were hedged by interest rate swaps (fixed to floating). The NZ$ medium term notes and related swaps matured in April 2007.

Fixed interest rate bonds are at fixed interest rates. These notes are hedged by the interest rate swaps (fixed to floating).

The US$ privately placed senior notes are hedged through cross currency swaps (eliminating the foreign currency risk).

NZ floating rate notes are hedged through interest rate swaps (floating to fixed).

The forward starting interest rate swaps (floating to fixed) are used to hedge forecasted future floating rate debt.

The interest rate cap hedges floating exposures arising out of floating rate debt not already hedged.

30. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN EXCHANGE RISK

In this reporting period the group has conducted transactions in foreign currencies for the purpose of protecting the NZ$ value of capital expenditure.

The group has outstanding forward exchange contracts. At balance date the group has no significant exposure to foreign exchange risk.

The outstanding forward exchange contracts are as follows:

	GROUP & PARENT 2007			GROUP & PARENT 2006		
	BUY $000	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000	BUY $000	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) $000
EUR	710	0.52	(129)	–	–	–
USD	57	0.68	(10)	–	–	–
GBP	312	0.35	(85)	–	–	–
			(224)			–

CREDIT RISK

In the normal course of business, the group is exposed to credit risks from energy retailers, financial institutions and trade debtors. The group has credit policies, which are used to manage the exposure to credit risks.

As part of these policies, the group can only have exposures to financial institutions having at least a credit rating of A+ long term from Standard & Poor's (or equivalent rating). In addition, limits on exposures to financial institutions have been set by the board of directors and are monitored on a regular basis. In this respect, the group minimises its credit risk by spreading such exposures across a range of institutions. The group does not anticipate non-performance by any of these financial institutions.

The group has some concentration of credit exposures with a few large energy retailers and large energy customers. To minimise this risk, the group performs credit evaluations on all energy retailers and large energy customers and requires a bond or other form of security where deemed necessary.

The group places its cash deposits with a small number of banking institutions and limits the amount deposited with each institution.

The maximum exposure to credit risk is represented by the carrying value of each financial asset.

	GROUP		PARENT	
	2007 CARRYING AMOUNT $000	2006 CARRYING AMOUNT $000	2007 CARRYING AMOUNT $000	2006 CARRYING AMOUNT $000
Cash and bank overdraft	7,008	9,507	689	1,371
Trade receivables	167,683	167,828	84,808	89,997
Interest rate swaps	2,644	643	2,644	643
Cross currency swaps	4,407	7,895	4,407	7,895

30. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES

	GROUP 2007 CARRYING AMOUNT $000	GROUP 2007 FAIR VALUE $000	GROUP 2006 CARRYING AMOUNT $000	GROUP 2006 FAIR VALUE $000
Financial assets				
Cash and bank overdraft	7,008	7,008	9,507	9,507
Trade receivables	167,683	167,683	167,828	167,828
Financial liabilities				
Trade payables and other creditors	168,849	168,849	131,756	131,756
Bank loans	398,417	398,417	367,819	367,819
Working capital loan	40,018	40,018	27,006	27,006
Medium term notes – fixed rate NZ$	–	–	202,910	201,731
Medium term notes – floating rate A$	577,624	523,104	576,627	582,808
Capital bonds	310,439	300,257	308,313	308,222
Fixed interest rate bonds	201,364	196,175	200,999	199,657
Private placement senior notes	425,192	361,802	425,192	456,716
NZ floating rate notes	1,219,222	1,219,222	1,014,221	1,014,221
Other	4,577	5,101	4,316	3,195
Financial derivative liabilities/(assets)				
Interest rate swaps	(2,644)	(67,312)	3,059	2,731
Interest rate caps	2,112	(4,345)	–	–
Cross currency swaps	(1,730)	143,725	(7,895)	(10,991)
Forward exchange contracts	2,359	224	–	–

	PARENT 2007 CARRYING AMOUNT $000	PARENT 2007 FAIR VALUE $000	PARENT 2006 CARRYING AMOUNT $000	PARENT 2006 FAIR VALUE $000
Financial assets				
Cash and bank overdraft	689	689	1,371	1,371
Trade receivables	84,808	84,808	89,997	89,997
Financial liabilities				
Trade payables and other creditors	114,227	114,227	84,730	84,730
Bank loans	398,417	398,417	367,819	367,819
Working capital loan	40,018	40,018	27,006	27,006
Medium term notes - fixed rate NZ$	–	–	202,910	201,731
Medium term notes - floating rate A$	577,624	523,104	576,627	582,808
Capital bonds	310,439	300,257	308,313	308,222
Fixed interest rate bonds	201,364	196,175	200,999	199,657
Private placement senior notes	425,192	361,802	425,192	456,716
NZ floating rate notes	1,219,222	1,219,222	1,014,221	1,014,221
Financial derivative liabilities/(assets)				
Interest rate swaps	(2,644)	(67,312)	3,059	2,731
Interest rate caps	2,112	(4,345)	–	–
Cross currency swaps	(1,730)	143,725	(7,895)	(10,991)

30. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES (CONTINUED)

The following methods and assumptions were used to estimate the carrying amount and fair value of each class of financial instrument where it is practical to estimate that value.

Trade receivables and payables, cash and short term deposits, bank loans and working capital loans

The carrying amount of these items is equivalent to their fair value and includes the principal and interest accrued. Bank overdrafts are set-off against cash balances pursuant to right of set off. Trade receivables are net of doubtful debts provided.

Medium term notes and floating rate notes

The fair value of NZ$ medium term notes is based on quoted market prices.

The carrying amount for the NZ$ medium term notes is based on face value less discount plus accruals.

The fair value of A$ medium term notes is based on quoted market prices.

The carrying amount for the A$ medium term notes includes the principal and interest accrued, converted at the contract rates.

Capital bonds

The fair value of capital bonds is based on quoted market prices.

The carrying amount includes the principal and interest accrued.

Fixed interest rate bonds

The fair value of fixed interest rate bonds is based on quoted market prices.

The carrying amount includes the principal and interest accrued.

Private placement senior notes

The fair value of US$ privately placed senior notes is based on quoted market prices.

The carrying amount for the US$ privately placed senior notes includes the principal and interest accrued, converted at the contract rates.

NZ floating rate notes

The carrying amount of these notes is equivalent to their fair value and includes the principal and interest accrued.

Derivative instruments

The fair value of interest rate swaps, cross currency swaps, forward rate agreements and other derivative instruments is estimated based on the quoted market prices for these instruments.

The carrying amount of interest rate swaps includes the mark-to-market adjustments (net of amortisation) on derivative transactions acquired and interest accrued.

The carrying amount of interest rate caps includes the unamortised premium paid and interest accrued. The fair value is determined based on quoted market prices.

The carrying amount of forward exchange contracts is the NZ$ equivalent of the purchased foreign currency. The fair value is determined based on differences in rates between the contract rate and the spot rate at balance date.

LIQUIDITY RISK

Liquidity risk is the risk that the group may encounter difficulty in raising funds at short notice to meet its financial commitments as they fall due.

In order to reduce the exposure to liquidity risk, the group has access to undrawn committed lines of credit.

31. CONTINGENT LIABILITIES

The directors are aware of claims that have been made against the group and, where appropriate, have recognised provisions for these within the financial statements. No other material contingencies requiring disclosure have been identified (30 June 2006: nil).

32. TRANSACTIONS WITH RELATED PARTIES

During the year the parent engaged in the following transactions with the Auckland Energy Consumer Trust (AECT) which is the majority shareholder of the parent.

	PARENT	
	2007 $000	2006 $000
Payment of dividend to the AECT	93,875	98,660

Note 19 identifies all group entities including associates and partnerships in which the group has an interest. All of these entities are related parties of the parent. Other than the directors themselves, there are no additional related parties with whom material transactions have taken place.

During the year, the group and parent entered into the following transactions with subsidiaries, associates and other related companies.

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Cash advances to subsidiaries	–	–	17,316	246,006
Loans repaid by NGC Holdings Limited	–	–	217,917	–
Gross interest receivable from Vector Communications Limited and NGC Holdings Limited	–	–	29,050	24,161
Income from financial services provided to Stream Information Partnership	–	–	70	70
Purchase of gas distribution services from NGC Holdings Limited	–	–	4,583	3,916
Purchase of telecommunications services from Vector Communications Limited	–	–	2,028	1,294
Purchase of vegetation management services from Treescape Limited	8,226	8,414	8,226	8,414
Purchase of electricity meters and metering services from Energy Intellect Limited	2,761	297	–	–
Income from sale of natural gas to Wanganui Gas Limited (to 30 October 2006)	4,526	7,723	–	–

A provision of $67.5 million (2006: $68.1 million) is held against advances to subsidiaries. No related party debts have been written off or forgiven during the period. All transactions for subsidiary company Mercury Geotherm Limited, which is in receivership, are funded by the parent. Advances to subsidiaries are at arms length and may be subject to compounding interest at various rates.

Vector Limited has provided guarantees on behalf of Vector Gas Limited for the sale and purchase of gas. These guarantees are regarded as insurance contracts.

The group may transact on an arms length basis with companies in which directors have a disclosed interest.

33. EVENTS AFTER BALANCE DATE

On 15 August 2007, the board of directors declared a final dividend for the year ended 30 June 2007 of 6.5 cents per share. No adjustments are required to these financial statements in respect of this event.

34. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) will apply to all New Zealand reporting entities for financial periods commencing on or after 1 January 2007. Entities also had the option to early adopt NZ IFRS for financial periods beginning on or after 1 January 2005.

Vector will implement NZ IFRS in its annual financial statements for the year ending 30 June 2008. In complying with NZ IFRS for the first time, Vector will restate amounts previously reported under current New Zealand accounting standards (NZ GAAP) applying NZ IFRS. This requires a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively against retained earnings within total equity at that date.

Following transition, financial statements prepared under NZ IFRS will use different terminology for the statements of financial performance and financial position that are prepared under NZ GAAP. These statements are referred to respectively as the income statement and the balance sheet under NZ IFRS. The NZ IFRS terminology for these statements is used throughout the explanations below.

Transactions occurring during the year ended 30 June 2007 will also be restated and will impact the income statement and balance sheet reported under NZ IFRS for that period. These adjustments do not impact these financial statements which are reported under NZ GAAP but will form the basis of the comparative figures reported in Vector's first annual financial statements reported under NZ IFRS for the year ending 30 June 2008.

TRANSITION MANAGEMENT

An NZ IFRS implementation project involving senior members of Vector's finance team and external professional advisors has been established. The project team reports regularly on its progress to the Board and is responsible for:

- assessing the impact of changes in the financial reporting standards on Vector's financial reporting and other related activities;
- designing and implementing processes to deliver financial reporting under NZ IFRS; and
- communicating impacts to staff where other parts of the business are impacted.

This project is largely complete and Vector expects to be in a position to comply with the requirements of NZ IFRS for the year ending 30 June 2008.

IMPACTS ON TRANSITION TO NZ IFRS

The purpose of this disclosure is to highlight the expected impacts on Vector as a result of the transition from current accounting policies to NZ IFRS accounting policies based on the NZ IFRS standards that exist at the date of issue of these financial statements.

NZ IFRS 1, First Time Adoption of New Zealand equivalents to International Financial Reporting Standards, also allows certain exemptions to assist in the initial transition to reporting under NZ IFRS. The explanatory comments below include details of the NZ IFRS 1 exemptions which Vector has adopted.

The quantification of the expected impacts on adoption of NZ IFRS on the current reported results for the year ended 30 June 2007 is substantially complete.

The explanations of the significant changes in accounting policies on transition to NZ IFRS below includes all known differences between NZ IFRS and NZ GAAP which would impact Vector's reported net surplus in the income statement for the year ended 30 June 2007. The amounts of differences resulting from NZ IFRS for the year ended 30 June 2007 cannot yet be reliably quantified. Where comparative figures are reported in future financial statements prepared under NZ IFRS which were previously reported under NZ GAAP, a detailed reconciliation of total equity, total net assets and net surplus as reported under NZ IFRS and NZ GAAP will be presented in those financial statements.

It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

The impact of initial transition to NZ IFRS at 1 July 2006 from existing NZ GAAP is set out in the table below. The table details the impact on equity, total liabilities and total assets as at the date of transition.

34. INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Impact on Vector's total equity, total liabilities and total assets on transition to NZ IFRS on 1 July 2006

		GROUP 2006		
	REF	TOTAL EQUITY $000	TOTAL LIABILITIES $000	TOTAL ASSETS $000
Total reported under NZ GAAP		1,925,914	3,792,674	5,718,588
NZ IFRS adjustments:				
Balance sheet basis for deferred tax	1	(171,249)	160,597	(10,652)
Recognise fair value of derivative financial instruments	2	941	8,260	9,201
Restate financial instruments to amortised cost	3	2,535	(32,465)	(29,930)
Restate accruals for financial instruments	4	–	15,095	15,095
Reverse mark to market adjustment of the swap book	5	3,702	(3,702)	–
Adjust items not qualifying for hedge accounting	6	1,537	(1,537)	–
Total NZ IFRS adjustments on transition		(162,534)	146,248	(16,286)
Restated totals under NZ IFRS at 1 July 2006		1,763,380	3,938,922	5,702,302

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES ON TRANSITION TO NZ IFRS

The following explanatory information contains references back to the quantified financial impacts on transition to NZ IFRS shown above.

Deferred tax

Under NZ IFRS, deferred tax will be calculated using the balance sheet approach rather than the tax effect income statement approach currently used. This new approach recognises deferred tax balances when there is a temporary difference between the carrying value of an asset or liability and its tax base.

NZ IFRS recognises a deferred tax liability on revaluations of property, plant and equipment above tax cost whereas NZ GAAP does not. This is the primary reason for the significant increase in Vector's deferred tax liability.[1]

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences will be utilised. NZ GAAP required deferred tax assets only to be recognised where they are virtually certain of being utilised.

The differing basis for calculating deferred tax under NZ GAAP and NZ IFRS will give rise to differing movements in deferred tax balances impacting tax expense recognised in the income statement after transition to NZ IFRS.

Financial instruments

The group uses derivative financial instruments within predetermined policies and limits in order to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. Under current accounting policies, derivative financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged item. Fair value adjustments on interest rate derivatives acquired are capitalised and the mark to market adjustment is amortised over the period of the underlying derivative. The fair values of other derivative financial instruments are disclosed in the notes to the financial statements.

Under NZ IFRS, on the date of transition the group will value all outstanding derivative financial instruments and recognised them at their fair value in the balance sheet.[2]

34. INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Financial instruments (continued)

Thereafter, if the derivative financial instrument does not meet the requirements for hedge accounting, then any mark to market revaluation will be recognised in the income statement. If, however, a derivative financial instrument meets the criteria to qualify for hedge accounting then depending upon the type of hedging relationship, either of the following shall apply:

- The gain or loss from remeasuring the hedging instrument shall be recognised in the income statement along with the gain or loss on the hedged item attributable to the hedged risk; or
- The portion of the gain or loss on the hedging instrument that is effective shall be recognised directly in equity and the ineffective portion shall be recognised in the income statement.

The effective interest method is used to derive the amortised cost of a financial instrument. This method establishes the effective interest rate that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or liability.

The amortised cost is the amount at which the financial instrument is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation calculated under the effective interest method of any difference between the initial amount and the maturity amount.[3]

The amortised cost is then the basis for deriving the income and expense recognised in the income statement. Under NZ GAAP, interest income and borrowing costs were recognised on a straight line or yield-to-maturity basis.

Debt raising costs previously capitalised in total assets under NZ GAAP are netted off total liabilities under NZ IFRS.

Under NZ IFRS, certain financial accruals are disclosed separately in total assets and total liabilities whereas under NZ GAAP these items are netted off in the balance sheet.[4]

Other minor adjustments are also required on transition to NZ IFRS for accounting treatments applied to financial instruments under NZ GAAP which are not permitted under NZ IFRS.[5,6]

Goodwill

The group currently amortises goodwill arising on acquisition of subsidiary companies over a period not exceeding 20 years. After transition to NZ IFRS, on acquisition of such companies giving rise to a business combination, the group will be required, where possible, to separate the components of goodwill into separately identifiable intangible assets. Any identifiable intangible assets will be recognised on the group's balance sheet and amortised over their assessed useful economic life. The remaining balance of goodwill will not be subject to amortisation under NZ IFRS, but will be subjected to an annual impairment test, which may give rise to an impairment expense if the assessment of the fair value of the goodwill is lower than its carrying value.

Consequently, goodwill amortisation recognised under NZ GAAP for the year ended 30 June 2007 will be reversed in the income statement under NZ IFRS. Vector's carrying value of goodwill has been tested for impairment at 1 July 2006. No impairment was identified at 1 July 2006 and hence the carrying value of goodwill is unaltered on transition to NZ IFRS at that date.

As explained further below, Vector has taken an exemption available not to restate former business combinations prior to the NZ IFRS transition date. Therefore Vector is not required to recognise any additional identifiable intangible assets on transition.

Property, plant and equipment

Consumable spares used internally for servicing equipment which were classified as inventory under NZ GAAP are classified as property, plant and equipment under NZ IFRS. These spares are only depreciated when they are brought into use unless they are becoming technologically obsolete during the period that they are in storage. Hence following transition to NZ IFRS, electricity and gas meters held in stock for more than one year are depreciated.

Other intangible assets

Software assets which are not integral to the operation of related hardware are classified as intangible assets under NZ IFRS. Under NZ GAAP, such software assets were classified as property, plant and equipment. Consequently, depreciation formerly recognised in respect of these assets under NZ GAAP will instead be included in amortisation of intangible assets in the income statement under NZ IFRS. This has no overall impact on reported profits.

34. INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

EXEMPTIONS TAKEN ON TRANSITION TO NZ IFRS

Property, plant and equipment

As permitted by NZ IFRS 1, Vector intends to deem the previous revalued amount of revalued items of property, plant and equipment as their cost at the date of that revaluation. It is not intended to revalue these assets on an ongoing basis. Accordingly, the asset revaluation reserve of $1,018.0 million will be transferred to retained earnings on transition. There will be no immediate impact to equity, asset values or profits from taking this exemption.

Remeasurement of business combinations

Under the transitional arrangements of NZ IFRS 1, Vector has elected not to apply NZ IFRS to all business combinations that have occurred prior to the transition date of 1 July 2006. This election preserves the previous NZ GAAP assessments of the fair value of the assets and liabilities acquired in previous business combinations avoiding unnecessary complexities in revisiting the accounting for those acquisitions. Accordingly, the carrying value of goodwill on transition to NZ IFRS at 1 July 2006 is equal to the carrying value under NZ GAAP at that date.

Under NZ GAAP, Vector accounted for debt and equity raising costs incurred in relation to acquisitions of subsidiaries as part of goodwill. NZ IFRS does not permit this treatment. Instead, debt and equity raising costs on initial recognition under NZ IFRS must be netted against the relevant financial instrument to which they relate.

Designation of financial instruments

Vector has taken the exemption to designate financial instruments initially recognised before the transition date of 1 July 2006 into the classifications required under NZ IFRS. Normally under NZ IFRS this designation must be made on initial recognition and cannot be made retrospectively.

35. FINANCIAL RATIOS

The following financial ratios are required to be disclosed as part of the group's Results for Announcement to the Market under the New Zealand Stock Exchange Listing Rules.

	GROUP	
	2007	**2006**
Ordinary shares (000s)		
Fully paid shares on issue up to 10 August 2005	–	751,000
Fully paid shares on issue from 10 August 2005	1,000,000	1,000,000
Weighted average for the year	1,000,000	972,030
Earnings per share (cents)	10.2	4.6
Total tangible assets per share (cents)	415.2	415.9
Net tangible assets per share (cents)	32.7	25.7

In December 2006, the capital bonds were offered to existing capital bond holders under new conditions. Under the previous conditions, capital bonds of $307,205,000 were convertible into Vector Limited ordinary shares if the group elected to convert on an election date. Under the new conditions, Vector no longer has the right to convert some or all of the bonds into ordinary shares. Accordingly, diluted financial ratios are not presented as there are no potential ordinary shares in existence at balance date.

STATUTORY INFORMATION

INTERESTS REGISTER

Each company in the group is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests registers for Vector Limited and its subsidiaries are available for inspection at their registered offices.

Particulars of entries in the interests register made during the year ended 30 June 2007 are set out in this Statutory Information section.

INFORMATION USED BY DIRECTORS

No member of the board of Vector Limited, or any subsidiary, issued a notice requesting to use information received in their capacity as a director which would not otherwise have been available to them.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

All directors of the parent named in this report and officers of the group are indemnified by the parent against all liabilities (other than to the parent or another member of the group), which arise out of the performance of their normal duties as director or officers, unless the liability relates to conduct involving lack of good faith, or where the law prohibits such an indemnity provision.

To manage this risk, the group has a number of insurance policies to call upon.

DONATIONS

Vector Limited made a donation of $5,000 during the year ended 30 June 2007.

CREDIT RATING

At 24 August 2007 Vector Limited had a Standard & Poor's credit rating of BBB+ stable, and a Moody's credit rating of Baa1 with negative outlook.

WAIVERS AND NON STANDARD DESIGNATION

NZX has granted Vector Limited waivers from certain listing rules of NZSX which were still applicable as at 30 June 2007:

Listing rules 3.1.1(a), 3.1.1(c), 3.1.1(d), 3.1.1(e), 3.1.2, 7.3.3 to 7.3.8 and 9.1.1: Vector Limited has been granted waivers from the requirements of various listing rules to allow the constitution to contain certain provisions which are not ordinarily contained in the constitution of a company listed on the NZSX, including, in particular, provisions giving certain rights to the Auckland Energy Consumer Trust (AECT). Vector has been given a non-standard designation by NZX due to the inclusion of these provisions in its constitution.

Listing rule 3.5.1: Vector Limited has been granted a waiver from the requirement that would otherwise arise to obtain shareholder authorisation for the remuneration paid to directors of its subsidiary company, Liquigas Limited, who are not directors, employees or associated persons (other than solely by virtue of being a director of Liquigas Limited) of Vector.

Listing rule 5.2.3: Vector Limited has been granted a waiver from the requirement for persons other than the AECT to hold at least 25% of the number of shares.

EXERCISE OF NZX POWERS

The NZX did not exercise any of its powers set out in Listing Rule 5.4.2 (relating to powers to cancel, suspend or censure an issuer) with respect to Vector Limited.

TRUSTEES OF THE AUCKLAND ENERGY CONSUMER TRUST

During the year ended 30 June 2007, Vector Limited made payments to S Chambers and K Sherry, trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder) totalling $146,528 in respect of their attendance at meetings of the Vector Limited board.

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2007 or resigned (R) as a director during the year ended 30 June 2007. Directors marked (A) were appointed during the year.

PARENT	DIRECTORS
Vector Limited	P Bird (A), A Carter (A), S Chambers (A), H Fletcher (A), A Gibbs (R), J Goulter (R), G Muir (R), A Paterson (A), B Plimmer (R), K Sherry (A), M Stiassny, R Thomson

All of the above directors in office at 30 June 2007 are independent directors, except for S Chambers and K Sherry who are trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder).

SUBSIDIARIES	DIRECTORS
Auckland Generation Limited	M Franklin, K Nickels
Auckland Network Limited	M Franklin, K Nickels
Broadband Services Limited	M Stiassny
Elect Data Services (Australia) Pty Limited	S Mackenzie, I McClelland
Energy North Limited	M Franklin, K Nickels
Liquigas Limited	T Barstead, S Bielby, S Bullock, I Bulmer (R), J Cumming (A)(R), S Dale (A), P Fredricson (A)(R), C Hazledine, E Kelly (A)(R), I Lindsay, C Mulvena (R), J Seymour (A), A Smith (A), R Smith (A), M Vulinovich (R)
MEL Silverstream Limited	M Franklin, K Nickels
MEL Network Limited	M Franklin, K Nickels
Mercury Geotherm Limited (in receivership)	M Franklin, A McLachlan, D Ross
NGC Limited	S Bielby, M Cummings
NGC Holdings Limited	S Chambers (A), A Paterson (A), A Gibbs (R), J Goulter (R), G Muir (R), B Plimmer (R), K Sherry (A), M Stiassny, R Thomson
NGC Metering Limited	S Bielby, M Cummings, S Mackenzie
On Gas Limited	S Bielby (A), M Cummings, C Hazledine
Pacific Energy Limited (in liquidation)	S Bielby, B Dodds, M Franklin, M Underhill
Poihipi Land Limited (in receivership)	M Franklin, A McLachlan, D Ross
Salamanca Holdings Limited	M Franklin, M Underhill
Stream Information Limited	W Falconer, M Franklin, D Houldsworth, S Mackenzie
UnitedNetworks Limited	M Franklin, K Nickels
UnitedNetworks Employee Share Schemes Trustee Limited	M Franklin, K Nickels
Vector Communications Limited	S Chambers (A), A Gibbs (R), J Goulter (R), G Muir (R), A Paterson (A), B Plimmer (R), K Sherry (A), M Stiassny, R Thomson
Vector Gas Limited	S Bielby, M Cummings, C Hazledine
Vector Gas Contracts Limited	S Bielby, M Cummings, C Hazledine
Vector Gas Investments Limited	S Bielby, M Cummings
Vector Kapuni Limited	S Bielby, M Cummings, C Hazledine
Vector Management Services Limited	S Bielby, M Cummings
Vector Metering Data Services Limited	S Bielby
Vector Metering Data Services (Australia) Limited	S Bielby
Vector Power Limited	M Franklin, K Nickels
Vector Stream Limited	M Franklin, K Nickels

DIRECTORS (CONTINUED)

ASSOCIATES

Energy Intellect Limited	R Bettle, S Bielby, W Falconer, D Houldsworth, B Leighs, S Mackenzie
NZ Windfarms Limited	J Broad, V Buck, P Leay, K McConnell, J McKee, D Walker
Treescape Limited	E Chignell, P Fredricson (R), P Smithies, D Tompkins, B Whiddett
Treescape Australasia Pty Limited	E Chignell, P Tate, B Whiddett

Directors' remuneration and value of other benefits from Vector Limited and current group companies for the year ended 30 June 2007:

DIRECTORS OF VECTOR LIMITED	PAID BY PARENT $	PAID BY SUBSIDIARIES $
P Bird	9,123	–
T Carter	9,123	–
S Chambers	84,514	–
H Fletcher	9,123	–
A Gibbs	45,000	–
J Goulter	45,000	–
G Muir	63,493	–
A Patterson	28,664	–
B Plimmer	49,438	–
K Sherry	62,014	–
M Stiassny	180,000	–
R Thomson	90,000	–

DIRECTORS OF SUBSIDIARIES	PAID BY PARENT $	PAID BY SUBSIDIARIES $
T Barstead	–	6,651
S Bielby	–	5,000*
S Bullock	–	5,000*
I Bulmer	–	4,167
J Cumming	–	833*
S Dale	–	1,616
P Fredricson	–	5,000*
C Hazledine	–	5,849*
I Lindsay	–	31,730
C Mulvena	–	3,384
R Smith	–	1,616
M Vulinovich	–	3,384

*Directors' fees relating to any employee of the group are paid to their employing company.

DIRECTORS (CONTINUED)

DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited up to 30 June 2007 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
P Bird	InfraCo Limited	Director
	N M Rothschild & Sons	Managing director
A Carter	Foodstuffs (Auckland) Limited	Managing director
	Foodstuffs Fresh (Auckland) Limited	Chairman
	Foodstuffs NZ Limited	Managing director
	James Gilmour & Co Limited	Director
	Metfood Pty Limited	Director
	National Trading Company Limited	Director
	The Bell Tea Company Limited	Chairman
S Chambers	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust Inc.	Trustee
	ChambersCraigJarvis	Managing partner
	Meteorological Service of New Zealand Limited	Deputy chairman
	Metra Information Limited	Deputy chairman
H Fletcher	Arrow Wrights Limited	Chairman & shareholder
	Fletcher Brothers Limited	Chairman & shareholder
	Fletcher Building Limited	Director & shareholder
	IAG New Zealand Holdings Limited	Chairman
	Lakes Station Partnership	Partner
	No 8 Ventures	Chair of advisory board & investor
	Reserve Bank of New Zealand	Director
	Rubicon Limited	Director & shareholder
	The University of Auckland	Chancellor
	The University of Auckland Foundation	Member
A Gibbs	Aeneid Seventeen Limited	Director
(resigned as a director on 13 December 2006)	Coats Limited	Director
	Coats Holdings plc	Director
	Ezypeel Mandarins Limited	Director
	Guinness Peat Group plc	Director
	Guinness Peat Group New Zealand Limited	Director
	GPG Forests Limited	Director
	Ithaca Custodians Limited	Director
	Staveley Incorporated	Chairman
	Tower Limited	Director
	Turners & Growers Limited	Chairman
	Turners & Growers Fresh Limited	Director
J Goulter	ABN AMRO New Zealand Limited	External advisor
(resigned as a director on 13 December 2006)	NZ Business & Parliament Trust	Board member & trustee
	New Zealand Lotteries Commission	Chairman
	Packard House Limited	Director
	Television New Zealand Limited	Director
	United Carriers Group Limited	Chairman
	Reserve Bank of New Zealand	Director

DIRECTORS (CONTINUED)

DIRECTORS OF VECTOR LIMITED (continued)

Entries in the interests register of Vector Limited up to 30 June 2007 that are not set out elsewhere in this annual report (continued):

DIRECTOR	ENTITY	POSITION
G Muir	Auckland Rugby Union Incorporated	Director
(resigned as a director on 13 December 2006)	Eden Park Trust Board of Control	Member
	Hanover Group Limited	Chairman
	Patch Kids Limited	Director
	Pumpkin Patch Limited	Chairman
	Pumpkin Patch Originals Limited	Director
	Ronaki Investments Limited	Director
	Torquay Enterprises Limited	Director
A Paterson	Abano Healthcare Limited	Chairman
	BPAC New Zealand Limited	Chairman
	Electricity & Gas Complaints Commission	Chairman
	Governing Board of The Centre of Research Excellence for Growth & Development (University Of Auckland)	Chairman
	Massey University Council	Councillor
	Metrowater Limited	Board member
	Nga Pae o Te Maramatanga (Maori CoRE)	Board member
	Oversight Committee (Ambulance NZ)	Chairman
	Reserve Bank Of New Zealand	Deputy chairman
B Plimmer	B K Plimmer Limited	Director
(retired as a director on 18 October 2006)	Canada-NZ Business Association	Executive member
	EPOC Systems Limited	Director
	Kenrae Developments Limited	Director
	Kenrae Trust	Trustee
	Rural Couriers Society Limited	General manager
K Sherry	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust Inc	Trustee
	Bell-Booth Sherry	Principal
	Challenge Trust	Trustee
	Energy Trusts of New Zealand	Deputy chairman
	Sasha & Otto Limited	Director & shareholder
M Stiassny	Atapo Corporation Limited	Director and shareholder
	Gadol Corporation Limited	Director and shareholder
	Grafton Investments Limited	Director
	The Horticulture & Food Research Institute of New Zealand Limited	Director
	Triceps Holdings Limited	Director and shareholder
R Thomson	Calnan Holdings Limited	Director and shareholder
	R & M Thomson Holdings Limited	Director and shareholder
	Presbyterian Support Central	Director

The entities listed above against each director may transact with Vector Limited and its subsidiaries in the normal course of business.

DIRECTORS (CONTINUED)

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2007 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
M Franklin	Gas Industry Company Limited	Director

EMPLOYEES

The number of employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2007 are set out in the following tables:

CURRENT EMPLOYEES	PARENT	SUBSIDIARIES
$100,001 – $110,000	26	2
$110,001 – $120,000	23	2
$120,001 – $130,000	19	3
$130,001 – $140,000	3	2
$140,001 – $150,000	8	2
$150,001 – $160,000	5	1
$160,001 – $170,000	10	1
$170,001 – $180,000	4	1
$180,001 – $190,000	4	3
$190,001 – $200,000	3	–
$200,001 – $210,000	3	–
$210,001 – $220,000	4	1
$220,001 – $230,000	2	–
$230,001 – $240,000	1	–
$240,001 – $250,000	3	–
$250,001 – $260,000	1	–
$260,001 – $270,000	1	–
$270,001 – $280,000	–	1
$340,001 – $350,000	1	–
$350,001 – $360,000	1	–
$420,001 – $430,000	2	–
$440,001 – $450,000	2	–
$530,001 – $540,000	1	–
$600,001 – $610,000	1	–
$1,210,001 – $1,220,000	1	–

EMPLOYEES (CONTINUED)

The number of employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2007 are set out in the following tables (continued):

FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS)	PARENT	SUBSIDIARIES
$100,001 – $110,000	3	–
$110,001 – $120,000	1	–
$140,001 – $150,000	1	–
$150,001 – $160,000	1	–
$170,001 – $180,000	1	–
$390,001 – $400,000	1	–
$440,001 – $450,000	1	–
$490,001 – $500,000	1	–
$1,490,001 – $1,500,000	1	–

No employee of the group appointed as a director of a subsidiary or associate company receives or retains any remuneration or benefits as a director. The remuneration and benefits of such employees, received as employees, are included in the relevant bandings disclosed above, where the annual remuneration and benefits exceed $100,000.

BONDHOLDER STATISTICS

NZDX debt securities distribution as at 24 August 2007:

8.00% CAPITAL BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
1 – 4,999	3	0.05%	7,000	0.00%
5,000 – 9,999	1,245	19.87%	6,677,334	2.18%
10,000 – 49,999	3,802	60.69%	76,126,699	24.78%
50,000 – 99,999	773	12.34%	44,142,000	14.37%
100,000 – 499,999	387	6.18%	56,372,000	18.35%
500,000 – 999,999	29	0.46%	17,823,000	5.80%
1,000,000 plus	26	0.41%	106,056,967	34.52%
	6,265	100.00%	307,205,000	100.00%

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited capital bonds as at 24 August 2007:

DIRECTOR	NUMBER OF BONDS
S Chambers	40,000
A Paterson	25,000
M Stiassny	150,000

BONDHOLDER STATISTICS (CONTINUED)

6.81% FIXED INTEREST RATE BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
1 – 4,999	222	7.21%	712,000	0.35%
5,000 – 9,999	502	16.31%	3,118,000	1.56%
10,000 – 49,999	1,823	59.22%	37,012,000	18.51%
50,000 – 99,999	321	10.43%	18,152,000	9.08%
100,000 – 499,999	175	5.69%	27,343,000	13.67%
500,000 – 999,999	11	0.36%	6,529,000	3.26%
1,000,000 plus	24	0.78%	107,134,000	53.57%
	3,078	100.00%	200,000,000	100.00%

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 24 August 2007:

SHAREHOLDER	ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES HELD
Auckland Energy Consumer Trust	751,000,000	75.10%
National Nominees New Zealand Limited	24,547,398	2.45%
HSBC Nominees (New Zealand) Limited	15,714,555	1.57%
HSBC Nominees (New Zealand) Limited	5,228,913	0.52%
Citibank Nominees (New Zealand) Limited	4,864,734	0.49%
Accident Compensation Corporation	4,587,799	0.46%
Custodial Services Limited – A/C 3	4,196,570	0.42%
NZ Superannuation Fund Nominees Limited	3,479,020	0.35%
ANZ Nominees Limited	3,313,748	0.33%
Custody And Investment Nominees Limited	3,161,707	0.32%
FNZ Custodians Limited	2,921,276	0.29%
AMP Investments Strategic Equity Growth Fund	2,748,350	0.27%
Investment Custodial Services Limited	2,653,257	0.27%
Private Nominees Limited	2,483,453	0.25%
Asteron Life Limited	2,253,656	0.23%
Assure Nominees Limited	1,780,481	0.18%
Cogent Nominees Limited	1,719,081	0.17%
Custodial Services Limited – A/C 2	1,630,291	0.16%
ABNED Nominees NZ Limited	1,609,191	0.16%
Guardian Trust Investment Nominees (RWT) Limited	1,443,917	0.14%
	841,337,397	84.13%

Substantial security holders as at 24 August 2007:

SHAREHOLDER	NUMBER OF RELEVANT INTEREST VOTING SECURITIES HELD	PERCENTAGE OF VOTING SECURITIES HELD
Auckland Energy Consumer Trust	751,000,000	75.10%

Michael Buczkowski, James Carmichael, Shale Chambers, Warren Kyd and Karen Sherry are the registered holders of the shares held by the Auckland Energy Consumer Trust.

As at 24 August 2007, voting securities issued by Vector Limited totalled 1,000,000,000 ordinary shares.

SHAREHOLDER STATISTICS (CONTINUED)

Ordinary shares distribution as at 24 August 2007:

RANGE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 499	8,127	19.61%	2,581,496	0.26%
500 – 999	4,298	10.37%	3,377,983	0.34%
1,000 – 4,999	22,804	55.02%	40,127,142	4.01%
5,000 – 9,999	3,135	7.56%	20,860,784	2.09%
10,000 – 49,999	2,791	6.74%	48,943,128	4.89%
50,000 – 99,999	158	0.38%	10,391,299	1.04%
100,000 plus	132	0.32%	873,718,168	87.37%
	41,445	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 24 August 2007:

SHAREHOLDER TYPE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
Auckland Energy Consumer Trust	1	0.00%	751,000,000	75.10%
Companies	1,406	3.39%	12,395,419	1.24%
Individual Holders	25,822	62.31%	65,442,993	6.54%
Joint	12,525	30.22%	47,883,177	4.79%
Nominee Companies	1,083	2.61%	117,000,119	11.70%
Other	608	1.47%	6,278,292	0.63%
	41,445	100.00%	1,000,000,000	100.00%

The following current directors of the parent are holders (either beneficially or non-beneficially) of Vector Limited ordinary shares as at 24 August 2007:

DIRECTOR	NUMBER OF SHARES HELD
A Carter	11,322
S Chambers	31,050
H Fletcher	1,322
A Paterson	10,002
K Sherry	840
M Stiassny	64,471
R Thomson	30,000

The following disclosures are made pursuant to section 148 of the Companies Act 1993, in relation to dealings during the year ended 30 June 2007 by directors of Vector Limited in the ordinary shares of Vector Limited. The nature of the relevant interests acquired or disposed are as described under section 146(1)(a) or section 146(1)(f) of the Companies Act 1993 as detailed below.

Acquisitions of relevant interests – Vector Limited ordinary shares

DIRECTOR	NATURE OF RELEVANT INTEREST	DATE OF ACQUISITION	CONSIDERATION PAID (PER SHARE)	NUMBER OF SHARES IN WHICH RELEVANT INTEREST ACQUIRED
R Thomson	s146(1)f	12 February 2007	$2.81	10,000

Disposals of relevant interests – Vector Limited ordinary shares

DIRECTOR	NATURE OF RELEVANT INTEREST	DATE OF DISPOSAL	CONSIDERATION RECEIVED (PER SHARE)	NUMBER OF SHARES IN WHICH RELEVANT INTEREST DISPOSED
J Goulter (resigned as a director on 13 December 2006)	s146(1)a	22 January 2007	$2.54	10,000

DIRECTORY

REGISTERED OFFICE
Vector Limited
101 Carlton Gore Road
Newmarket
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New Zealand
Telephone 64–9–978 7788
Facsimile 64–9–978 7799
www.vector.co.nz

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Auckland 1149
New Zealand

SHARE REGISTRAR
Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1020
New Zealand

AUDITORS
KPMG
18 Viaduct Harbour Avenue
Auckland
New Zealand

SOLICITORS
Russell McVeagh
Vero Centre
48 Shortland Street
Auckland
New Zealand

Chapman Tripp Sheffield Young
23–29 Albert Street
Auckland
New Zealand

INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Exchange (NZSX) under the company code VCT. Vector also has fixed interest rate bonds listed and trading on the NZDX. Current information about Vector's trading performance for its shares and bonds can be obtained on the NZX website on **www.nzx.com**

Further information about Vector is available on our website: **www.vector.co.nz**

FINANCIAL CALENDAR

2007	
Annual meeting	October
1st quarter results	October
2008	
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter results	May
Full year result	August
Final dividend*	August
Annual report	September

*Dividends are subject to board determination