SHAREHOLDER REVIEW

VECTOR LIMITED ››› 2009

Vector

WELCOME TO THE VECTOR SHAREHOLDER REVIEW. AS A COMPANY, WE'RE CLEAR ABOUT WHAT WE NEED TO DO EVERYDAY. WE MUST DELIVER ELECTRICITY, GAS AND TECHNOLOGY TO THE HUNDREDS OF THOUSANDS OF NEW ZEALANDERS WHO DEPEND ON US AROUND THE CLOCK. WE MUST KEEP PACE WITH OUR CUSTOMERS' EVER CHANGING LIVES, AND IN SOME CASES, LEAD THE WAY. WE MUST KEEP THINGS MOVING FORWARD »

CONTENTS

FINANCIAL CALENDAR

2009	
Annual meeting	October
1st quarter operational update	October
2010	
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter operational update	May
Full year result	August
Final dividend*	September
Annual report	September

*Dividends are subject to board determination

OPERATIONAL STATISTICS

523,394
ELECTRICITY CUSTOMERS

8,240
VOLUME DISTRIBUTED (GWh)

17,539
ELECTRICITY NETWORKS LENGTH (km)

149,516
GAS DISTRIBUTION CUSTOMERS

21
VOLUME DISTRIBUTED (PJ)

31
NATURAL GAS SALES (PJ)[3]

734,039
ELECTRICITY METERS[5]

50,029
ELECTRICITY SMART METERS

	2009	2008
ELECTRICITY		
Customers	523,394	518,467[1]
Volume distributed (GWh)	8,240	8,268[1]
Networks length (km)	17,539	17,361[2]
GAS		
Distribution customers	149,516	147,198
Volume distributed (PJ)	21	22
Distribution mains network length (km)	6,907	6,840
Transmission volume (PJ)	92	109
Transmission system length owned (km)	2,286	2,286
Transmission system length operated/managed (km)	1,230	1,219
Natural gas sales (PJ)[3]	31	44
Gas liquids sales (tonnes)[4]	210,223	235,490
ENERGY METERING		
Electricity: smart meters	50,029	–
Electricity: simple meters[5]	665,358	738,387
Electricity: prepay meters	7,568	7,962
Electricity: time of use meters	11,084	10,931
Gas meters	75,467	73,493
Data management services connections – New Zealand and Australia	15,232	14,852

[1] Restated to exclude Wellington electricity network, sold in July 2008.
[2] Excludes Wellington electricity network length as well as auxiliary cables and lines.
[3] Natural gas sales volumes exclude gas sold as gas liquids, as these are incorporated in gas liquids sales tonnage.
[4] Includes LPG production and retailing, plus wholesale and tolling volumes by Liquigas Limited.
[5] ICPs

CHAIRMAN'S REVIEW

EFFICIENT OPERATIONS, ASTUTE MANAGEMENT

MICHAEL STIASSNY, CHAIRMAN

The economic conditions over the past 12 months have been some of the most challenging the world has seen in recent times. Governments stepped in to rescue seemingly blue chip companies, and central banks on every continent slashed official cash rates to stimulate economies. Globally, and here in New Zealand, infrastructure has been identified as a core platform to drive productivity and stimulate economic growth »

New Zealand has not escaped from the effects of the global financial crisis, and Vector has seen slower growth in new connections and a decline in the volume of gas and electricity sold.

Nevertheless, Vector is in good financial health. Profit is up. The early implementation of an efficiency programme has made considerable savings over the past two years, reducing the impact of the recession. Astute management of our borrowing facilities mean we have the funding lines in place to support working capital and business growth objectives. Testament to Vector's stability and positive outlook was the successful placement of $150 million, five-year senior retail bonds. Vector also maintained its credit rating with Standard and Poor's (BBB+/stable) and Moody's (Baa1 stable).

The performance of Vector's electricity, gas and technology businesses continues to be strong in spite of slowing economic conditions, reduced demand and volatile markets.

It's always difficult to predict the future, particularly in these current economic times. We expect trading conditions next year to be tough. However, Vector's management team remain focused on driving core business productivity and efficiency, and fully exploring growth opportunities including fibre and metering.

Vector has fully participated in the submission and discussion process for the Government's fibre initiative and is ready to be part of the solution providing it makes commercial sense.

The regulatory landscape remains an area of focus, and the next 12 to 18 months is a critical period for Vector's gas and electricity businesses. The amendments to Part 4 of the Commerce Act will have significant influence, ultimately determining long term revenues and rates of return for the majority of Vector's business. Balanced and stable regulation will provide the certainty that Vector needs to operate and develop its business in the future.

FINANCIAL PERFORMANCE

Vector's full year profit result is pleasing, better than last year and at the upper end of analysts' expectations. Profit from total operations is $370.5 million. Excluding the sale of the Wellington electricity network, a divestment that generated a gain of $202.9 million, and a trading profit of $2.7 million from the 23 days that we owned the business, net profit after tax from continuing operations is $164.9 million, 16.3% ahead of last year.

DIVIDEND

The board has declared a final dividend of 7.25 cents per share for 2009, making total dividends 13.75 cents, up from last year's 13.25 cents per share. The final dividend will be fully imputed at the corporate tax rate of 30 per cent.

SUMMARY

Once again, Vector has delivered a strong profit result in challenging times. The board acknowledges and thanks Vector's management team and employees for their continued efforts.

MICHAEL STIASSNY
CHAIRMAN

2009 ACHIEVEMENTS

$164.9m

NET PROFIT AFTER TAX (NPAT) FROM CONTINUING OPERATIONS

$582.2m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA) FROM CONTINUING OPERATIONS

$150m

FIVE YEAR SENIOR RETAIL BONDS ISSUED

BBB+/STABLE

STANDARD & POOR'S RATING RETAINED

Baa1 STABLE

MOODY'S RATING RETAINED

16.3%

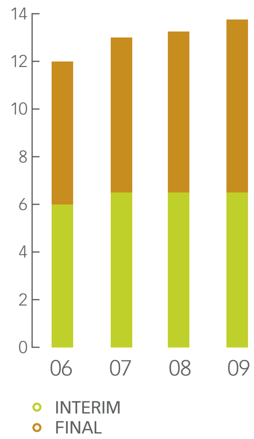
NPAT INCREASE ON PRIOR PERIOD

6.3%

EBITDA INCREASE ON PRIOR PERIOD

DIVIDEND 2009
Vector's dividend policy is to distribute to shareholders all funds surplus to the investment and operating requirements of the company as determined by the board. Our target dividend pay-out ratio in respect of each financial year is 60% of free cash flows. This year's dividend is a 3.8% increase on 2008 and represents 83% of NPAT from continuing operations.

DIVIDENDS DECLARED
CENTS PER SHARE



GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

ACTIONS FOR TODAY, VISION FOR TOMORROW

SIMON MACKENZIE, GROUP CHIEF EXECUTIVE OFFICER

Infrastructure owners must balance both short and long term business needs, being nimble enough to react to current events, but never losing sight of the future. At Vector this means managing our costs and driving efficiencies, ensuring our networks are capable of growing with our customers' requirements, and seeking out the very best in technology to improve our services and diversify »

The actions we took early in 2008 to become more efficient, and our continued focus on improvement delivered considerable savings, insulating us from the worst effects of the economic downturn. We also reorganised our long and short term finance arrangements and now have the resources available to grow.

We are in good financial shape, but are realistic about the challenges ahead. Our business, like many others has been affected by softening economic conditions, declining consumer and business confidence. Not surprisingly new customer connections are down, as is the amount of gas and electricity supplied.

> **"Vector is ready to deliver fibre services in Auckland, and potentially beyond."**

As a long term owner of infrastructure assets, Vector must continue to invest in its electricity, gas and fibre networks to ensure reliability of supply and meet future growth requirements. This year we invested nearly $240 million in new and replacement capital and $80 million in maintenance of our networks, gas processing, metering and fibre businesses.

This year's profit result reflects the effort and focus of our team. Earnings before interest, taxation, depreciation and amortisation (EBITDA) from continuing operations increased by 6.3% to $582.2 million. Electricity EBITDA from continuing operations grew 7.6% to $334.6 million, gas EBITDA declined 7.5% to $233.1 million and technology EBITDA improved 20.9% to $52.1 million. Net profit after tax (NPAT) from continuing operations increased by $23.1 million or 16.3%, to reach $164.9 million.

Throughout this review you'll read about the efforts of our teams and the measures we are taking to operate more effectively.

Aside from the challenging economic conditions, the key issues of regulation and the Government's broadband initiative are areas of high focus for us.

REGULATION

We continue to work with the regulators of our businesses, and devoted extensive time, money and resources to the submission and consultation process for the amendments to the Commerce Act.

To date, the amendments to the Act have delivered a more robust framework, but the key input issues have to be worked through over the coming 12 to 18 months.

The big challenge for this next phase of the current regulatory debate is the impact of the global financial crisis on financial markets, investment incentives and future energy trends.

The process to set the input methodologies is critical and complex and the outcomes will have a long and far reaching effect on our industry. We will continue to invest significant resources to this process given its fundamental impact on our business.

The Government, as one of its agenda items, has an identified focus on regulatory reform and productivity. The significant cost that regulation imposes must be taken into account especially when considering productivity, innovation and commercial incentives.

Balanced and stable regulation will provide the certainty that Vector needs to invest, operate, and develop its business in the future, and for the long term benefit of consumers.

FIBRE

There has been much public debate and discussion about the Government's fibre initiative. High speed fibre is coming, and we are ready to be part of it. We fully support the Government's vision of a first world high speed fibre network to help meet economic, productivity, and community goals. A fully transparent open-access network is the right solution for New Zealand, and consistent with the international trend for the deployment of fibre.

We have only begun to scratch the surface of services that might be available to consumers with such a network, and therefore it must be available to many retailers, and not the sole domain of the existing telcos. To understand the fibre services that might be available to the house of the future, turn to pages 14 and 15.

As experts in infrastructure, and unencumbered by legacy assets, we have a highly credible solution. Vector is ready to deliver fibre services in Auckland, and potentially beyond.

We've made no secret of our ambitions in this area. We believe that we are a strong contender to be part of the country's fibre solution, provided it meets our commercial requirements.

In addition, we set up the New Zealand Regional Fibre Group, working collaboratively with other fibre and lines companies across the country, to realise the Government objective through local investment, connected communities and national co-ordination.

GAS

The wholesale gas market is both competitive and volatile. Our wholesale gas business is still rolling off legacy gas entitlements. Emissions trading will be a challenge for our wholesale gas business and we have dedicated resource in place to look at the implications of emissions trading from both a policy and business implementation point of view.

> **"We are in good financial shape, but are realistic about the challenges ahead."**

Despite the volatility, the depth and breadth of our customer relationships mean that we continue to operate from a strong position in the market.

SECURITY OF SUPPLY

Security of supply and the ability of New Zealand's electricity transmission and generation systems to meet demand is an issue of ongoing concern. Where appropriate, we are engaging with Government on this important issue. We welcome the news that security of supply is more certain with the announcement of the North Auckland and Auckland (NAaN) project. Vector is currently seeking designation for a gas pipeline route in the Rodney District to supply the proposed Genesis gas-fired power station near Kaukapakapa.

ELECTRICITY REVIEW

The current fundamental issue for the energy sector is the electricity review which will look at regulatory and governance issues as well as market performance. Needless to say we will be part of the submissions process.

As noted in the "Improving Electricity Market Performance" discussion paper, network charges for electricity lines businesses have not risen significantly, if at all, in contrast with the significant increase in energy prices.

We see the changes proposed regarding governance around transmission investment as positive, while the possibility of lines companies being able to retail only goes part of the way to address retail competition and price issues.

NEW TECHNOLOGIES

Changes in the way that we generate and use electricity are coming. Within the next five to ten years consumers will have more control over the electricity they use, and may also generate electricity through home wind turbines and solar panels.

We are looking to better understand our customers' current and future energy needs and are investigating cost effective, sustainable and renewable forms of energy.

Vector's innovation centre showcases these international trends and graphically demonstrates the benefits to consumers, network companies and utility retailers when smart grids, smart appliances, smart meters and a fibre optic network converge.

LOOKING FORWARD

Much progress has been made this year, but there is always more that can be done to improve. There is no doubt that despite the talk of green shoots, the economic environment will continue to be challenging in the year ahead. As a team we are focused on continuing to operate as efficiently as we can, doing the best we can for our customers by minimising downtime and improving reliability, working towards regulatory certainty and doing all that we can to make sure our business continues to grow and flourish.

SIMON MACKENZIE
GROUP CHIEF EXECUTIVE OFFICER

2009 IN REVIEW

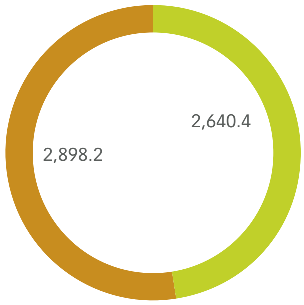
IT'S ALL ABOUT DELIVERY

OUR BUSINESS

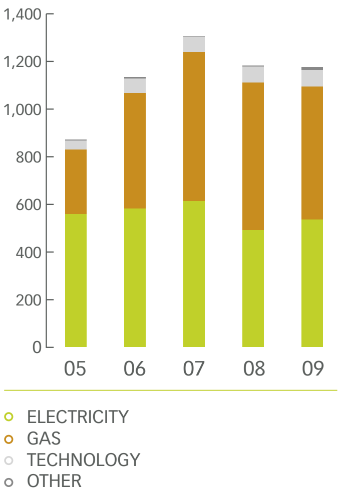
- Electricity networks servicing more than 523,000 customers in Auckland
- Natural gas distribution networks servicing more than 149,000 customers in over 30 towns and cities in the North Island
- Natural gas transmission system transporting gas under high pressure throughout the North Island
- Gas treatment and conditioning plant in Taranaki
- Liquified petroleum gas (LPG) supply to almost 23,000 customers throughout New Zealand
- Electricity and gas metering services via approximately 810,000 meters* at homes and businesses throughout New Zealand
- Metering data services to more than 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 company

* ICPs

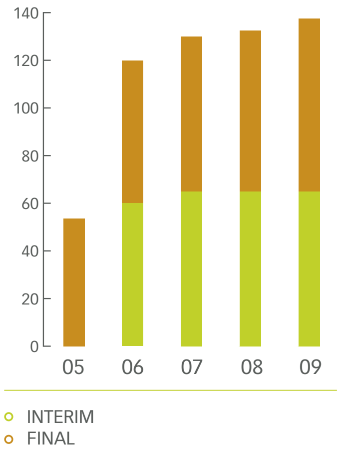
SOURCE OF FUNDING $ MILLION
AS AT 30 JUNE 2009



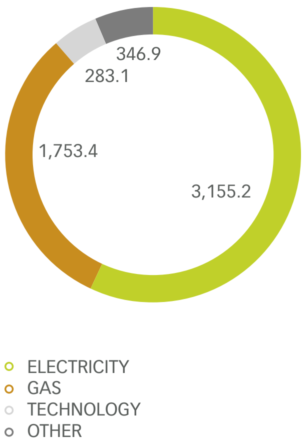
REVENUE[1]
$ MILLION



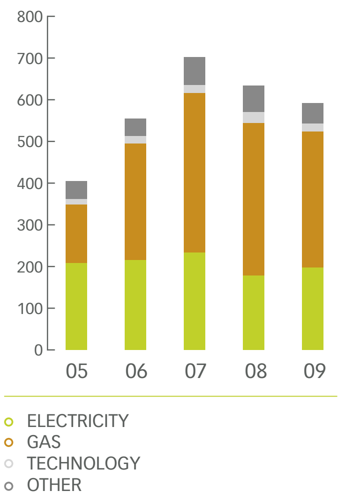
DIVIDENDS DECLARED
$ MILLION



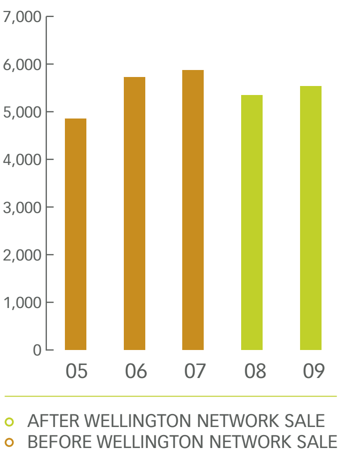
TOTAL ASSETS $ MILLION
AS AT 30 JUNE 2009



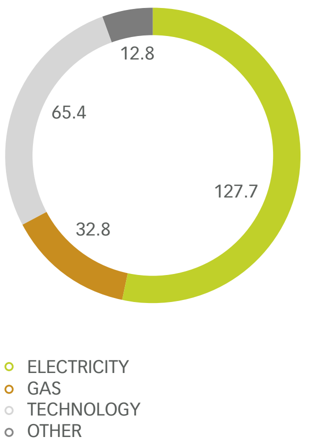
OPERATING EXPENDITURE[1]
$ MILLION



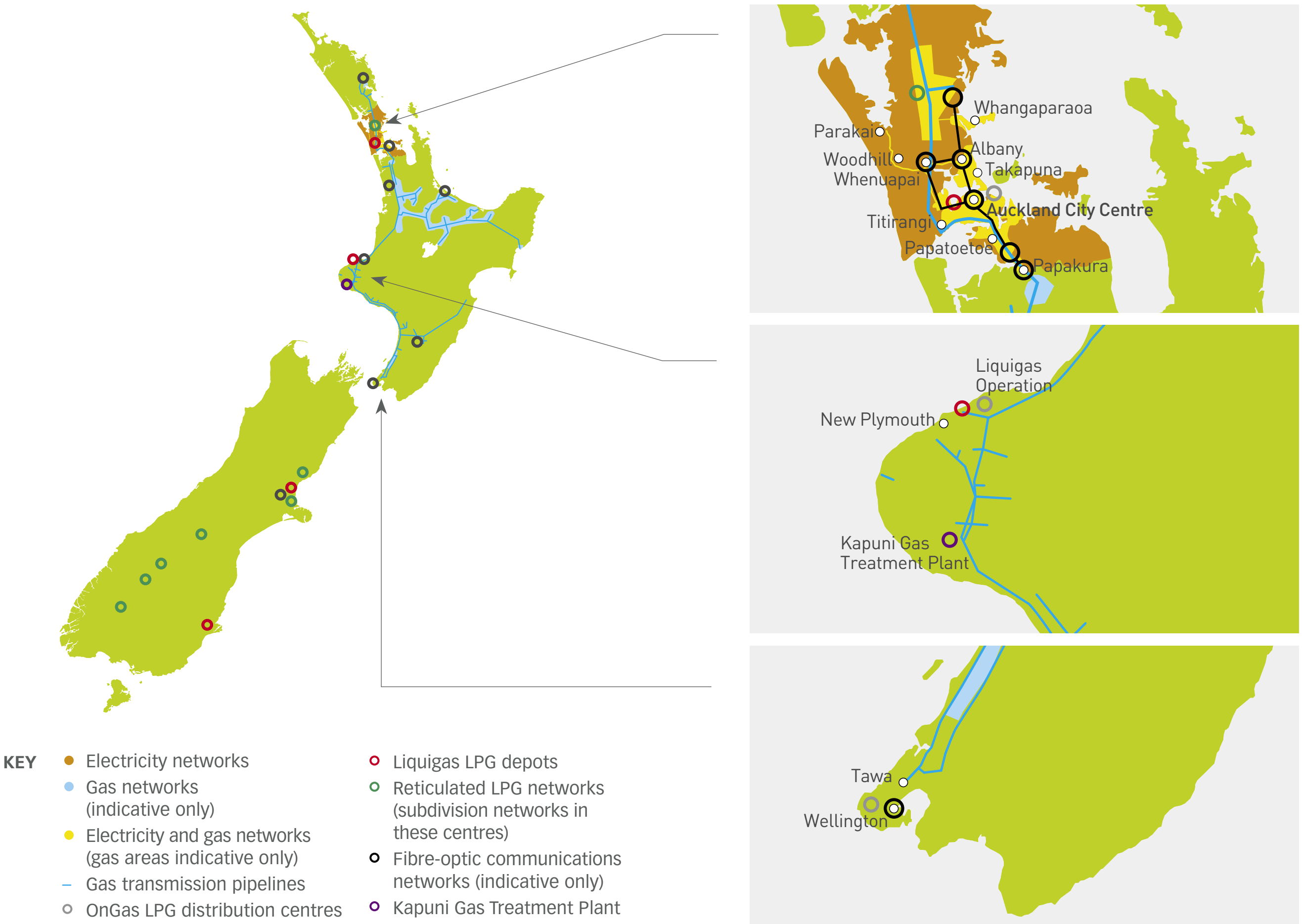
TOTAL ASSETS[1]
$ MILLION



CAPITAL EXPENDITURE[1] $ MILLION
FOR THE YEAR ENDED 30 JUNE 2009



COVERAGE AREA



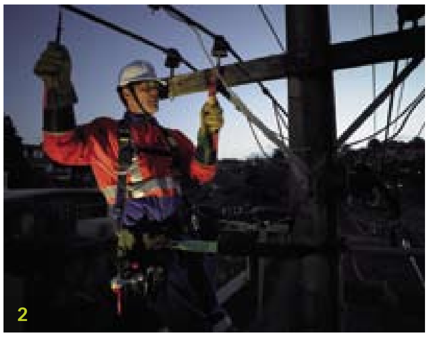
FINANCIAL PICTURE[1]

YEARS ENDED 30 JUNE	2009 $MILLION	2008 $MILLION	CHANGE %
Revenue	1,174.2	1,182.0	-0.7
EBITDA	582.2	547.9	+6.3
Depreciation and amortisation	(145.4)	(140.3)	+3.6
EBIT	436.8	407.6	+7.2
NPAT attributable to shareholders of Vector Limited	164.9	141.8	+16.3
Total equity	2,058.9	1,901.3	+8.3
Total assets (includes operations held for sale)	5,538.6	5,979.4	-7.4
Net debt (net of cash and short term deposits)	2,485.7	3,106.6	-20.0
KEY FINANCIAL MEASURES			
EBITDA/revenue	49.6%	46.4%	+7.0
EBIT/revenue	37.2%	34.5%	+7.9
Equity/total assets	37.2%	31.8%	+16.9
Gearing (net debt/net debt+equity)	54.7%	62.0%	-11.8
Net interest cover (EBIT/net finance costs)	2.3 times	2.0 times	+17.9
Earnings (NPAT) per share	16.5 cents[2]	14.2 cents[3]	+16.6
Dividends declared per share (fully imputed)	13.75 cents	13.25 cents	+3.8

[1] Prepared on a continuing operations basis excluding the Wellington electricity network in financial years 2008 and 2009. Results reported under NZ IFRS from 1 July 2007; earlier years reported under NZ GAAP.
[2] Calculated using a weighted average number of shares held by shareholders of Vector Limited of 997,221,099 due to treasury shares purchased during the period.
[3] Based on 1,000,000,000 shares.

ELECTRICITY

BUILDING A BRIGHTER FUTURE



$172.7m
SPENT ON BUILDING, REPLACING AND MAINTAINING THE NETWORK

16
SUBSTATIONS EITHER BUILT, UNDER CONSTRUCTION OR SIGNIFICANTLY UPGRADED

4,927
NEW CONNECTIONS

7.6%
INCREASE IN EBITDA

104.1mins
SAIDI PERFORMANCE

[1] Planned vegetation management helps to reduce the impact of severe weather on Vector's electricity network.
[2] We pride ourselves on our ability to provide reliable service.
[3] Our ability to meet demand for electricity services is more important than ever.

As an owner of critical infrastructure assets, Vector must always have the long term needs of the electricity network and its users in mind, and run its business accordingly. Despite the recent slowdown in the economy we continue to focus on investing in our network, working smarter, and doing our best for our customers »

The downturn in economic conditions and consumer confidence is making its presence felt in our electricity business. The slowdown in the property market and decline in residential building consents is reflected in the number of new electricity connections, which have decreased by 18.3% compared to last year. Electricity throughput – measuring the total amount of energy delivered by our networks to homes and business premises was almost flat, declining by 0.3%.

Due to growth in electricity demand being less than expected, we have reforecast our capital works programme, deferring until a later date some projects that would have otherwise started. Nevertheless, we continue to invest to build new network capacity, replace existing components and carry out network maintenance. Our total spend in this part of our business was nearly $173 million this year.

OPERATING EFFECTIVELY

Operational efficiency remains a key focus. Our fully integrated gas and electricity team is working more closely than ever before with our external contractors to deliver operational improvements and at the same time maintain or enhance our customer service and health and safety performance.

We pride ourselves on our ability to provide a very reliable service and meet the needs of our customers. It is our aim to keep service disruptions to a minimum despite uncontrollable events like storms, the accidental digging up of underground cables, and car accidents that bring down power poles.

This year the SAIDI index (system average interruption duration index) showed that the average time a customer was without power was 104.1 minutes, just missing the target of 104.0 minutes set by the Commerce Commission. A pleasing trend has been the reduction in controllable outages.

BUILDING FOR THE FUTURE

Last year we updated you on our three year plan to build ten new major substations. Considerable progress has been made on this ambitious goal with Gulf Harbour and Oratia completed this year, and Ranui, Hillsborough, Greenhithe and Clendon expected to finish next year. We also completed a significant upgrade project in Auckland's central business district, reinforcing the electricity supply between our Hobson Street and Quay Street substations, as well as upgrades on eight other substations throughout the region.

SECURITY OF SUPPLY

In the current economic environment our ability to meet demand for electricity services as and when customers require is more important than ever. We have been working closely with Transpower on security of supply issues across the region and are very pleased to see the NAaN (North Auckland and Auckland) project signed off by the Electricity Commission. This important project will enhance long term security of supply to the region.

"We continue to invest to build new network capacity, replace existing components and carry out network maintenance."

Looking ahead, we anticipate an increasing use of smart technology and innovative solutions in our electricity business to deliver capital and maintenance efficiency gains and continuous improvement in the network's performance for both our customers and shareholders.

GAS

EFFICIENCIES IN A CHANGING MARKET



$63.0m

SPENT BUILDING, REPLACING AND MAINTAINING NETWORK, LPG AND GAS PROCESSING CAPACITY

2,318

NEW GAS CONNECTIONS

113

VOLUME DISTRIBUTED (PJ) ON DISTRIBUTION AND TRANSMISSION NETWORKS

98.15%

UPTIME AT KAPUNI

$233.1m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

1 Our gas processing plant operates at very high levels of efficiency.
2 Vector owns, manages or operates more than 3,500 km of gas transmission pipeline throughout the North Island.
3 LPG customers have grown by 9%.

It has been a mixed year for Vector's multi-faceted gas business as increased competition, softening international oil prices, higher hydro-lake levels, reduced demand from commercial customers and slower growth in new connections combined to slow momentum »

Revenue declined 9.4% and EBITDA by 7.5% with volumes down across the board. In spite of these factors, we have become more efficient improving our gross margin and EBITDA percentages, securing additional business for our wholesale gas division, and signing a new long term contract for LPG supply.

GAS CONNECTIONS GROW

Connections to our natural gas distribution network grew by 1.6% this year. Like our electricity business, Vector natural gas has been affected by the decline in residential building consents and the general economic conditions, with growth in new connections slowing this year. The volume of gas supplied to our distribution network customers declined by 1.5%.

Our focus is to manage demand and capacity on our gas distribution and gas transmission networks. This year we spent $36 million on capital and maintenance works to make sure our gas is available whenever customers require it and a further $27 million on our LPG business and the gas processing plant at Kapuni. We are also focused on improving efficiencies, working closely with our contractors to achieve savings, enhance customer service and health and safety.

THE WEATHER PLAYS A PART

A wetter winter in 2008 meant that hydro-lake levels were higher, reducing the need for electricity generators to 'top up' by running gas-fired power stations to meet demand. Vector services power generating companies in two ways; by selling wholesale gas and delivering gas to the power stations using its transmission pipelines.

While transmission volumes have reduced significantly, gross margins have largely been maintained across our gas businesses.

A significant project to reinforce our gas transmission capability in Auckland's Westfield/Southdown region is nearing completion, and will enhance the service we provide to a major power generator in the area.

WHOLESALE PORTFOLIO

The wholesale natural gas market over the past year has been extremely competitive and volatile. Despite softening economic conditions reducing both demand for gas and customers' propensity to contract for long term supply, we are pleased to have secured new customers and significantly increased contract volumes for several large existing customers.

We continue to operate in a strong position in the wholesale gas market.

"We have become more efficient, secured additional business for our wholesale gas division, and signed a new long term contract for LPG supply."

LPG

The economic conditions have reduced demand for LPG. We are reaching the end of our long-standing gas supply arrangements, and have negotiated new long-term supply with New Zealand Oil and Gas. Additionally we have grown LPG customer numbers by 9%, and signed significant new customers including one that is shipping LPG to the Pacific Islands.

KAPUNI

Vector's gas processing plant at Kapuni continues to operate at very high levels of reliability. This year the plant achieved an uptime rating of 98.15%.

TECHNOLOGY

BETTER AND FASTER INFORMATION


1


2


3

2.6%

INCREASE IN TECHNOLOGY REVENUE

50,029

ELECTRICITY SMART METERS INSTALLED

$65.4m

SPENT ON CAPITAL EXPENDITURE

$52.1m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

40GB

PER SECOND – CAPACITY ON CORE FIBRE OPTIC NETWORK

[1] We operate the most accessible fibre optic network in Auckland.
[2] We are nearing the end of our fibre network build for Vodafone, ahead of time and on budget.
[3] Connected to Vector's fibre optic network, Kristin School can deliver lessons when they're needed, fast.

Lightning-fast communication, improved customer service and faster access to more up to date data are the foundations of our technology business. Whether it is providing advanced metering services, or the infrastructure that enables cell phone networks and internet service providers to operate more efficiently, our services help our customers to run their businesses better »

METERING

Last year we reported that we had signed significant smart meter installation and service contracts with Genesis Energy and Contact Energy.

In 2009 the focus has been on the first phase of installing the meters, with more than 50,000 completed to date and seeking other commercial opportunities for our advanced metering technology.

There has been much public debate and comment in recent months about smart meters. Vector's smart meters are leading edge technology, and are future proofed for all the functionality required by home automation. The meters can be further enabled when appliances have the technical capability to communicate with the meter.

When used to their full potential, our smart meters are powerful tools providing considerable benefits to the consumer, enabling them to better manage their energy use, the electricity retailer and Vector.

In the meantime, our new meters provide more up to date information, eliminate the need to issue estimated bills, and remove the requirement for a physical reading of the meter at the premise.

FIBRE

Fibre optics has been recognised by our Government as the network of the future, and we have made considerable progress in growing our fibre optic network business during the past 12 months.

The fibre network of the future cannot be just for existing telecommunications companies. It has to be an open access network that will enable multiple retailers to deliver both existing and new services to customers, in a cost effective and very different manner than they do today.

Tens of thousands of New Zealanders use our network every day. We currently deliver a range of services including voice, internet and TV for our retail partners. Our network reliability and world class technology ensures that we can continue to meet our customers' insatiable demand for lightning-fast but super-reliable bandwidth.

In the current economic environment business operators are looking for ways to manage costs, and there has been a shift to initiatives such as cloud computing – where software is provided remotely on a per user basis. Accessing software this way requires fibre services capable of moving large amounts of data, and with capacity on our core network currently at 40Gb per second, this is something that Vector Communications is more than able to do.

In such a dynamic and rapidly developing business we are constantly achieving new milestones, including nearing the end of our fibre network build for Vodafone, ahead of time and on budget.

"Tens of thousands of New Zealanders use our fibre optic network every day."

We announced the building of a fibre ring for Transpower. The project will lay 150km of network to link Transpower's 14 substations in the Auckland region, providing superior reliability and super fast communications between substations, pivotal to providing a secure power supply to Aucklanders.

With our credentials in networks and fibre we are strongly placed to be part of the country's broadband initiative, and have played an active part in the submissions and consultation process to date.

The potential of tomorrow's fibre networks to deliver a wide variety of services to customers and provide information back to service providers is enormous and as yet, untapped.

IN THE HOME OF THE NEAR FUTURE

Within a decade, high speed fibre and the traditional energy networks of gas and electricity will work together with significant benefits to consumers. This blueprint showcases the global trends in energy generation, network convergence, smart metering and appliances, and how they will benefit consumers, energy retailers and network companies.

Not only will consumers be able to generate some of their electricity requirements; but smart meters can provide more control and information about energy used and generated.

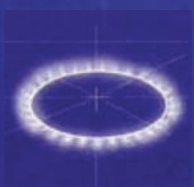
In addition, the high speed fibre network will allow many innovative new services such as in-home entertainment, communication, computing, education and health services to be delivered simultaneously to displays throughout the home, and will provide high speed communication and data transfer back to the operators of the gas and electricity networks.

SMART GRID

A smart electricity grid will use advanced information and communication systems to optimise New Zealand's energy resources. From generation and transmission of electricity through to smart appliances used in homes and business premises that will adapt their operations to peak energy signals, intelligence and responsiveness will be part of the grid of the future. If electricity use trends are changed sufficiently it could delay or even avoid the need to build new power stations and energy networks, potentially saving billions.

ELECTRICITY NETWORK

Can be monitored and controlled more effectively, and allows two-way flow of electricity to and from the premise. Surplus home generated electricity can be sold back to the national grid.



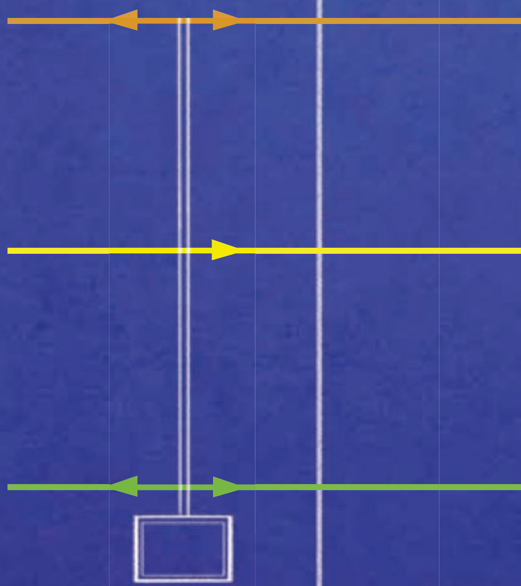
GAS NETWORK

Direct and efficient use of gas in the home for cooking, heating, and power generation.

FIBRE NETWORK

Enables many services from many suppliers to be delivered including consumer and business solutions such as remote software via cloud computing.

Using the high speed fibre network, electricity and gas companies can more closely monitor and control energy usage and performance of the networks, accurately pinpointing network outages.



MONITOR CONTROL DEVICE

	HIGH SPEED FIBRE	✓	Almost unlimited capacity, supporting multiple simultaneous users
		✓	Uncompromised work-from-home performance
		✓	Very high performance connections from anywhere on the network
		✓	Enables new services in education, healthcare and entertainment
		✓	Instantaneous access to content – computing, interactive, on-demand TV and movies

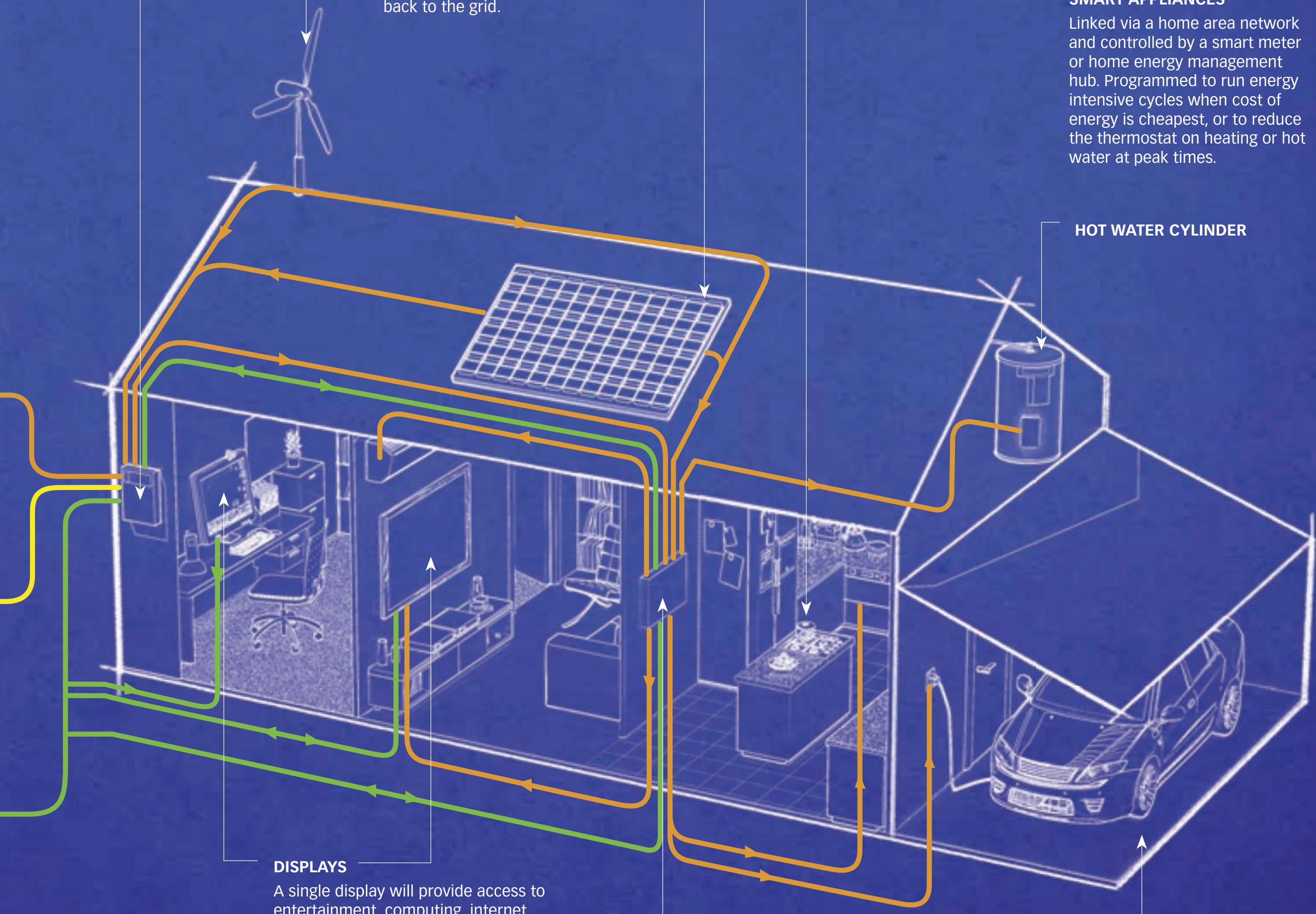
SMART METER
Enables time-of-use electricity pricing, eliminates estimated billing and physical reading of the meter. Communicates directly with the retailer, and is a key element of the smart grid. Provides up to date information about energy generated and energy used to the home owner. Vector is currently installing 550,000 smart meters for electricity retailers.

SOLAR PANEL
Can contribute electricity for home consumption or sale back to the grid.

MICRO WIND TURBINE
Wind generated electricity that can be used in the home or sold back to the grid.

SMART APPLIANCES
Linked via a home area network and controlled by a smart meter or home energy management hub. Programmed to run energy intensive cycles when cost of energy is cheapest, or to reduce the thermostat on heating or hot water at peak times.

HOT WATER CYLINDER



DISPLAYS
A single display will provide access to entertainment, computing, internet, telephone and other services.

HOME ENERGY MANAGEMENT HUB
Optimises energy loads and energy sources, choosing between grid and home generated energy, as programmed by the home owner. Helps to minimise energy consumption and costs.

ELECTRIC VEHICLE
Recharges overnight when energy costs are cheaper. In the future could feed energy back into the grid at peak load times.

PEOPLE, SAFETY AND COMMUNITY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337,500

PEOPLE ATTENDED AN EVENT OR CONCERT AT THE VECTOR ARENA IN THE PAST YEAR

6%

OF EMPLOYEES INVOLVED IN LEADERSHIP DEVELOPMENT PROGRAMMES

100,000

PEOPLE ENTERTAINED BY VECTOR WELLINGTON ORCHESTRA EVERY YEAR

INVENTED

A NEW METHOD OF EARTHING OLD CONCRETE POWER POLES

60,000

BY THE END OF THE YEAR MORE THAN 60,000 PRIMARY SCHOOL CHILDREN WILL HAVE PARTICIPATED IN VECTOR'S STAY SAFE AROUND ELECTRICITY PROGRAMME SINCE 2005

[1] Good community relations are essential to negotiating access to private land for our gas pipelines.
[2] We're pleased to have a long term partnership with the Vector Arena.
[3] We've been promoting electricity safety awareness to school children since 2005.

Developing the skills of our employees and providing a safe environment for those that work on and around our gas, electricity and fibre networks is an ongoing focus for Vector. We are also active in the communities in which we operate, promoting electricity safety awareness to primary school children, and sponsoring Auckland's Vector Arena and the Vector Wellington Orchestra »

PEOPLE

At Vector, our ability to meet the needs of our stakeholders and customers depends very much on the calibre and commitment of our people. Last year, we announced a new functional organisational structure to enable our business to work more efficiently, and a significant long term investment in developing the leadership capabilities of our people, to meet both current and future challenges.

Much has been achieved in 2009 to support employees in leadership roles across all levels of the business. Our developing leader and team leader programmes, now in their second year, are designed to build the skills of those who have significant people management responsibilities. Shortly, 21 of Vector's current and future leaders will complete the final few months of the Excelerator programme run in conjunction with the New Zealand Leadership Institute, University of Auckland. Already we are seeing our future leaders stepping up and demonstrating their new-found skills, to the benefit of the business and their teams.

Vector has also become a corporate partner of New Zealand Global Women, a new networking group aimed at providing support for emerging leaders. This partnership creates opportunities for women in our organisation to learn from the perspectives of experienced leaders.

SAFETY

The safety of our employees, contractors and the wider community is a key focus for our business, and Vector is committed to reinforcing a culture of safety and improving our safety performance. By the end of the year our "Stay Safe Around Electricity" programme will have promoted electricity safety awareness to more than 60,000 primary school children in the Auckland region since 2005.

Encouraging employees to think of innovative ways of doing things has led to Vector developing and patenting a new system for improving safety for linesmen working on older concrete poles. Concrete power poles have a life of between 30 to 70 years and there are currently several hundred thousand of these older concrete poles in use throughout New Zealand.

This innovation has the potential to prevent injuries and be of benefit to the entire lines industry both in New Zealand and overseas.

COMMUNITY

We're proud to support the communities in which we operate. Auckland's Vector Arena is a landmark building and a key piece of infrastructure for the greater Auckland region and New Zealand. A world-class entertainment venue, and managed by a highly professional team, the arena seats up to 12,200 and has put Auckland on the touring itineraries of the world's best selling and best loved performers.

We have a long term partnership with Vector Arena, and are very pleased to be the naming-rights sponsor of such an important community asset.

The Vector Wellington Orchestra plays to over 100,000 people every year, in its role as the orchestra of the central region of New Zealand. The orchestra takes its music to the people every year, touring regional centres in the North Island, and also fosters young people's enjoyment of music through a series of concerts for primary and pre-school age children and their families.

"Already we are seeing our future leaders demonstrating their new-found skills, to the benefit of the business and their teams."

OUR BOARD OF DIRECTORS

Our directors bring a wealth of specialised energy industry as well as broad financial, commercial and legal experience to Vector »


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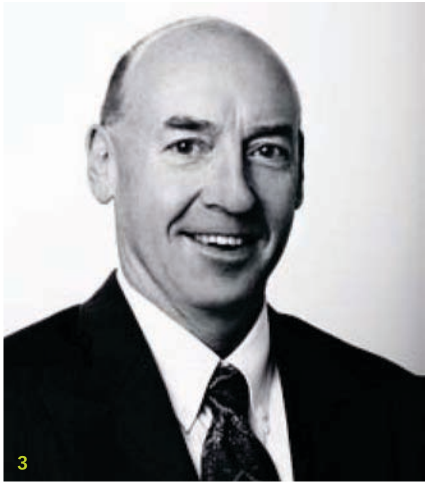
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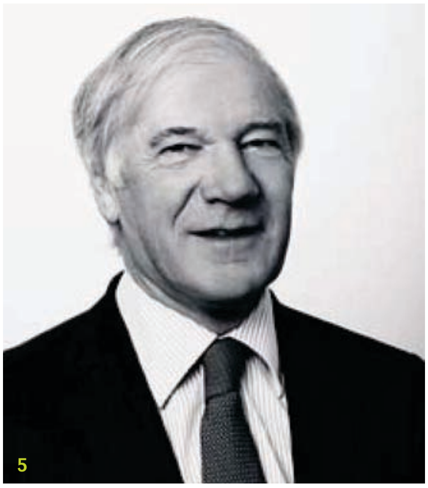
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1» MICHAEL STIASSNY – CHAIRMAN

Michael Stiassny, Chairman, BCom, LLB, CA, is a chartered accountant and partner of KordaMentha 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, and chairman of the New Zealand Racing Board. Michael is a Fellow (FinstD) and council member of the Institute of Directors of New Zealand Inc.

2» PETER BIRD

Peter Bird, BA, MA, PhD, is a managing director of investment banking at Rothschild. His extensive international experience includes advising large corporates and governments on a range of issues including acquisitions and disposals, privatisation, project and acquisition financing, mutualisation, insolvency and debt restructuring. He has also advised utilities and public sector bodies on competitive solicitations and tender design and has advised governments on energy industry restructuring. Before joining Rothschild, Peter worked as an economic consultant, as an economic researcher in the oil and nuclear sectors and as an academic economist at Stirling University.

3» JAMES CARMICHAEL

James Carmichael, BE, FIPENZ, is a trustee of the Auckland Energy Consumer Trust and is also on the executive of Energy Trusts of New Zealand (ETNZ). His experience includes Asia-Pacific director of PowerGen International Limited, responsible for overseeing the company's multi-billion dollar energy assets and acquisition strategy from Australia to Korea. Subsequently, he was a non-executive director of Ranhill Power Berhad, responsible for leading the review of all key commercial, technical, financial, and environmental risks associated with the company's proposed investments in both thermal and hydro power projects in East Asia, South East Asia and the Indian sub-continent.

4» TONY CARTER

Antony (Tony) Carter, BEng (Hons), ME, MPhil, 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.

5» HUGH FLETCHER

Hugh Fletcher, BSc, MBA (Stanford), MCom (Hons), is a former CEO of Fletcher Challenge Limited and is currently a non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Insurance Australia Group Limited and Rubicon Limited. He is also non-executive chairman of IAG New Zealand Limited, a councillor of The University of Auckland, and a member of the L.E.K. Consulting New Zealand Advisory Board.

6» JAMES MILLER

James Miller, BCom, FCA, has 20 years' experience specialising in the energy industry, starting as an accountant at West Coast Electric Power Board in 1989. During this time he has specialised in regulatory economics, utility strategy and valuation. He is a Fellow of the Institute of Chartered Accountants of New Zealand, a certified securities analyst professional, a member of the New Zealand Stock Exchange and the Institute of Directors and has attended the Harvard University Advanced Management Programme. Mr Miller is presently on the Craigs Investment Partners board and was previously on the INFINZ Board and Financial Reporting Standards board.

7» ALISON PATERSON

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

8» KAREN SHERRY

Karen Sherry, MA (Hons), LLB (Hons), has been a trustee since 1994 and is a former chair of the Auckland Energy Consumer Trust. She is also deputy chair of Energy Trusts of New Zealand, a trustee of Auckland Healthy Houses Trust, a former trustee of Challenge Trust and a former director of Mercury Energy. Karen is a principal of the firm Bell-Booth Sherry where she specialises in commercial and trust law.

9» BOB THOMSON

Bob Thomson, BEng (Electrical), DipBS, is a former chief executive of Transpower Limited and is an adviser to the Energy Trusts of New Zealand. 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.

OUR MANAGEMENT TEAM

Our senior management team, experienced in energy and infrastructure has the skills to navigate Vector through these challenging times »


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1» SIMON MACKENZIE Grad Dip BS (Dist), Dip Fin, NZCE
GROUP CHIEF EXECUTIVE OFFICER
Since joining Vector in 1998, Simon has held a range of roles spanning operational, strategic and leadership responsibilities prior to his appointment as Group CEO in February 2008. He has extensive experience in the infrastructure sector, including strategy, regulation, network management, information technology, and telecommunications, in addition to international experience in the construction and consultancy sectors. Simon's tertiary qualifications include engineering, finance and business studies, and the Advanced Management Programme at the Wharton School, University of Pennsylvania.

2» ALEX BALL BEng (Hons), ACGI, CA, SA Fin
CHIEF FINANCIAL OFFICER
Alex leads the finance team and is responsible for financial and management reporting, risk management, corporate finance, treasury, legal, tax and property. He has broad experience in the areas of financial reporting and management, risk management and corporate development. He joined Vector from Ernst & Young where he led its national financial services practice and was a partner in its assurance and advisory division.

3» ALLAN CARVELL BCom, Dip Com (Econ), CA
GROUP GENERAL MANAGER REGULATION AND PRICING
Allan's responsibilities include all aspects of regulatory policy, pricing, reporting and risk, and Government relations. In addition to his extensive regulatory and pricing experience particularly in the electricity sector, Allan's background includes finance and treasury management, legal, IT and HR. Prior to joining Vector he was general manager finance and commercial at Unison Networks Limited. Allan has completed an Accelerated Development Programme at the London Business School and is a member of the Institute of Directors.

4» SYLVIA HUNT BBS, GradDipBusStuds (HRM)
GROUP MANAGER ORGANISATIONAL DEVELOPMENT
Sylvia's role encompasses human resources, health and safety, information management and Vector's NZQA accredited private training institution, Utilitech. She has a broad range of experience in senior human resource and corporate services roles in a number of sectors including financial services, dairy and forestry. Prior to joining Vector, Sylvia held the position of group manager human resources, with the Crown Research Institute, SCION.

5» DANIEL MCCARTHY M.Eng, M.A. (Hons)
GROUP GENERAL MANAGER COMMERCIAL
Daniel leads commercial activity and customer relationships across the Group's infrastructure businesses. Daniel brings commercial, strategic and international experience to Vector. In his last role, he was commercial director for Avis Rent a Car in the UK. Prior to that, he was a strategy consultant to large corporates in the USA, Europe and Asia Pacific. His early career in brand management and consumer products will help Vector build on its customer focus, as well as deliver strong commercial outcomes for shareholders.

6» DAVID THOMAS BSC, BE (Chem) (Hons)
GROUP GENERAL MANAGER GAS TRADING AND METERING
David leads Vector's gas wholesale business, LPG and metering. He has extensive experience in the energy trading environment and operational expertise in the energy sector. Previously he was general manager operations for Contact Energy where he was responsible for Contact's power stations and generation development, and he has also held roles at BP and Fletcher Challenge in New Zealand as well as Canada and Europe. David has been with Vector since September 2008.

7» DAVID TOMPKINS BA Sc, M Eng, MIPENZ, Dip B Mgt, Dip Int Fin
GROUP GENERAL MANAGER ASSET INVESTMENT
David's role encompasses electricity and gas network investment, strategic asset planning, asset performance and engineering. David has over 30 years' experience in asset development and management, engineering 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.

8» ANDRIES VAN DER WESTHUIZEN B Comm (Law)
GENERAL MANAGER INFORMATION TECHNOLOGY
Andries is responsible for all aspects of Vector's information technology. He has considerable experience in IT operations, project and contract management both in New Zealand and South Africa. Andries joined Vector in 1997, during which time he has led projects to separate Mercury Energy and Vector information systems, merge United Networks and NGC systems, and outsource commodity IT infrastructure. Prior to joining Vector, he worked for Sasol (petrochemical industry) in their financial and contract departments.

9» DAVID WORSNOP BE (Hons)
GROUP GENERAL MANAGER SERVICE DELIVERY
David leads Vector's service delivery activities across both the gas and electricity distribution and transmission networks. David brings a wealth of expertise to Vector having had over 35 years' experience in the infrastructure sector. He joined Vector having previously been the CEO of Hastie NZ, an Australasian building services and climate control group of companies.

VECTOR GOVERNANCE

Vector's board is committed to maintaining the highest standards of corporate governance, ensuring transparency and fairness, and recognising the interests of our stakeholders »

Governance standards follow relevant laws, the NZX Listing Rules and the company's constitution, and are executed through various policies and procedures. Vector has adopted the voting and governance provisions required by the NZX Listing Rule 3.1.1 (a) to be contained, or incorporated by reference, in our constitution.

Our governance standards also recognise Securities Commission governance principles, the NZX Corporate Governance Best Practice Code, best practice in New Zealand, the Institute of Directors' Code of Proper Practice, and practice statements issued by the Institute.

Vector's board in its ongoing commitment to the highest standards of good governance is considering the adoption of the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council.

The following detailed key corporate governance documents can be found on Vector's website at www.vector.co.nz and should be read in conjunction with this Governance Statement:

› constitution
› code of conduct
› board charter
› directors' code of practice
› audit committee charter
› risk and assurance committee charter
› nominations committee charter
› remuneration committee charter
› remuneration policy
› director and executive remuneration policy
› insider trading policy
› environment policy
› shareholder relations policy
› stakeholder relations policy
› achieving corporate governance principles
› health and safety policy

BOARD OF DIRECTORS

Vector's board is composed of a minimum of three and a maximum of nine directors, with at least two being ordinarily resident in New Zealand. As at 30 June 2009, the board comprised nine directors, all of whom are non-executive directors. Seven are independent. Only independent directors are eligible to be the board chairperson.

The board usually meets monthly but, if required, does meet by telephone or video conference.

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

BOARD COMMITTEES

There are currently four board committees, to assist the board with specific responsibilities. They are:

AUDIT COMMITTEE

The audit committee assists in oversight of regulatory and financial reporting compliance, external audit processes and financial controls. It independently meets external auditors at least twice a year without company employees present. A full description of the audit committee's composition and duties is contained in the audit committee charter.

The committee's members as at 30 June 2009 were Alison Paterson (chair), James Carmichael, Hugh Fletcher, James Miller, Karen Sherry, Michael Stiassny and Bob Thomson.

RISK AND ASSURANCE COMMITTEE

The risk and assurance committee assists with strategic guidance and oversight of risk that may significantly impact Vector's performance. It considers, and if appropriate approves recommendations of the executive risk management committee for submission to the board. A full description of the risk and assurance committee's composition and duties is contained in the risk and assurance committee charter.

Risk and assurance committee members as at 30 June 2009 were Karen Sherry (chair), James Carmichael, Tony Carter, James Miller, Alison Paterson, Michael Stiassny and Bob Thomson.

NOMINATIONS COMMITTEE

The nominations committee establishes and reviews the criteria for evaluating director nominees, identifies and recommends candidate directors, as well as formally engaging and inducting new directors. For as long as the Auckland Energy Consumer Trust (AECT) holds at least 50.01% of Vector's shares, this committee undertakes non-binding consultation with the AECT prior to finalising any board recommendation regarding a director nomination or appointment. A full description of the nominations committee's composition and duties is contained in the nominations committee charter.

Members of the nominations committee as at 30 June 2009 were Michael Stiassny (chair), Tony Carter, Hugh Fletcher and Alison Paterson.

REMUNERATION COMMITTEE

The remuneration committee considers all executive appointments and contractual terms, reviews company remuneration policy and, from time to time, remuneration of directors. A full description of the remuneration committee's composition and duties is contained in the remuneration committee charter.

Members of the remuneration committee as at 30 June 2009 were Tony Carter (chair), Alison Paterson, Karen Sherry and Michael Stiassny.

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2009 are provided in the table below:

	Full Board	Audit Committee	Risk and Assurance Committee	Remuneration Committee	Nominations Committee
Total Meetings	11	6	5	2	1
Current Directors					
Michael Stiassny	10	6	5	2	1
Peter Bird	8	2*	3*	–	–
James Carmichael***	8	3**	4	1*	–
Tony Carter	11	4*	5	2	1
Hugh Fletcher	10	5	1*	–	1
James Miller***	1	–	1	–	–
Alison Paterson	11	6	5	2	1
Karen Sherry	10	4**	5	2	–
Bob Thomson	11	6	5	2*	–

* Director attending committee meeting who is not a member of the committee
** Appointed to the Audit Committee during the year
*** Appointed a director during the year

STAKEHOLDER RELATIONS

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

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 by:

› ensuring they have full 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 views, 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. In addition, Vector and the AECT are parties to a Deed Recording Essential Operating Requirements, which includes certain consultation and reporting provisions.

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. Vector issues quarterly reports on its 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 following their public release in accordance with NZX listing rule requirements.

Stakeholders can register online, free of charge, to receive immediate electronic notification when new information is posted on the Vector website. Vector's interim and annual company reports are now primarily viewed online, but shareholders are entitled to hard copies of both documents, and can request them by contacting the company via its website.

PARTNERSHIPS

We're involved in a number of partnerships and ventures that complement our core network businesses and strengthen our capabilities in the energy services field »

ADVANCED METERING SERVICES

Vector owns a 50% shareholding in Advanced Metering Services, a company set up to deliver advanced metering technology and operational services to customers throughout New Zealand. Metering assets are owned by Vector, with Advanced Metering Services offering bundled, value-added services tailored to market and customer needs. These include providing meter assets and the ongoing collection, processing and management of energy consumption data.

LIQUIGAS

Vector holds a 60.25% shareholding in Liquigas, New Zealand's leading company for storage, distribution and trading of bulk LPG.

The company also coordinates the importation of LPG, where necessary, to supplement New Zealand's domestic production.

Liquigas has staff and depots in Auckland, New Plymouth, Christchurch and Dunedin.

NZ WINDFARMS

Vector holds a cornerstone 19.99% shareholding in NZ Windfarms Limited, a power generation company that sells sustainably generated electricity from wind turbines. Over the past 12 months, NZ Windfarms has continued to develop the Te Rere Hau wind farm.

STREAM INFORMATION

Stream Information is a 70:30 venture between Vector Stream Limited and TML Stream Limited. Stream Information provides advanced time-of-use metering products, services and solutions for the competitive utility market. The partnership was formed to meet the demand from commercial and industrial customers for readily accessible information on their electricity usage.

TREESCAPE

Vector owns a 50% shareholding in Treescape, one of Australasia's largest specialist tree and vegetation management companies, with divisions throughout New Zealand and Queensland. Treescape employs more than 250 trained staff and customers include councils, utilities, government agencies, construction companies and developers.

Treescape's planned vegetation management programme plays a major role in minimising the impact of severe weather on Vector's electricity network.

UTILITECH

Utilitech is Vector's NZQA-accredited private training institution, providing training and upskilling for those working in the utilities sector. Growth over the past 12 months has remained strong, with an increase in the range and number of training courses offered.

This year Utilitech has gained accreditation to offer training in solar hot water installations, won a tender to offer training in Papua New Guinea, and seen its cable jointer and high voltage switching training programmes gain significant momentum.

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FINANCIAL REVIEW

FOR THE YEAR ENDED 30 JUNE 2009

	2009 $MILLION	2008 $MILLION
FINANCIAL PERFORMANCE[1]		
Revenue	1,174.2	1,182.0
Operating expenditure	(592.0)	(634.1)
EBITDA	582.2	547.9
Depreciation and amortisation	(145.4)	(140.3)
EBIT	436.8	407.6
Net finance costs	(189.5)	(208.6)
Share of net surplus from associates	1.2	1.1
Impairment of investment in associate	(6.5)	–
Operating surplus before income tax	242.0	200.1
Income tax expense	(68.2)	(50.4)
Operating surplus	173.8	149.7
Operating surplus attributable to minority interests	(8.9)	(7.9)
NPAT	164.9	141.8
ASSETS[2]		
Operations held for sale	–	634.9
Current assets (excluding operations held for sale)	391.3	288.2
Intangible assets	1,588.6	1,593.6
Property, plant and equipment	3,472.1	3,386.3
Other non-current assets	86.6	76.4
	5,538.6	5,979.4
EQUITY AND LIABILITIES[2]		
Operations held for sale	–	68.9
Current liabilities (excluding current borrowings and operations held for sale)	201.7	220.1
Total borrowings	2,640.4	3,160.2
Deferred tax liability	505.8	534.7
Other non-current liabilities	131.8	94.2
Equity	2,058.9	1,901.3
	5,538.6	5,979.4
CASH FLOW[3]		
Net cash flows from operating activities	330.3	324.5
Dividends paid[4]	(136.7)	(136.9)
Capital expenditure payments	(237.1)	(226.2)
Cash flow before external funding and investments	(43.5)	(38.6)
Net borrowings (repaid)/drawn down	(615.6)	84.8
Net short term deposits invested	(100.0)	–
Purchase of treasury shares	(8.9)	–
Net proceeds from the sale of the Wellington electricity network	773.0	–
Investing activities excluding capital expenditure	(3.9)	0.4
Increase in cash	1.1	46.6

[1] Prepared on a continuing operations basis excluding the Wellington electricity network.
[2] Includes net assets of the Wellington electricity network as at 30 June 2008 under operations held for sale.
[3] Includes results for the Wellington operation prior to its sale on 24 July 2008.
[4] Includes dividends paid to minority interest shareholders.

This Shareholder Review should be read in conjunction with the enclosed Vector Limited Annual Report 2009.

INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Market (NZSX) under the company code VCT. Vector also has senior retail and capital bonds listed and quoted on the New Zealand Debt Market (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**

DIRECTORY

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New Zealand

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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
23-29 Albert Street
Auckland
New Zealand

ANNUAL REPORT

VECTOR LIMITED ››› 2009

Vector®

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

CONTENTS

2009 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2009.

For and on behalf of directors

Director 25 August 2009

Director 25 August 2009

For and on behalf of management

Group Chief Executive Officer 25 August 2009

Chief Financial Officer 25 August 2009

AUDITORS REPORT
FOR THE YEAR ENDED 30 JUNE 2009

To the shareholders of Vector Limited

We have audited the financial statements on pages 3 to 64. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 8 to 17.

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 2009 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 judgements 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 3 to 64:
  - 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 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2009 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
In respect of continuing operations:					
Operating revenue	3	1,173,947	1,180,497	632,680	540,407
Other income	3	211	1,515	184	614
Total income		1,174,158	1,182,012	632,864	541,021
Electricity transmission expenses		(118,461)	(104,764)	(118,461)	(104,764)
Gas purchases and production expenses		(262,431)	(304,275)	–	–
Network and asset maintenance expenses		(80,179)	(82,106)	(49,586)	(53,478)
Other expenses		(130,909)	(142,945)	(107,071)	(124,642)
Operating expenditure	4	(591,980)	(634,090)	(275,118)	(282,884)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		582,178	547,922	357,746	258,137
Depreciation and amortisation	5	(145,362)	(140,361)	(86,902)	(80,501)
Operating surplus before interest and income tax		436,816	407,561	270,844	177,636
Finance income	6	16,144	3,668	17,090	8,480
Finance costs	6	(205,684)	(212,240)	(207,060)	(211,746)
Share of net surplus from associates	17	1,208	1,114	–	–
Impairment of investment in associate	17	(6,519)	–	(6,519)	–
Operating surplus/(deficit) before income tax		241,965	200,103	74,355	(25,630)
Income tax (expense)/benefit	7	(68,210)	(50,404)	(18,959)	20,125
Operating surplus/(deficit) attributable to continuing operations		173,755	149,699	55,396	(5,505)
Operating surplus/(deficit) attributable to discontinued operations (net of tax)	1	205,586	22,635	(2,015)	16,823
Operating surplus		379,341	172,334	53,381	11,318
Represented by:					
Operating surplus attributable to minority interests		8,881	7,907	–	–
Operating surplus attributable to the shareholders of the parent		370,460	164,427	53,381	11,318

		GROUP	
	NOTE	2009	2008
Number of fully paid ordinary shares on issue (000s)	11	1,000,000	1,000,000
Weighted average number of fully paid treasury shares held (000s)		(2,779)	–
Weighted average number of fully paid ordinary shares held by shareholders of the parent (000s)		997,221	1,000,000
Basic and diluted earnings per share (cents)			
Continuing operations	12	16.5	14.2
Discontinued operations	12	20.6	2.2
Total		37.1	16.4

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
Transfer to equity on change in fair value of cash flow hedges (net of tax)		(76,242)	(70,413)	(76,242)	(70,413)
Transfer to foreign currency translation reserve		81	129	–	–
Net expense recognised directly in equity		(76,161)	(70,284)	(76,242)	(70,413)
Operating surplus		379,341	172,334	53,381	11,318
Total recognised income and expenses		303,180	102,050	(22,861)	(59,095)
Distributions to equity holders:					
Dividends		(132,205)	(130,000)	(132,205)	(130,000)
Supplementary dividends		(1,045)	(805)	(1,045)	(805)
Foreign investor tax credits		1,045	805	1,045	805
Treasury shares purchased		(8,934)	–	(8,934)	–
Dividends to minorities		(4,472)	(6,857)	–	–
		157,569	(34,807)	(164,000)	(189,095)
Equity at beginning of the period		1,901,324	1,936,131	1,679,543	1,868,638
Equity at end of the period		2,058,893	1,901,324	1,515,543	1,679,543
Total recognised income and expenses attributable to:					
Shareholders of the parent		294,299	94,143	(22,861)	(59,095)
Minority interests		8,881	7,907	–	–
Total recognised income and expenses		303,180	102,050	(22,861)	(59,095)
Equity at end of the period represented by:					
Issued share capital		874,979	874,979	874,979	874,979
Treasury shares		(8,934)	–	(8,934)	–
Hedge reserve		(78,011)	(1,769)	(78,011)	(1,769)
Foreign currency translation reserve		210	129	–	–
Retained earnings		1,253,768	1,015,513	727,509	806,333
Shareholders' funds		2,042,012	1,888,852	1,515,543	1,679,543
Minority interests		16,881	12,472	–	–
Equity at end of the period	11	2,058,893	1,901,324	1,515,543	1,679,543

		GROUP	
	NOTE	2009	2008
Total tangible assets per share (cents)	12	396.7	438.6
Net tangible assets per share (cents)	12	47.2	30.8

BALANCE SHEET
AS AT 30 JUNE 2009

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
CURRENT ASSETS					
Cash and cash equivalents		54,690	53,581	38,738	52,749
Short term deposits		100,000	–	100,000	–
Receivables and prepayments	13	190,633	181,174	107,184	101,598
Derivative financial instruments	28	208	1,304	208	1,304
Operations held for sale	14	–	634,948	–	–
Inventories	15	2,208	7,376	58	14
Income tax	8	43,606	44,694	43,606	44,303
Advances to subsidiaries	30	–	–	456,479	884,852
Total current assets		391,345	923,077	746,273	1,084,820
NON-CURRENT ASSETS					
Receivables and prepayments	13	5,890	1,469	5,890	1,469
Derivative financial instruments	28	51,345	40,294	51,345	40,294
Deferred tax	9	1,137	1,137	–	–
Investments in subsidiaries	16	–	–	1,403,536	1,403,536
Investments in associates	17	28,193	33,504	17,511	24,030
Intangible assets	19	1,588,604	1,593,566	545,349	545,628
Property, plant and equipment	20	3,472,078	3,386,316	2,536,211	2,482,168
Total non-current assets		5,147,247	5,056,286	4,559,842	4,497,125
Total assets		5,538,592	5,979,363	5,306,115	5,581,945
CURRENT LIABILITIES					
Operations held for sale	14	–	68,931	–	–
Payables and accruals	21	179,887	186,198	119,606	126,202
Provisions	22	17,384	30,460	5,439	5,262
Derivative financial instruments	28	2,099	3,441	2,099	3,441
Borrowings	27	575	757,297	–	756,722
Income tax	8	2,370	–	–	–
Advances from subsidiaries	30	–	–	545,017	135,812
Total current liabilities		202,315	1,046,327	672,161	1,027,439
NON-CURRENT LIABILITIES					
Payables and accruals	21	27,137	24,791	943	1,176
Derivative financial instruments	28	103,671	69,355	103,671	69,355
Provisions	22	1,000	–	–	–
Borrowings	27	2,639,781	2,402,846	2,639,781	2,402,846
Deferred tax	10	505,795	534,720	374,016	401,586
Total non-current liabilities		3,277,384	3,031,712	3,118,411	2,874,963
Total liabilities		3,479,699	4,078,039	3,790,572	3,902,402
EQUITY					
Shareholders' funds		2,042,012	1,888,852	1,515,543	1,679,543
Minority interests		16,881	12,472	–	–
Total equity	11	2,058,893	1,901,324	1,515,543	1,679,543
Total equity and liabilities		5,538,592	5,979,363	5,306,115	5,581,945

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
OPERATING ACTIVITIES					
Cash provided from:					
Receipts from customers		1,170,655	1,325,858	577,882	667,710
Interest portion of repayments on finance leases		117	120	117	120
Interest received on deposits		14,841	3,548	14,480	84
Income tax refund		19	145	–	–
		1,185,632	1,329,671	592,479	667,914
Cash applied to:					
Payments to suppliers and employees		(579,668)	(681,717)	(256,820)	(355,758)
Income tax paid		(62,424)	(68,082)	(57,051)	(56,279)
Interest paid on finance leases		(633)	(753)	(54)	(59)
Interest paid		(212,570)	(254,609)	(212,570)	(253,467)
		(855,295)	(1,005,161)	(526,495)	(665,563)
Net cash flows from operating activities		330,337	324,510	65,984	2,351
INVESTING ACTIVITIES					
Cash provided from:					
Advances from/repaid by subsidiaries		–	–	1,135,086	300,417
Proceeds from sale of property, plant and equipment and software		557	4,114	390	332
Net proceeds from sale of discontinued operations	14	772,950	–	–	–
Receipts from loans repaid		–	263	–	139
Refund of security deposits		–	101	–	101
Capital portion of repayments on finance leases		13	12	13	12
		773,520	4,490	1,135,489	301,001
Cash applied to:					
Advances to/repaid to subsidiaries		–	–	(206,534)	(35,960)
Purchase and construction of property, plant and equipment and software		(237,107)	(226,225)	(149,503)	(167,937)
Purchase of investments in associates		–	(4,131)	–	(4,131)
Loan to associate	30	(4,450)	–	(4,450)	–
Issue of security deposits		–	(40)	–	(40)
		(241,557)	(230,396)	(360,487)	(208,068)
Net cash flows from/(used in) investing activities		531,963	(225,906)	775,002	92,933

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
FINANCING ACTIVITIES				
Cash provided from/(applied to):				
Proceeds from borrowings	245,000	925,610	245,000	925,610
Repayment of borrowings	(855,000)	(834,014)	(855,000)	(834,014)
Withdrawal of short term deposits	200,000	–	200,000	–
Short term deposits	(300,000)	–	(300,000)	–
Debt raising costs incurred	(3,763)	(4,814)	(3,763)	(4,814)
Capital portion of payments under finance leases	(1,817)	(1,956)	(95)	(6)
Dividends paid to shareholders of the parent	(132,205)	(130,000)	(132,205)	(130,000)
Dividends paid to minority interests	(4,472)	(6,857)	–	–
Purchase of treasury shares	(8,934)	–	(8,934)	–
Net cash flows used in financing activities	(861,191)	(52,031)	(854,997)	(43,224)
Net increase/(decrease) in cash and cash equivalents	1,109	46,573	(14,011)	52,060
Cash and cash equivalents at beginning of the period	53,581	7,008	52,749	689
Cash and cash equivalents at end of the period	54,690	53,581	38,738	52,749
Cash and cash equivalents comprises:				
Bank balances	19,690	53,581	3,738	52,749
Short term deposits maturing within three months	35,000	–	35,000	–
	54,690	53,581	38,738	52,749

	NOTE	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating surplus		379,341	172,334	53,381	11,318
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss on write-off of property, plant and equipment and software		12,021	8,701	8,711	6,509
Gain on sale of discontinued operations	14	(202,902)	–	–	–
		(190,881)	8,701	8,711	6,509
NON-CASH ITEMS					
Depreciation and amortisation		145,362	154,902	86,902	95,042
Impairment of investment in associate	17	6,519	–	6,519	–
Management fee income from related parties		–	–	(43,394)	–
Non-cash portion of interest expense		1,492	760	1,822	2,102
Increase in deferred tax liability		4,801	11,665	5,863	13,858
(Decrease)/increase in provisions		(11,060)	5,792	177	(929)
Equity earnings of associates	17	(1,208)	(1,114)	–	–
		145,906	172,005	57,889	110,073
MOVEMENT IN WORKING CAPITAL					
Increase/(decrease) in payables and accruals		5,560	(3,936)	(4,250)	(29,870)
Decrease/(increase) in inventory		5,168	1,686	(44)	43
Increase in receivables and prepayments		(17,856)	(6,889)	(5,138)	(11,097)
Decrease/(increase) in net income tax assets		3,099	(19,391)	(44,565)	(84,625)
		(4,029)	(28,530)	(53,997)	(125,549)
Net cash flows from operating activities		330,337	324,510	65,984	2,351

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009

BASIS OF PREPARATION

Vector Limited is a company domiciled in New Zealand and registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (NZX). Vector Limited is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements of the group are for the year ended 30 June 2009 and were authorised for issue by the directors on 25 August 2009.

Vector Limited is a profit-oriented entity involved in the infrastructure sector in New Zealand. Its primary operations include electricity distribution, gas transportation, natural gas and LPG sales, gas processing, metering and telecommunications.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to IFRSs (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

The 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.

Vector Limited is a 75.1% owned subsidiary of the Auckland Electricity Consumer Trust which is the ultimate parent entity for the group.

MEASUREMENT BASE

The financial statements have been prepared on the historical cost basis except for the following items, which are measured at fair value:

- the identifiable assets, liabilities and contingent liabilities acquired in a business combination, explained further below; and
- financial instruments, also explained further below.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars ($), which is the parent's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements in compliance with NZ IFRS requires management to make judgements, estimates and apply assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors and are believed to be reasonable. These estimations and assumptions have formed the basis for making judgements on the carrying values of some assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods affected. In particular, information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have had a significant effect on the amounts recognised in the financial statements are described below.

JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

Revenue recognition

The timing of customer payments for services does not always coincide with the timing of delivery of these services. For example customers may pay for services some time after the services are delivered. Billing of customers may be based on estimated usage and differences washed up in subsequent periods. Customers may also prepay for services. Judgement is therefore required in deciding when revenue is to be recognised. Where the relationship between the payments and multiple services delivered under the related contract is not immediately clear, management must apply judgement in unbundling elements of the contract and allocating payments to the respective services before applying the revenue recognition accounting policy.

Classification of investments

Classifying investments as either subsidiaries, associates, joint ventures or available-for-sale financial assets requires management to judge the degree of influence which the group holds over the investee. Management look at many factors in making these judgements, such as examining the constitutional documents that govern decision making, governance around current and future representation amongst the board of directors, and also other less formal arrangements which can lead to having influence on the operating and financial policies.

Substance of leasing contracts

Accounting for lease contracts requires management to assess the substance of the contract over its legal form. This includes judgement around whether, on balance, substantially all the significant risks and rewards of ownership of leased assets reside with the group or another entity in order to determine whether those assets meet the recognition criteria specified in the group's accounting policy for finance leases.

Accounting for property, plant and equipment and finite-lived intangible assets

On initial recognition of items of property, plant and equipment and finite-lived intangible assets, judgements must be made about whether costs incurred relate to bringing an asset to working condition for its intended use, and therefore are appropriate for capitalisation as part of the cost of the asset, or whether they should be expensed as incurred. Thereafter, judgement is required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

SOURCES OF ESTIMATION UNCERTAINTY

Accrual accounting

Management must make judgements when making estimates of accrued revenue and expenditure which relate to past transactions occurring within the current financial year but for which the actual revenue or expenditure incurred is not known at the time the financial statements are prepared. Management assesses the available information relating to the period, examines past trends and other external evidence to reach an estimate of the revenue or expenditure to accrue. Where the group's accounting policies require revenue to be accrued on a percentage of completion basis, management apply judgement to assess percentage of completion. At 30 June 2009, the carrying amount of revenue accruals is $105.6 million and the carrying amount of expenditure accruals is $91.7 million. Due to their nature, accruals are subject to continually changing assumptions and those assumptions are only valid for a short period of time. Hence it is impracticable to predict the carrying values over the next financial period as these values will change materially due to changes in business activities and seasonal fluctuations which impact both revenue and expenditure levels.

Provision for doubtful debts

The provision for doubtful debts takes into account known commercial factors impacting specific debtors, as well as the overall profile of the group's debtors portfolio. In assessing the provision, factors such as past collection history, the age of receivable balances, the level of activity in customer accounts, as well as general macro-economic trends (including any effects due to the recent economic downturn) are taken into account. At 30 June 2009, the carrying amount of the provision for doubtful debts for the group is $5.9 million. As the outcomes in the next financial period may be different to the assumptions made, it is impracticable to predict the impact but it could result in a material adjustment to the carrying amount.

Valuation of goodwill

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by cash generating units or groups of cash generating units to which goodwill has been allocated. Estimating future cash flows entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows. Note 19 of these financial statements provides more information surrounding the assumptions management have made in this area. At 30 June 2009, the carrying amount of goodwill is $1,553.4 million. As the outcomes in the next financial period may be different to the assumptions made, it is impracticable to predict the impact but it could result in a material adjustment to the carrying amount.

Accounting for property, plant and equipment and finite-lived intangible assets

The determination of the appropriate useful life for a particular asset requires management to make judgements about, among other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of the group ceasing to use the asset in its business operations.

Management reassesses the appropriateness of useful lives applied to property, plant and equipment at least annually and also considers whether any indicators of impairment have occurred which might require impairment testing.

Assessing whether individual assets or a grouping of related assets (which generate cash flows codependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows. At 30 June 2009, the carrying value of property, plant and equipment and finite-lived intangible assets is $3,507.3 million. As the outcomes in the next financial period may be different to the assumptions made, it is impracticable to predict the impact but it could result in a material adjustment to the carrying amount.

Provisions and contingencies

Preparation of the financial statements requires management to make estimates in order to provide for potential liabilities. This involves making judgements about the likelihood of an amount becoming payable, estimation of the quantum of the potential obligations based on available information and estimating when such obligations are likely to be settled. Where a variety of possible outcomes exist, management must apply judgement in assessing the probability that any given outcome may occur. At 30 June 2009, the carrying value of provisions and contingencies is $18.4 million. As new contingencies can arise unexpectedly or existing items be resolved at short notice, it is impracticable to predict how the carrying value may be impacted over the next financial period but changes could result in a material adjustment to the carrying amount.

Value of investments in associates

The carrying value of investments in associates comprises the initial purchase costs, equity income incurred subsequent to the acquisition date and any recognised accumulated impairment losses. Management look at many factors in assessing any potential impairment, such as the published quoted value of shares if available and projected cash flow forecasts. Estimating future cash flows entails considerable judgement (as described in 'Valuation of goodwill' above). Comparison to published share prices requires judgement as to whether the current share price will remain at similar levels for a prolonged period or whether recent events have led to a share price that is not fully representative of the fair value of the underlying investment. At 30 June 2009, the carrying amount of the value of investments in associates is $28.2 million. During the year the value of the investment in the associate NZ Windfarms Limited was written down by $6.5 million associated with a significant drop in the associate's quoted share price. If within the next financial period the recoverable amount of the impaired associate investment increases or decreases further then the carrying value of that investment could increase by up to $6.5 million or decrease further.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of operating surplus, balance sheet items and cash flows have been applied consistently to all periods presented in the financial statements and consistently by group entities.

A) BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled, directly or indirectly by Vector Limited. The financial statements of subsidiaries are included in the consolidated financial statements using the acquisition 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 in the income statement after adjusting for differences, if any, between the accounting policies of the group and the associates. The group's share of any other gains and losses of associates charged directly to equity is recognised as a component of total recognised revenues and expenses in the statement of changes in equity. Dividends received from associates are credited to the carrying amount of the investment in associates in the consolidated financial statements.

Joint ventures

Joint ventures are contractual arrangements with other parties which establish joint control for each of the parties over the related operations, assets or entity. The group is jointly and severally liable in respect of costs and liabilities, and shares in any resulting output. Where the joint venture is not itself a separate legal entity, the group's share of its assets, liabilities, revenues and expenses is incorporated in the separate financial statements of the company which directly participates as a venturer in the jointly-controlled assets or operations. No further consolidation adjustments are then required.

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 is jointly and severally liable in respect of costs and 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, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the group. All equity and debt raising costs incurred in relation to the acquisition of a subsidiary or a group of assets are accounted for in accordance with the accounting policy for financial instruments. Where an entity or a group of assets within an entity is held for sale, that entity or group of assets is recognised at the lower of their current carrying amount and fair value less costs to sell, and when subsequently disposed of, the gain or loss recognised in the income statement is calculated as the difference between the sale price less costs to sell and the carrying amount of the entity or group of assets and related goodwill.

Goodwill arising on acquisition

Goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

Transactions eliminated on consolidation

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

Intra-group advances to and from subsidiaries are recognised at amortised cost within current assets and current liabilities in the separate financial statements of the parent. Advances to subsidiaries from the parent are repayable on demand. All intra-group advances are eliminated on consolidation. Any interest income and interest expense incurred on these advances is eliminated in the income statement on consolidation.

B) DETERMINATION OF FAIR VALUES AS A RESULT OF A BUSINESS COMBINATION

A number of the group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is established for distribution systems on the basis of depreciated replacement cost and for other property, plant and equipment on the basis of market value.

Gas entitlements

The fair value of gas entitlements recognised as a result of a business combination is based on the amount that gas purchase contracts could be exchanged between knowledgeable, willing parties in an arms' length transaction measured by comparison of the purchase price in the contract against market purchase prices at the date of the business combination.

C) REVENUE

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and excise and customs import duties. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

When the group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the group.

Sale of services

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

Customer contributions

Third party contributions towards the construction of property, plant and equipment are recognised in the income statement to reflect the percentage completion of construction of those related items of property, plant and equipment. Contributions received in excess of those recognised in the income statement are recognised as deferred income in the balance sheet.

Dividend income

Dividend income is recognised in other income on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex–dividend date.

D) GOVERNMENT GRANTS

Government grants are recognised initially as deferred income when there are reasonable assurances that they will be received and that the group will comply with the conditions associated with the grant. Grants that compensate the group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the group for the cost of items of property, plant and equipment are recognised in the income statement on a systematic basis through a reduction in depreciation over the useful life of the items.

E) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested. Finance income is recognised as it accrues.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, net foreign currency gains and losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables) and net gains and losses on hedging instruments that are recognised in profit or loss. Borrowing costs other than those capitalised to qualifying property, plant and equipment are recognised in the income statement using the effective interest rate method.

F) INCOME TAX

Income tax expense comprises current and deferred tax.

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

Income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.) »»

F) INCOME TAX (CONT.)

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the group is able to control the timing of reversal of the temporary differences and they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance date.

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

G) FOREIGN CURRENCY TRANSLATION

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

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

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

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the balance date with the difference taken to the foreign currency translation reserve. The income and expenses of foreign operations are translated to New Zealand dollars either at exchange rates at the dates of the transactions or at a period average exchange rate which approximates to the actual exchange rates during that period.

H) EMPLOYEE BENEFITS

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

An accrual is recognised for accumulating benefits which remain unused at balance date.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

I) DISCONTINUED OPERATIONS

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. The criteria are met when the operation is available for immediate sale subject only to usual sale conditions for such operations and its sale is highly probable. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

J) EARNINGS PER SHARE

The group presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the operating surplus after tax attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares held by shareholders of the parent during the period.

K) SEGMENT REPORTING

An operating segment is a distinguishable component of the group whose operating results are regularly reviewed by the group's chief operating decision makers in order to assess performance and make decisions about resources to be allocated to the segment.

L) INVENTORIES

Inventories are assets held for sale in the ordinary course of business.

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

M) IDENTIFIABLE INTANGIBLE ASSETS

Goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) or groups of CGUs, being the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is tested at least annually for impairment against the recoverable amount of the CGUs or groups of CGUs to which goodwill has been allocated.

Gas entitlements

Gas entitlements acquired as a result of a business combination are initially recognised at fair value and are amortised to the income statement on the basis of consumption of the gas to which they relate.

Software

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

N) PROPERTY, PLANT AND EQUIPMENT

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

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

The initial cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, financing costs that are attributable to the project, costs of ultimately dismantling and removing the items and restoring the site on which they are located (where an obligation exists to do so) and an appropriate proportion of the other directly attributable overheads incurred in bringing the items to working condition for their intended use.

Financing costs that would have been avoided if the expenditure on qualifying assets had not been made are capitalised while the construction activities are in progress. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any costs of abnormal waste.

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

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

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

O) DEPRECIATION

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

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

	Estimated useful lives Years
Buildings	40 – 100
Distribution systems	10 – 100
Motor vehicles and mobile equipment	3 – 20
Computer and telecommunication equipment	3 – 40
Electricity and gas meters	5 – 30
Cogeneration assets (excluding gas turbines)	10 – 20
Other plant and equipment	5 – 20

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.) ›››

P) LEASED ASSETS

Finance leases

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

Operating leases

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

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.

Q) IMPAIRMENT

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

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

Impairment of receivables

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

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

Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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

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

R) PROVISIONS

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

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

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

Decommissioning of property, plant and equipment

A provision for decommissioning costs is recognised where on construction of certain items of property, plant and equipment, the group becomes committed to an unavoidable obligation to ultimately dismantle and remove those items and to restore the site on which they are located at the end of the items' productive life.

S) FINANCIAL INSTRUMENTS

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in finance costs in the income statement over the period of the borrowing using the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to qualifying property, plant and equipment under construction are capitalised as part of the cost of those assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of bank overdrafts.

Derivative financial instruments

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps, cross currency swaps and foreign exchange contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the designated hedge relationship. The group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transaction the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to both the effective and the ineffective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs. Changes in the fair value of the underlying hedged fixed rate borrowings attributable to interest rate risk are also recognised in the income statement within finance costs.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the income statement within finance costs.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.) »»

S) FINANCIAL INSTRUMENTS (CONT.)

Cash flow hedge (cont.)
Amounts accumulated in equity are recycled in finance costs in the income statement in the periods when the hedged item is recognised in profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs, when the underlying transaction affects earnings.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within finance costs.

Embedded derivatives
Derivatives embedded in other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

Financial assets
Investments are initially measured at fair value, net of transaction costs.

Financial assets consist of loans and receivables.

Loans and receivables
Trade receivables, loans, and other receivables are recorded at fair value which is amortised cost less impairment. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at balance date. A provision for doubtful debts is recognised to allow for the reduction in fair value attributable to expected doubtful or delayed collection of receivables.

Financial instruments issued by the company

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. If there is no contractual obligation to deliver cash or another financial asset, then the instrument is classified as equity. All other instruments are classified as liabilities.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Equity instruments repurchased and held as treasury shares
Any equity instruments issued by the company and subsequently repurchased are classified separately as treasury shares and are disclosed as a deduction within equity. The carrying value includes the consideration paid to repurchase the shares plus any related transaction costs.

Interest and dividends
Interest paid and dividends paid are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

T) FINANCIAL GUARANTEES

Financial guarantees are accounted for in accordance with NZ IFRS 4, *Insurance Contracts,* wherein a liability is recognised at the present value of expected future payments for claims incurred.

U) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Thereafter, the assets or disposal group are measured at the lower of their carrying amount and fair value less cost to sell. Any resulting impairment loss on the assets or disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale and subsequent losses on any remeasurement of the assets or disposal group to fair value less cost to sell are recognised in the income statement. Subsequent gains on any remeasurement of the assets or disposal group are only recognised in the income statement up to the value of any previous cumulative impairment losses incurred on the assets or disposal group.

V) 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 other investments not included in cash equivalents.

Financing activities are those activities that result in changes in the size and composition of the capital structure. Dividends paid in relation to the capital structure are included in financing activities.

Cash and cash equivalents are cash on hand and in current accounts in banks, net of bank overdrafts and highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change in value.

NEW STANDARDS EARLY-ADOPTED

NZ IFRS 7, *Financial Instruments: Disclosures – Amendments*

The group has chosen to early adopt the amendments to NZ IFRS 7, *Financial Instruments: Disclosures*. The amendments enhance disclosures over fair value measurements relating to financial instruments, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations. These amendments also improve disclosures over liquidity risk to address current diversity in practice in how such disclosure requirements are being interpreted and applied, proposing quantitative disclosures based on how liquidity risk is managed and strengthening the relationship.

NZ IFRS 8, *Operating Segments* and *Improvements to IFRSs (amendment to NZ IFRS 8)*

The group has chosen to early adopt NZ IFRS 8, *Operating Segments*. This requires identification of operating segments for which separate financial information is available and is evaluated regularly by the chief operating decision makers in assessing performance and allocating resources. Individual operating segments or groupings of operating segments are then applied as the basis of reporting segment information in these financial statements. This standard also requires additional disclosure requirements for the reporting of segment information.

The group has also chosen to early adopt the amendment to NZ IFRS 8 which was issued in *Improvements to IFRSs*. This requires that segment total assets need only be disclosed in the financial statements if such amounts are regularly reviewed by the chief operating decision makers.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following recently-published standards and interpretations which are considered relevant to the group but not yet effective for the year ended 30 June 2009, have not been applied in preparing these consolidated financial statements.

NZ IAS 1, *Presentation of Financial Statements (revised)*

The revised NZ IAS 1 supersedes the 2003 version as amended in 2005. The revised standard introduces the term 'total comprehensive income' which equates to changes in equity during a period, other than those resulting from transactions with owners in their capacity as owners, with a corresponding statement of comprehensive income. The revised standard requires all non-owner changes in equity to be presented in either one statement of comprehensive income, or an income statement and a statement of comprehensive income. The revised standard also prohibits presenting components of comprehensive income in the statement of changes in equity. The revised NZ IAS 1, which becomes mandatory for the financial statements for the year ended 30 June 2010, is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IFRS 4, *Insurance Contracts – Amendments*

The amendment to NZ IFRS 4 removes the partial exemption for qualifying entities. The scope of NZ IFRS 4 has also changed slightly from 'an entity which undertakes insurance or reinsurance activities' to 'an entity which issues insurance contracts'. These amendments to NZ IFRS 4, which become mandatory for the financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IAS 23, *Borrowing Costs (revised)*

NZ IAS 23 prescribes the accounting treatment for borrowing costs and removes the option to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard, which becomes mandatory for the financial statements for the year ended 30 June 2010, is not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IAS 32, *Financial Instruments: Presentation – Amendments (revised)*

The revised amendments to NZ IAS 32 require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments also revised the definitions of a financial asset and a financial liability and added the definition of a puttable instrument. These amendments to NZ IAS 32, which become mandatory for the financial statements for the year ended 30 June 2010, are not expected to have any impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IFRIC 18, *Transfers of Assets from Customers*

NZ IFRIC 18 provides guidance on the accounting for transfers of assets by a customer to a supplier who then provides subsequent ongoing services to that customer using either the contributed asset or assets constructed from contributed cash. NZ IFRIC 18, which becomes mandatory for the financial statements for the year ended 30 June 2010, is not expected to have any significant impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 August 2009.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

1. CONTINUING AND DISCONTINUED OPERATIONS

	GROUP 2009			GROUP 2008		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue	1,173,947	10,286	1,184,233	1,180,497	147,255	1,327,752
Other income	211	–	211	1,515	–	1,515
Total income	1,174,158	10,286	1,184,444	1,182,012	147,255	1,329,267
Operating expenditure	(591,980)	(3,574)	(595,554)	(634,090)	(55,166)	(689,256)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	582,178	6,712	588,890	547,922	92,089	640,011
Depreciation and amortisation	(145,362)	–	(145,362)	(140,361)	(14,541)	(154,902)
Operating surplus before interest and income tax	436,816	6,712	443,528	407,561	77,548	485,109
Finance income	16,144	–	16,144	3,668	–	3,668
Finance costs	(205,684)	(2,878)	(208,562)	(212,240)	(46,137)	(258,377)
Share of net surplus from associates	1,208	–	1,208	1,114	–	1,114
Impairment of investment in associate	(6,519)	–	(6,519)	–	–	–
Operating surplus/(deficit) before income tax	241,965	3,834	245,799	200,103	31,411	231,514
Income tax (expense)/benefit	(68,210)	(1,150)	(69,360)	(50,404)	(8,776)	(59,180)
Operating surplus/(deficit) after income tax and before gain on discontinued operations	173,755	2,684	176,439	149,699	22,635	172,334
Gain on sale of discontinued operations (net of tax of $nil)	–	202,902	202,902	–	–	–
Operating surplus/(deficit)	173,755	205,586	379,341	149,699	22,635	172,334
Represented by:						
Operating surplus attributable to minority interests	8,881	–	8,881	7,907	–	7,907
Operating surplus/(deficit) attributable to the shareholders	164,874	205,586	370,460	141,792	22,635	164,427

	PARENT 2009			PARENT 2008		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
	632,680	–	632,680	540,407	133,268	673,675
	184	–	184	614	–	614
	632,864	–	632,864	541,021	133,268	674,289
	(275,118)	–	(275,118)	(282,884)	(49,324)	(332,208)
	357,746	–	357,746	258,137	83,944	342,081
	(86,902)	–	(86,902)	(80,501)	(14,541)	(95,042)
	270,844	–	270,844	177,636	69,403	247,039
	17,090	–	17,090	8,480	–	8,480
	(207,060)	(2,878)	(209,938)	(211,746)	(46,137)	(257,883)
	–	–	–	–	–	–
	(6,519)	–	(6,519)	–	–	–
	74,355	(2,878)	71,477	(25,630)	23,266	(2,364)
	(18,959)	863	(18,096)	20,125	(6,443)	13,682
	55,396	(2,015)	53,381	(5,505)	16,823	11,318
	–	–	–	–	–	–
	55,396	(2,015)	53,381	(5,505)	16,823	11,318
	–	–	–	–	–	–
	55,396	(2,015)	53,381	(5,505)	16,823	11,318

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

2. SEGMENT INFORMATION

The group has adopted NZ IFRS 8: *Operating Segments* in advance of its effective date, with effect from 1 July 2006. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance. Vector's internal reporting to the Group CEO and Board is focused on the following business lines which are therefore the group's operating segments reported below in accordance with NZ IFRS 8:

Electricity
Ownership and management of electricity distribution networks.

Gas Transportation
Ownership and management of gas transmission and distribution networks.

Gas Wholesale
Natural gas acquisition, processing and retailing, LPG (distribution, storage and retailing) and cogeneration.

Technology
Telecommunications networks, electricity and gas metering.

Corporate activities comprising shared services and investments earn revenues that are only incidental to the operations of the group and do not meet the definition of an operating segment under NZ IFRS 8. The results attributable to these activities are presented under the reconciliations of segment information to the group's consolidated financial statements on page 22.

The above segments reported in these financial statements except for the absence of Corporate/Other as explained above are identical to those reported in Vector's Annual Report for the year ended 30 June 2008.

Intersegment transactions included in the operating revenues and expenditures for each segment are on an arms' length basis.

All segment information presented is prepared in accordance with Vector's accounting policies. Monthly internal reporting to the Group CEO and Board is also prepared on this basis. Segment profit reported to the Group CEO and the Board is operating surplus before interest and income tax and excludes impairment losses, finance income, finance costs, income tax and net surplus from associates.

The segment information also excludes discontinued operations relating to the sale of the Wellington electricity network which was completed on 24 July 2008. The portion of operating surplus attributable to those discontinued operations is $2.7 million (2008: $22.6 million) and is disclosed in note 1 of these financial statements.

The group engages with one major customer which contributes individually greater than ten percent of its total revenue. The customer contributed $142.2 million (2008: $162.1 million) which is reported in the Electricity and Gas Transportation segments.

GROUP 2009

	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	533,431	151,357	408,852	68,460	–	1,162,100
Other income	67	–	33	50	–	150
Intersegment revenue	94	38,677	4,398	2,526	(45,695)	–
Segment revenue	533,592	190,034	413,283	71,036	(45,695)	1,162,250
External operating expenditure:						
Electricity transmission expenses	(118,461)	–	–	–	–	(118,461)
Gas purchases and production costs	–	(6,017)	(256,414)	–	–	(262,431)
Network and asset maintenance expenses	(44,993)	(15,354)	(14,932)	(4,880)	–	(80,159)
Other expenses	(33,619)	(11,874)	(21,989)	(14,012)	–	(81,494)
Intersegment expenditure	(1,933)	(4,398)	(39,270)	(94)	45,695	–
	(199,006)	(37,643)	(332,605)	(18,986)	45,695	(542,545)
EBITDA	334,586	152,391	80,678	52,050	–	619,705
Depreciation and amortisation	(65,589)	(29,928)	(10,448)	(22,298)	–	(128,263)
Segment profit before interest and income tax	268,997	122,463	70,230	29,752	–	491,442
Segment capital expenditure	127,743	21,068	11,680	65,439	–	225,930

GROUP 2008

	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	490,260	143,974	475,565	65,494	–	1,175,293
Other income	–	–	73	795	–	868
Intersegment revenue	–	42,123	4,119	2,958	(49,200)	–
Segment revenue	490,260	186,097	479,757	69,247	(49,200)	1,176,161
External operating expenditure:						
Electricity transmission expenses	(104,764)	–	–	–	–	(104,764)
Gas purchases and production costs	–	(8,488)	(295,787)	–	–	(304,275)
Network and asset maintenance expenses	(47,255)	(13,643)	(16,489)	(4,719)	–	(82,106)
Other expenses	(25,929)	(12,693)	(18,987)	(21,487)	–	(79,096)
Intersegment expenditure	(1,381)	(4,119)	(43,700)	–	49,200	–
	(179,329)	(38,943)	(374,963)	(26,206)	49,200	(570,241)
EBITDA	310,931	147,154	104,794	43,041	–	605,920
Depreciation and amortisation	(61,333)	(29,921)	(13,930)	(21,323)	–	(126,507)
Segment profit before interest and income tax	249,598	117,233	90,864	21,718	–	479,413
Segment capital expenditure	128,483	24,841	13,138	28,435	–	194,897

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

2. SEGMENT INFORMATION (CONT.)

Reconciliation of segment revenues, segment profit before interest and income tax and segment capital expenditure to total income, operating surplus before income tax and capital expenditure reported in the consolidated financial statements.

	GROUP 2009			GROUP 2008		
	TOTAL INCOME $000	OPERATING SURPLUS BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000	TOTAL INCOME $000	OPERATING SURPLUS BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,162,250	491,442	225,930	1,176,161	479,413	194,897
Amounts not allocated to segments:						
Revenues from other utility-related activities	11,908	11,908	–	5,851	5,851	–
Operating expenditures attributable to corporate activities	–	(49,435)	–	–	(63,849)	–
Depreciation and amortisation of corporate assets	–	(17,099)	–	–	(13,854)	–
Finance income	–	16,144	–	–	3,668	–
Finance costs	–	(205,684)	–	–	(212,240)	–
Share of net surplus from associates	–	1,208	–	–	1,114	–
Impairment of investment in associate	–	(6,519)	–	–	–	–
Additions to corporate assets	–	–	12,790	–	–	9,068
Reported in consolidated financial statements	1,174,158	241,965	238,720	1,182,012	200,103	203,965

3. OPERATING REVENUE AND OTHER INCOME

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
Operating revenue					
Trading revenue:					
Energy sales		408,852	475,565	–	–
Provision of utility services		742,242	677,881	569,976	518,055
Customer contributions		22,853	27,051	19,310	22,352
Management fee income from related parties	30	–	–	43,394	–
		1,173,947	1,180,497	632,680	540,407
Other income					
Gain on disposal of property, plant and equipment and software intangibles		211	1,515	184	614
Total		1,174,158	1,182,012	632,864	541,021

4. OPERATING EXPENDITURE

	NOTE	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Operating expenditure includes:					
Bad debts written–off		258	137	212	22
Increase in provision for doubtful debts		448	1,788	1,287	675
Rental and operating lease costs		4,240	4,575	3,301	3,446
Other administration expenses		17,281	20,231	13,404	17,285
Loss on disposal of property, plant and equipment and software intangibles		12,212	8,585	8,895	5,492
Donations		30	–	30	–
Directors fees		900	886	818	810
Employee benefits		71,929	80,341	60,270	63,578
Contributions to KiwiSaver		478	309	428	299
Release of provision for contractual indemnity	24	(8,877)	–	–	–
Auditors remuneration:					
Audit fees paid to auditors – KPMG		816	816	707	731
Fees paid for other assurance services provided – KPMG		422	295	422	295

Fees for other assurance services paid to auditors primarily relate to the special purpose audits of regulatory disclosures such as the electricity threshold compliance statements and fees for completion statements for the sale of the Wellington electricity network.

5. DEPRECIATION AND AMORTISATION

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Depreciation of property, plant and equipment				
Distribution systems	94,688	89,357	70,530	66,516
Distribution buildings	1,258	1,238	1,258	1,165
Electricity and gas meters	16,950	15,837	–	2
Cogeneration plant	1,624	1,522	–	–
Computer and telecommunications equipment	7,575	5,817	2,230	2,074
Motor vehicles and mobile equipment	1,181	1,437	120	126
Other plant and equipment	3,538	4,595	246	219
Buildings	219	262	20	29
Leasehold improvements	1,643	371	1,597	321
	128,676	120,436	76,001	70,452
Amortisation of intangible assets				
Gas entitlement intangible assets	–	2,639	–	–
Software intangibles	16,686	17,286	10,901	10,049
	16,686	19,925	10,901	10,049
Total	145,362	140,361	86,902	80,501

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

6. NET FINANCE COSTS

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Finance costs				
Interest expense	207,618	215,426	206,562	213,770
Loss/(profit) on ineffective portion of cash flow hedges	13	(47)	13	(47)
Profit on fair value movement on hedging instruments	(88,949)	(118,162)	(88,949)	(118,162)
Loss on fair value movement on hedged items	89,286	117,756	89,286	117,756
Loss on financial instruments at fair value through profit or loss	1,004	1,752	1,004	1,752
Capitalised interest	(6,025)	(6,532)	(3,635)	(5,190)
Other net finance expenses/gains	2,737	2,047	2,779	1,867
	205,684	212,240	207,060	211,746
Finance income				
Interest income	(16,144)	(3,668)	(17,090)	(8,480)
	(16,144)	(3,668)	(17,090)	(8,480)
Net finance costs	189,540	208,572	189,970	203,266

Interest is capitalised on property, plant and equipment while under construction at a rate of largely 8% per annum (2008: 8%).

The loss on financial instruments at fair value through profit or loss mostly relates to interest rate caps. These have not been designated as a hedging instrument in any hedge relationship.

7. INCOME TAX EXPENSE

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Current income tax				
Current income tax expense/(benefit)	60,622	46,512	13,518	(27,820)
Prior period adjustments recognised in the current period	3,934	(6,980)	(422)	(6,163)
Deferred income tax				
Relating to property, plant and equipment	3,584	9,784	5,682	11,860
Relating to other balance sheet items	3,218	494	(116)	(1,157)
Reduction in tax rate	–	(4,856)	–	(1,661)
Prior period adjustments recognised in the current period	(3,148)	5,450	297	4,816
Income tax expense/(benefit)	68,210	50,404	18,959	(20,125)
Reconciliation of income tax expense				
Operating surplus/(deficit) before income tax	241,965	200,103	74,355	(25,630)
Tax at current rate of 30% (2008: 33%)	72,590	66,034	22,307	(8,458)
Reduction in tax rate impacting deferred tax	–	(4,856)	–	(1,661)
Non-taxable items:				
Customer contributions	(6,856)	(8,927)	(5,793)	(7,376)
Impairment of investment in associate	1,956	–	1,956	–
Other	520	(1,847)	489	(2,630)
Income tax expense/(benefit)	68,210	50,404	18,959	(20,125)

8. INCOME TAX

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Current tax asset				
Prepaid tax	43,606	44,694	43,606	44,303
Total	43,606	44,694	43,606	44,303
Current tax liability				
Income tax payable	2,370	–	–	–
Total	2,370	–	–	–
Imputation balances				
Balance at beginning of the period	(27,726)	(27,520)	–	–
Income tax payments during the period	59,444	63,223	–	–
Imputation credits attaching to dividends paid	(56,662)	(63,429)	–	–
Balance at end of the period	(24,944)	(27,726)	–	–
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	(26,519)	(29,042)	–	–
Through indirect shareholding in subsidiaries	1,575	1,316	–	–
Total	(24,944)	(27,726)	–	–

Vector Limited is a member of the Vector group consolidated imputation credit account. Therefore its balance is reported within the group imputation credit account.

9. DEFERRED TAX ASSET

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Balance at beginning of the period	1,137	1,137	–	–
Balance at end of the period	1,137	1,137	–	–

The future income tax benefit of these tax losses are only available to Vector Communications and Vector Stream, subsidiaries of the parent and therefore are recognised in the balance sheet as deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

10. DEFERRED TAX LIABILITY

	GROUP 2009					
	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at beginning of the period	538,320	(5,520)	(266)	–	2,186	534,720
Transfer to current tax	–	–	266	–	588	854
Amounts recognised in the income statement:						
Relating to current period	3,584	4,441	(1,063)	–	(160)	6,802
Prior period adjustment recognised in the current period	(2,824)	(324)	–	–	–	(3,148)
Amounts recognised directly in equity	–	–	–	(33,433)	–	(33,433)
Balance at end of the period	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795
Deferred tax assets	–	(1,403)	(1,063)	(33,433)	–	(35,899)
Deferred tax liabilities	539,080	–	–	–	2,614	541,694
Net deferred tax liability	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795

	GROUP 2008				
	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	TAX LOSSES $000	OTHER $000	TOTAL $000
Balance at beginning of the period	596,417	(20,031)	(793)	4,885	580,478
Transfer to current tax	–	–	793	–	793
Transferred to operations held for sale	(57,172)	(251)	–	–	(57,423)
Amounts recognised in the income statement:					
Relating to current period	9,784	760	(266)	(4,856)	5,422
Prior period adjustment recognised in the current period	(10,709)	14,002	–	2,157	5,450
Balance at end of the period	538,320	(5,520)	(266)	2,186	534,720
Deferred tax assets	–	(5,520)	(266)	–	(5,786)
Deferred tax liabilities	538,320	–	–	2,186	540,506
Net deferred tax liability	538,320	(5,520)	(266)	2,186	534,720

PARENT 2009

	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at beginning of the period	404,511	(4,320)	–	1,395	401,586
Amounts recognised in the income statement:					
Relating to current period	5,682	(35)	–	(81)	5,566
Prior period adjustment recognised in the current period	(336)	633	–	–	297
Amounts recognised directly in equity	–	–	(33,433)	–	(33,433)
Balance at end of the period	409,857	(3,722)	(33,433)	1,314	374,016
Deferred tax assets	–	(3,722)	(33,433)	–	(37,155)
Deferred tax liabilities	409,857	–	–	1,314	411,171
Net deferred tax liability	409,857	(3,722)	(33,433)	1,314	374,016

PARENT 2008

	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	OTHER $000	TOTAL $000
Balance at beginning of the period	447,587	(5,634)	4,573	446,526
Transferred to operations held for sale	(58,879)	81	–	(58,798)
Amounts recognised in the income statement:				
Relating to current period	11,860	(1,157)	(1,661)	9,042
Prior period adjustment recognised in the current period	3,943	2,390	(1,517)	4,816
Balance at end of the period	404,511	(4,320)	1,395	401,586
Deferred tax assets	–	(4,320)	–	(4,320)
Deferred tax liabilities	404,511	–	1,395	405,906
Net deferred tax liability	404,511	(4,320)	1,395	401,586

There are no unrecognised deferred tax assets or liabilities for the parent or the group.

Tax losses which are available to be utilised by the group are disclosed as deferred tax assets and are offset against deferred tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

11. EQUITY

GROUP 2009

	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	MINORITY INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	(1,769)	129	1,015,513	12,472	1,901,324
Operating surplus for the period	–	–	–	–	370,460	8,881	379,341
Change in fair value of cash flow hedges (net of tax)	–	–	(76,242)	–	–	–	(76,242)
Treasury shares purchased	–	(8,934)	–	–	–	–	(8,934)
Transfer to foreign currency translation reserve	–	–	–	81	–	–	81
Dividends	–	–	–	–	(132,205)	(4,472)	(136,677)
Balance at end of the period	874,979	(8,934)	(78,011)	210	1,253,768	16,881	2,058,893

GROUP 2008

	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	MINORITY INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	68,644	–	981,086	11,422	1,936,131
Operating surplus for the period	–	–	–	–	164,427	7,907	172,334
Change in fair value of cash flow hedges (net of tax)	–	–	(70,413)	–	–	–	(70,413)
Transfer to foreign currency translation reserve	–	–	–	129	–	–	129
Dividends	–	–	–	–	(130,000)	(6,857)	(136,857)
Balance at end of the period	874,979	–	(1,769)	129	1,015,513	12,472	1,901,324

PARENT 2009

	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	(1,769)	806,333	1,679,543
Operating surplus for the period	–	–	–	53,381	53,381
Change in fair value of cash flow hedges (net of tax)	–	–	(76,242)	–	(76,242)
Treasury shares purchased	–	(8,934)	–	–	(8,934)
Dividends	–	–	–	(132,205)	(132,205)
Balance at end of the period	874,979	(8,934)	(78,011)	727,509	1,515,543

	PARENT 2008				
	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period	874,979	–	68,644	925,015	1,868,638
Operating surplus for the period	–	–	–	11,318	11,318
Change in fair value of cash flow hedges (net of tax)	–	–	(70,413)	–	(70,413)
Dividends	–	–	–	(130,000)	(130,000)
Balance at end of the period	874,979	–	(1,769)	806,333	1,679,543

Vector Limited's final dividend for the year ended 30 June 2008 of 6.75 cents per share was paid on 18 September 2008 with a supplementary dividend of $0.6 million (equating to 1.04 cents per non-resident share). The interim dividend for the current year of 6.5 cents per share was paid on 14 April 2009 with a supplementary dividend of $0.4 million (equating to 1.15 cents per non-resident share). Both dividends gave rise to foreign investor tax credits equal to the amount of supplementary dividend paid. During the year ended 30 June 2008, $0.2 million of refunds of overpaid supplementary dividends were received and the foreign investor tax credits were reduced by the same amount.

The board authorised an on-market buy back of Vector Limited's shares in August 2008. The maximum number of shares to be acquired is 25,000,000 and purchases have occurred from 1 September 2008 and can continue up until 27 August 2009. At balance date 4,244,923 shares had been purchased and are held as treasury shares.

The total number of authorised and issued shares is 1,000,000,000 (2008: 1,000,000,000). All issued shares are fully paid and have no par value. All ordinary shares carry equal voting rights and equal rights to a surplus on winding up of the parent.

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The foreign currency translation reserve arises on the translation of Vector Limited's subsidiary, Elect Data Services (Australia) Pty Limited, to NZ dollars which is the presentation currency for these consolidated financial statements.

12. FINANCIAL RATIOS

Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2009 is based on the operating surplus attributable to ordinary shareholders of the parent of $370.5 million (2008: $164.4 million), $205.6 million of which relates to discontinued operations (2008: $22.6 million), and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 997,221,099 (2008: 1,000,000,000). Diluted earnings per share is calculated on the same basis as basic earnings per share. The group currently has no financial instruments which have potential dilutionary effects on earnings per share.

Total and net tangible assets per share

The calculations of the total and net tangible assets per share for the year ended 30 June 2009 are based on the carrying amounts of the total assets of $5,538.6 million (2008: $5,979.4 million) and net assets of $2,058.9 million (2008: $1,901.3 million) less total intangible assets of $1,588.6 million (2008: $1,593.6 million) and 995,755,077 ordinary shares outstanding as at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

13. RECEIVABLES AND PREPAYMENTS

		GROUP		PARENT	
	NOTE	2009 $000	2008 $000	2009 $000	2008 $000
Current					
Trade receivables		170,229	157,508	86,383	75,440
Provision for doubtful debts		(5,896)	(5,448)	(2,976)	(1,689)
		164,333	152,060	83,407	73,751
Prepayments		6,463	13,147	3,940	11,880
Interest receivable		19,797	15,927	19,797	15,927
Other receivables		40	40	40	40
Total		190,633	181,174	107,184	101,598
Non-current					
Trade receivables		–	15	–	15
Loan to associate	30	4,450	–	4,450	–
Other receivables		1,440	1,454	1,440	1,454
Total		5,890	1,469	5,890	1,469

As at 30 June 2008, prepayments included $0.4 million paid to the group's auditors, KPMG, in respect of the sale of the Wellington electricity network.

14. DISCONTINUED OPERATIONS

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Current assets				
Receivables and prepayments	–	12,943	–	–
Intangible assets	–	114,773	–	–
Property, plant and equipment	–	507,232	–	–
	–	634,948	–	–
Current liabilities				
Income tax	–	1,800	–	–
Payables and accruals	–	9,620	–	–
Provisions	–	88	–	–
Deferred tax	–	57,423	–	–
	–	68,931	–	–
Net assets of operations held for sale	–	566,017	–	–
Cash flows from discontinued operations				
Net cash flows from operating activities	4,246	42,315	–	38,495
Net cash flows used in investing activities	(1,849)	(32,510)	–	(31,376)
Net cash flows from financing activities	9,653	(9,805)	–	(7,119)
Net cash inflow	12,050	–	–	–

Disposal of subsidiaries

On 24 July 2008, Vector disposed of 100% of shares in its subsidiaries Vector Wellington Electricity Networks Limited and Vector Wellington Electricity Management Limited to Cheung Kong Infrastructure Holdings Limited. Details of the disposal are as follows:

	GROUP 2009 $000
Book value of net assets sold:	
Current assets	
Cash and cash equivalents	12,050
Receivables and prepayments	14,027
Non-current assets	
Property, plant and equipment	507,669
Intangible assets	114,743
Current liabilities	
Payables and accruals	(14,281)
Provisions	(104)
Income tax	(1,441)
Non-current liabilities	
Deferred tax	(57,423)
Net assets disposed	575,240
Costs of disposal	8,158
Gain on disposal of discontinued operations	202,902
Total consideration received or accrued	786,300
Accrual for consideration receivable pending final completion	(1,300)
Consideration received in cash and cash equivalents	785,000

Consideration received in cash and cash equivalents	785,000
Less: cash and cash equivalent balances disposed	(12,050)
Net cash and cash equivalents on disposal	772,950

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

15. INVENTORIES

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Natural gas and by-products	1,552	1,516	–	–
Trading stock	598	5,846	–	–
Consumable spares	58	14	58	14
Total	2,208	7,376	58	14

16. INVESTMENTS

Investments in group companies comprise:

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2009	2008
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 bulk sales	60%	60%
– On Gas Limited	LPG sales and distribution	100%	100%
– NGC Metering Limited	Electricity and gas metering	100%	100%
– Vector Metering Data Services Limited	Investment and metering data services	100%	100%
– Elect Data Services (Australia) Pty Limited	Energy metering data management	100%	100%
– Vector Wellington Electricity Networks Limited	Electricity distribution	–	100%
– Vector Wellington Electricity Management Limited	Management services	–	100%
Vector Communications Limited	Telecommunications	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 ended 30 June 2008, Vector Metering Data Services (Australia) Limited changed its name to Vector Wellington Electricity Networks Limited.

	PRINCIPAL ACTIVITY	PERCENTAGE HELD 2009	2008
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%	100%
– Poihipi Land Limited (in receivership)	Investment	100%	100%
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%
Broadband Services Limited	Dormant	100%	100%
UnitedNetworks Employee Share Schemes Trustee Limited	Trustee company	100%	100%
NGC Limited	Dormant	100%	100%
Associates			
Tree Scape 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%	20%
Advanced Metering Services Limited	Metering services	50%	50%
Joint venture interests			
Kapuni Energy Joint Venture	Cogeneration	50%	50%

In December 2007, Vector Limited acquired a 50% stake in Advanced Metering Services Limited for $4.1 million, including $0.6 million of fees paid to professional advisors.

All entities have a balance date of 30 June, apart from Tree Scape Limited, Treescape Australasia Pty Limited, Salamanca Holdings Limited, Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which all have a balance date of 31 March and Advanced Metering Services Limited which has a balance date of 30 September.

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

During the period, an impairment loss of $6.5 million has been recognised in respect of the group’s investment in its associate company, NZ Windfarms Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

17. INVESTMENT IN ASSOCIATES

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Carrying amount of associates				
Balance at beginning of the period	33,504	28,259	24,030	19,899
Purchase of investment in NZ Windfarms Limited	–	27	–	27
Purchase of investment in Advanced Metering Services Limited	–	4,104	–	4,104
Impairment of investment in NZ Windfarms Limited	(6,519)	–	(6,519)	–
Equity accounted earnings of associates	1,208	1,114	–	–
Balance at end of the period	28,193	33,504	17,511	24,030
Equity accounted earnings of associates				
Operating surplus before income tax	1,757	1,719	–	–
Income tax expense	(549)	(605)	–	–
Net surplus	1,208	1,114	–	–
Total recognised revenues and expenses	1,208	1,114	–	–

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2008: $15.8 million).

As at 31 December 2008, an impairment loss of $6.5 million was recognised in respect of the group's investment in its associate company, NZ Windfarms Limited. The share price of NZ Windfarms Limited had declined from Vector Limited's purchase price of $1.10 on 30 May 2007 to $0.70 per share as at 31 December 2008. The board of directors considered this as an indicator of potential impairment of the investment. The recoverable amount was determined at that time at the investment's fair value less costs to sell by reference to the active market price on the New Zealand Stock Exchange. Costs to sell were estimated to be negligible.

As at 30 June 2009, the current share price supports the carrying value of the group's investment in NZ Windfarms.

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Summarised financial information of associates (100%)				
Total assets	144,829	122,113	–	–
Total liabilities	41,164	21,711	–	–
Total revenue	56,358	45,037	–	–
Total operating surplus after tax	3,263	3,151	–	–

18. INTEREST IN JOINT VENTURES

Kapuni Energy Joint Venture

The group has a 50% interest in an unincorporated joint venture that operates a cogeneration plant situated at the Kapuni gas treatment plant producing electricity and steam for the gas treatment plant and other customers. The group's 50% interest in the joint venture is included in the consolidated financial statements under the classifications shown below.

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Share of net assets employed in the joint venture				
Property, plant and equipment	3,717	5,157	–	–
Current assets	4,438	1,734	–	–
Current liabilities	(2,124)	(1,132)	–	–
Total	6,031	5,759	–	–
Share of net contribution to operating surplus before income tax				
Revenue	12,873	11,253	–	–
Expenditure	(11,495)	(8,275)	–	–
Total	1,378	2,978	–	–

19. INTANGIBLE ASSETS

		GROUP 2009		
	NOTE	GOODWILL $000	SOFTWARE $000	TOTAL $000
Cost				
Balance at beginning of the period		1,553,391	101,741	1,655,132
Additions		–	11,724	11,724
Disposals		–	(2,804)	(2,804)
Transfers from property, plant and equipment		–	5,302	5,302
Balance at end of the period		1,553,391	115,963	1,669,354
Accumulated amortisation				
Balance at beginning of the period		–	(61,566)	(61,566)
Amortisation for the period	5	–	(16,686)	(16,686)
Disposals		–	2,804	2,804
Transfers from property, plant and equipment		–	(5,302)	(5,302)
Balance at end of the period		–	(80,750)	(80,750)
Carrying amount at 30 June 2009		1,553,391	35,213	1,588,604

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

19. INTANGIBLE ASSETS (CONT.) »»

GROUP 2008

	NOTE	GOODWILL $000	SOFTWARE $000	GAS ENTITLE-MENTS $000	TOTAL $000
Cost					
Balance at beginning of the period		1,668,134	90,830	18,000	1,776,964
Additions		–	16,158	–	16,158
Disposals		–	(5,014)	–	(5,014)
Transfers to operations held for sale		(114,743)	(233)	–	(114,976)
Balance at end of the period		1,553,391	101,741	18,000	1,673,132
Accumulated amortisation					
Balance at beginning of the period		–	(46,418)	(15,361)	(61,779)
Amortisation for the period	5	–	(17,286)	(2,639)	(19,925)
Disposals		–	1,935	–	1,935
Transfers to operations held for sale		–	203	–	203
Balance at end of the period		–	(61,566)	(18,000)	(79,566)
Carrying amount at 30 June 2008		1,553,391	40,175	–	1,593,566

PARENT 2009

	NOTE	GOODWILL $000	SOFTWARE $000	TOTAL $000
Cost				
Balance at beginning of the period		515,110	83,619	598,729
Additions		–	10,622	10,622
Disposals		–	(2,804)	(2,804)
Balance at end of the period		515,110	91,437	606,547
Accumulated amortisation				
Balance at beginning of the period		–	(53,101)	(53,101)
Amortisation for the period	5	–	(10,901)	(10,901)
Disposals		–	2,804	2,804
Balance at end of the period		–	(61,198)	(61,198)
Carrying amount at 30 June 2009		515,110	30,239	545,349

	NOTE	PARENT 2008 GOODWILL $000	SOFTWARE $000	TOTAL $000
Cost				
Balance at beginning of the period		629,853	69,559	699,412
Additions		–	15,827	15,827
Disposals		–	(1,534)	(1,534)
Transfers to operations held for sale		(114,743)	(233)	(114,976)
Balance at end of the period		515,110	83,619	598,729
Accumulated amortisation				
Balance at beginning of the period		–	(43,287)	(43,287)
Amortisation for the period	5	–	(10,049)	(10,049)
Disposals		–	32	32
Transfers to operations held for sale		–	203	203
Balance at end of the period		–	(53,101)	(53,101)
Carrying amount at 30 June 2008		515,110	30,518	545,628

Amortisation charge

Software intangibles are amortised on a straight line basis over their useful life. Gas entitlements are amortised as the entitlements to the gas volumes are exercised. Both have finite useful lives.

Allocation of goodwill to cash-generating units

Goodwill is allocated to groups of cash-generating units (CGUs), being the lowest level at which the goodwill is monitored for internal management purposes which is the same level at which the group's segment information is presented in note 2. The aggregate carrying amounts of goodwill allocated to each unit are $852.2 million for Electricity, $468.1 million for Gas Transportation, $218.3 million for Gas Wholesale, and $14.8 million for Technology.

Impairment testing

The recoverable amounts of the CGUs are calculated on the basis of value-in-use using discounted cash flow models. Future cash flows are projected out ten years, based on actual results and board-approved business plans with key assumptions determining future EBITDA and levels of maintenance expenditure for each CGU. Management believes that the ten year forecast period is justified due to the long-term nature of the electricity, gas and technology businesses. Terminal growth rates of 0.0% – 3.5% are applied. Pre-tax discount rates of between 9.3% and 18.9% are utilised. The specific rates applied vary for the specific CGUs being valued. Projected cash flows for regulated businesses are sensitive to assumptions made on future regulatory outcomes.

The recoverable amount of each group of CGUs to which goodwill is allocated exceeds the net assets plus goodwill allocated. Therefore the group has determined that no impairment to goodwill has occurred during the period.

Accordingly, there are no accumulated impairment losses at 30 June 2009 or 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

20. PROPERTY, PLANT AND EQUIPMENT

GROUP 2009

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COGENERATION PLANT $000
Cost					
Balance at beginning of the period	3,053,869	65,518	42,581	177,531	11,525
Additions	1,089	1,432	–	1,258	–
Transfers to:					
Software intangibles	–	–	–	–	–
Other classes	187,061	2,491	2,793	31,789	(413)
Disposals	(9,899)	–	–	(1,197)	–
Balance at end of the period	3,232,120	69,441	45,374	209,381	11,112
Accumulated depreciation					
Balance at beginning of the period	(220,435)	–	(2,585)	(33,217)	(7,227)
Depreciation	(94,688)	–	(1,258)	(16,950)	(1,624)
Transfers to:					
Software intangibles	–	–	–	–	–
Other classes	8,008	–	49	(8,615)	1,393
Disposals	937	–	–	721	–
Balance at end of the period	(306,178)	–	(3,794)	(58,061)	(7,458)
Carrying amount at 30 June 2009	2,925,942	69,441	41,580	151,320	3,654

GROUP 2008

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COGENERATION PLANT $000
Cost					
Balance at beginning of the period	3,391,992	76,656	46,110	168,353	11,292
Additions	1,338	–	–	12,236	233
Transfers to:					
Operations held for sale	(506,444)	(13,954)	(7,872)	–	–
Other classes	175,388	2,816	4,343	(135)	–
Disposals	(8,405)	–	–	(2,923)	–
Balance at end of the period	3,053,869	65,518	42,581	177,531	11,525
Accumulated depreciation					
Balance at beginning of the period	(153,980)	–	(1,995)	(18,152)	(5,705)
Depreciation	(103,670)	–	(1,466)	(15,837)	(1,522)
Transfers to:					
Operations held for sale	35,901	–	756	–	–
Other classes	–	–	120	–	–
Disposals	1,314	–	–	772	–
Balance at end of the period	(220,435)	–	(2,585)	(33,217)	(7,227)
Carrying amount at 30 June 2008	2,833,434	65,518	39,996	144,314	4,298

	COMPUTER AND TELECO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
	73,084	6,286	93,395	18,218	7,681	10,165	142,314	3,702,167
	572	932	14,473	12	–	–	207,228	226,996
	(5,302)	–	–	–	–	–	–	(5,302)
	36,309	438	(8,145)	524	974	(237)	(253,584)	–
	(4,897)	(194)	(464)	–	(40)	(3)	(2,731)	(19,425)
	99,766	7,462	99,259	18,754	8,615	9,925	93,227	3,904,436
	(29,906)	(2,055)	(15,583)	–	(1,377)	(3,466)	–	(315,851)
	(7,575)	(1,181)	(3,538)	–	(219)	(1,643)	–	(128,676)
	5,302	–	–	–	–	–	–	5,302
	(4,351)	(31)	4,841	–	(143)	(1,151)	–	–
	4,894	30	243	–	40	2	–	6,867
	(31,636)	(3,237)	(14,037)	–	(1,699)	(6,258)	–	(432,358)
	68,130	4,225	85,222	18,754	6,916	3,667	93,227	3,472,078

	COMPUTER AND TELECO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
	72,608	5,170	82,147	15,394	6,939	11,393	159,927	4,047,981
	95	1,240	7,883	2,118	43	4	188,825	214,015
	–	–	(550)	(386)	–	(21)	(14,712)	(543,939)
	2,326	30	4,872	1,092	699	295	(191,726)	–
	(1,945)	(154)	(957)	–	–	(1,506)	–	(15,890)
	73,084	6,286	93,395	18,218	7,681	10,165	142,314	3,702,167
	(25,314)	(677)	(11,462)	–	(995)	(3,574)	–	(221,854)
	(5,817)	(1,437)	(4,595)	–	(262)	(371)	–	(134,977)
	–	–	40	–	–	10	–	36,707
	–	–	–	–	(120)	–	–	–
	1,225	59	434	–	–	469	–	4,273
	(29,906)	(2,055)	(15,583)	–	(1,377)	(3,466)	–	(315,851)
	43,178	4,231	77,812	18,218	6,304	6,699	142,314	3,386,316

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

20. PROPERTY, PLANT AND EQUIPMENT (CONT.) »»

PARENT 2009

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	COMPUTER AND TELECO EQUIPMENT $000
Cost				
Balance at beginning of the period	2,390,985	65,514	42,581	14,586
Additions	–	1,432	–	–
Transfers to:				
Other classes	167,332	2,448	2,777	1,611
Disposals	(9,576)	–	–	(3,563)
Balance at end of the period	2,548,741	69,394	45,358	12,634
Accumulated depreciation				
Balance at beginning of the period	(146,877)	–	(2,535)	(9,648)
Depreciation	(70,530)	–	(1,258)	(2,230)
Disposals	618	–	–	3,560
Balance at end of the period	(216,789)	–	(3,793)	(8,318)
Carrying amount at 30 June 2009	2,331,952	69,394	41,565	4,316

PARENT 2008

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COMPUTER AND TELECO EQUIPMENT $000
Cost					
Balance at beginning of the period	2,739,286	76,656	46,110	118	22,682
Additions	–	–	–	–	20
Transfers to:					
Operations held for sale	(506,444)	(13,954)	(7,872)	–	–
Other classes	166,000	2,812	4,343	(118)	(8,080)
Disposals	(7,857)	–	–	–	(36)
Balance at end of the period	2,390,985	65,514	42,581	–	14,586
Accumulated depreciation					
Balance at beginning of the period	(103,702)	–	(1,995)	(20)	(7,589)
Depreciation	(80,806)	–	(1,416)	(2)	(2,074)
Transfers to:					
Operations held for sale	35,901	–	756	–	–
Other classes	–	–	120	22	–
Disposals	1,730	–	–	–	15
Balance at end of the period	(146,877)	–	(2,535)	–	(9,648)
Carrying amount at 30 June 2008	2,244,108	65,514	40,046	–	4,938

MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
1,004	9,110	12,387	1,385	7,925	102,037	2,647,514
60	1,979	–	–	–	135,674	139,145
–	1,068	522	2	315	(176,075)	–
(170)	–	–	(40)	–	–	(13,349)
894	12,157	12,909	1,347	8,240	61,636	2,773,310
(328)	(2,196)	–	(591)	(3,171)	–	(165,346)
(120)	(246)	–	(20)	(1,597)	–	(76,001)
30	–	–	40	–	–	4,248
(418)	(2,442)	–	(571)	(4,768)	–	(237,099)
476	9,715	12,909	776	3,472	61,636	2,536,211

MOTOR VEHICLES AND MOBILE EQUIPMENT $000	OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
503	9,898	11,681	686	7,700	125,491	3,040,811
501	–	–	–	–	159,401	159,922
–	(550)	(386)	–	(21)	(14,712)	(543,939)
–	719	1,092	699	676	(168,143)	–
–	(957)	–	–	(430)	–	(9,280)
1,004	9,110	12,387	1,385	7,925	102,037	2,647,514
(202)	(2,006)	–	(442)	(2,885)	–	(118,841)
(126)	(219)	–	(29)	(321)	–	(84,993)
–	40	–	–	10	–	36,707
–	(22)	–	(120)	–	–	–
–	11	–	–	25	–	1,781
(328)	(2,196)	–	(591)	(3,171)	–	(165,346)
676	6,914	12,387	794	4,754	102,037	2,482,168

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

20. PROPERTY, PLANT AND EQUIPMENT (CONT.) »»

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 of the parent were revalued to fair value in March 2006 to a total of $2,772.8 million in accordance with the group's accounting policies at that time, before transition to NZ IFRS. These fair values plus subsequent additions and disposals up to 30 June 2006 have been deemed the historic cost of those assets on transition to NZ IFRS on 1 July 2006. At that date, the total deemed cost for distribution systems, distribution land and distribution buildings was $3,262.3 million, $76.3 million and $42.3 million respectively. There were no changes to the total carrying amounts of those classes of property, plant and equipment from that reported under previous NZ GAAP on adoption of these deemed costs.

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment at a capitalisation rate of largely 8% per annum. During the year $17.9 million (2008: $18.3 million) of interest and other costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity and gas meters, motor vehicles and mobile equipment and other plant and equipment at net book values of $5.2 million, $2.4 million and $1.5 million (2008: $5.4 million, $2.4 million and $1.6 million) respectively.

Property, plant and equipment includes $5.2 million (2008: $5.4 million) of electricity meters which have been pledged as security for a sale and leaseback loan funding Stream Information Partnership, a subsidiary of Vector Limited and $2.4 million (2008: $2.4 million) of motor vehicles and mobile equipment for which ownership passes to the lessor in the event of default on the finance lease arrangement.

21. PAYABLES AND ACCRUALS

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Current				
Trade payables and other creditors	125,967	129,005	68,943	72,249
Finance leases	2,356	2,349	125	115
Deferred consideration payable	1,026	1,006	–	–
Interest payable	50,538	53,838	50,538	53,838
Total	179,887	186,198	119,606	126,202
Non-current				
Trade payables and other creditors	20,422	16,123	–	–
Deferred consideration payable	2,393	3,052	–	–
Finance leases	3,695	4,901	352	544
Other non-current payables	627	715	591	632
Total	27,137	24,791	943	1,176

The deferred consideration payable is in respect of Energy Intellect Limited, which is an associate company of the group.

22. PROVISIONS

	NOTE	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Current					
Provision for employee entitlements	23	5,825	5,545	5,439	5,262
Other provisions	24	11,559	24,915	–	–
Total		17,384	30,460	5,439	5,262
Non-current					
Decommissioning provision	25	1,000	–	–	–
Total		1,000	–	–	–

The decommissioning provision is in respect of future expected costs for dismantling the group's gas treatment plant situated at Kapuni, Taranaki.

23. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Balance at beginning of the period	5,545	7,186	5,262	6,048
Additions/(utilised)	280	(1,641)	177	(786)
Balance at end of the period	5,825	5,545	5,439	5,262

24. OTHER PROVISIONS

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Balance at beginning of the period	24,915	17,570	–	231
Additions	2,665	7,938	–	–
Utilised	(4,058)	(24)	–	–
Reversed to the income statement	(11,963)	(569)	–	(231)
Balance at end of the period	11,559	24,915	–	–

These provisions may be required to be utilised within one year or a longer period dependent on ongoing negotiations with the third parties involved. There are currently no foreseeable uncertainties which would be reasonably expected to lead to material changes in the amounts provided.

The group's provision for a contractual indemnity amounting to $8.9 million was reversed to the income statement during the year ended 30 June 2009.

25. DECOMMISSIONING PROVISION

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Balance at beginning of the period	–	–	–	–
Additions	1,000	–	–	–
Balance at end of the period	1,000	–	–	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

26. COMMITMENTS

Capital commitments for the acquisition and construction of property, plant and equipment and software intangibles

Capital expenditure contracted for at balance date but not yet incurred is as follows:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Estimated capital expenditure contracted for at balance date but not provided	34,531	53,295	26,238	37,286

Operating lease commitments

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

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Within one year	4,436	3,541	2,540	2,833
One to five years	5,322	7,072	2,312	5,166
Beyond five years	621	530	120	8
Total	10,379	11,143	4,972	8,007

Finance lease commitments

Finance leases relate to electricity meters and motor vehicles and other plant and equipment with varying lease terms. The following finance lease commitments are recorded in the financial statements:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Minimum lease payments for finance lease liabilities				
Within one year	2,794	2,916	168	181
One to five years	4,009	5,338	380	629
Total	6,803	8,254	548	810
Less: future finance charges	(752)	(1,004)	(71)	(151)
Present value of minimum lease payments	6,051	7,250	477	659
Present value of finance lease liabilities				
Within one year	2,356	2,349	125	115
One to five years	3,695	4,901	352	544
Present value of minimum lease payments	6,051	7,250	477	659

27. BORROWINGS

GROUP 2009

	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUST-MENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	–	–	–	–	–	(383)	–	(383)
Working capital loan	–	–	–	–	–	(361)	–	(361)
Medium term notes – AUD floating rate	–	250,000	–	–	250,000	(922)	4,433	253,511
Capital bonds – fixed rate	–	–	307,205	–	307,205	(1,898)	–	305,307
Senior bonds – fixed rate	–	–	–	150,000	150,000	(3,022)	(2,400)	144,578
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,346)	47,580	464,549
Floating rate notes	–	–	–	1,200,000	1,200,000	(16,207)	–	1,183,793
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,393)	7,566	288,787
Other	575	–	–	–	575	–	–	575
Total	575	250,000	330,022	2,031,112	2,611,709	(28,532)	57,179	2,640,356
Current borrowings	575	–	–	–	575	–	–	575
Non-current borrowings	–	250,000	330,022	2,031,112	2,611,134	(28,532)	57,179	2,639,781
Total	575	250,000	330,022	2,031,112	2,611,709	(28,532)	57,179	2,640,356

GROUP 2008

	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUST-MENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	510,000	–	–	–	510,000	(127)	–	509,873
Working capital loan	50,000	–	–	–	50,000	(9)	–	49,991
Medium term notes – AUD floating rate	–	–	250,000	–	250,000	(1,493)	6,243	254,750
Capital bonds – fixed rate	–	–	307,205	–	307,205	(2,453)	–	304,752
Fixed interest rate bonds	200,000	–	–	–	200,000	(377)	(2,765)	196,858
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,460)	(50,861)	365,994
Floating rate notes	–	–	–	1,200,000	1,200,000	(18,791)	–	1,181,209
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,749)	15,276	296,141
Other	575	–	–	–	575	–	–	575
Total	760,575	–	580,022	1,881,112	3,221,709	(29,459)	(32,107)	3,160,143
Current borrowings	760,575	–	–	–	760,575	(513)	(2,765)	757,297
Non-current borrowings	–	–	580,022	1,881,112	2,461,134	(28,946)	(29,342)	2,402,846
Total	760,575	–	580,022	1,881,112	3,221,709	(29,459)	(32,107)	3,160,143

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

27. BORROWINGS (CONT.) »»

PARENT 2009

	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUST-MENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	–	–	–	–	–	(383)	–	(383)
Working capital loan	–	–	–	–	–	(361)	–	(361)
Medium term notes – AUD floating rate	–	250,000	–	–	250,000	(922)	4,433	253,511
Capital bonds – fixed rate	–	–	307,205	–	307,205	(1,898)	–	305,307
Senior bonds – fixed rate	–	–	–	150,000	150,000	(3,022)	(2,400)	144,578
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,346)	47,580	464,549
Floating rate notes	–	–	–	1,200,000	1,200,000	(16,207)	–	1,183,793
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,393)	7,566	288,787
Total	–	250,000	330,022	2,031,112	2,611,134	(28,532)	57,179	2,639,781
Current borrowings	–	–	–	–	–	–	–	–
Non-current borrowings	–	250,000	330,022	2,031,112	2,611,134	(28,532)	57,179	2,639,781
Total	–	250,000	330,022	2,031,112	2,611,134	(28,532)	57,179	2,639,781

PARENT 2008

	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	FACE VALUE $000	UN-AMORTISED COSTS $000	FAIR VALUE ADJUST-MENT ON HEDGED RISK $000	CARRYING VALUE $000
Bank loans	510,000	–	–	–	510,000	(127)	–	509,873
Working capital loan	50,000	–	–	–	50,000	(9)	–	49,991
Medium term notes – AUD floating rate	–	–	250,000	–	250,000	(1,493)	6,243	254,750
Capital bonds – fixed rate	–	–	307,205	–	307,205	(2,453)	–	304,752
Fixed interest rate bonds	200,000	–	–	–	200,000	(377)	(2,765)	196,858
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,460)	(50,861)	365,994
Floating rate notes	–	–	–	1,200,000	1,200,000	(18,791)	–	1,181,209
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,749)	15,276	296,141
Total	760,000	–	580,022	1,881,112	3,221,134	(29,459)	(32,107)	3,159,568
Current borrowings	760,000	–	–	–	760,000	(513)	(2,765)	756,722
Non-current borrowings	–	–	580,022	1,881,112	2,461,134	(28,946)	(29,342)	2,402,846
Total	760,000	–	580,022	1,881,112	3,221,134	(29,459)	(32,107)	3,159,568

All borrowings are unsecured and are 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. On 25 July 2008, the board authorised the reduction of the $700 million senior credit facility by $500 million effective 4 August 2008. The remaining facility was cancelled on 2 September 2008.

A total of $560 million of bank loans and working capital loans were repaid during the period.

On 26 August 2008, the board authorised a new senior credit facility of $125 million and on 12 December 2008 authorised the raising of a new working capital facility of $150 million. On 4 February 2009, the board authorised the raising of an additional senior credit facility of $50 million.

Medium term notes – floating rate AUD 204 million mature April 2011. The interest on AUD medium term notes is paid quarterly, based on BBSW plus a margin.

Capital bonds are unsecured, subordinated bonds with the next election date set as 15 June 2012. The interest rate is currently fixed at 8.00% per annum and is paid semi-annually.

Fixed interest rate bonds NZ$200 million have an interest rate of 6.81% and were repaid on maturity in March 2009.

On 27 May 2009, the group issued NZ$150 million of senior bonds that are unsecured, unsubordinated debt. The senior bonds mature in October 2014 and are at an interest rate of 7.80% per annum, payable semi-annually.

Senior notes of USD 15 million, USD 65 million and USD 195 million, with original maturity periods of 8, 12 and 15 years respectively were placed privately with US investors in September 2004 at a contract exchange rate of USD 0.6574 for every NZD. Interest is paid semi-annually.

The floating rate notes totalling $1.2 billion were issued in three tranches in October 2005 ($250 million 10 year, $400 million 12 year, and $350 million 15 year) and in one tranche in April 2007 ($200 million 10 year). The $1.2 billion floating rate notes are credit wrapped by MBIA Insurance Corporation (10 year and 15 year tranches issued in October 2005) and Ambac Assurance Corporation (12 year tranche issued in October 2005 and 10 year tranche issued in April 2007). Interest is paid quarterly based on BKBM plus a margin.

GBP 115 million fixed rate notes due to mature in January 2019 were placed at a contract exchange rate of GBP 0.4026 for every NZD. The interest rate of 7.625% per annum is fixed. Interest is paid annually.

All borrowings are measured at amortised cost adjusted for fair value movements in respect of the hedged risk on borrowings designated in fair value hedge relationships and are classified between current and non-current dependent on contractual obligations. Borrowings are subject to various lending covenants. These have all been met for the years ended 30 June 2009 and 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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. Non-derivative financial assets are categorised as 'loans and receivables'. Non-derivative financial liabilities are categorised as 'amortised cost'. Derivative financial instruments are categorised as 'fair value through profit and loss' unless hedge accounting is applied. Hedge accounting is applied for all derivative financial instruments except interest rate caps.

FAIR VALUES

	GROUP 2009				GROUP 2008			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	54,690	–	54,690	54,690	53,581	–	53,581	53,581
Short term deposits	100,000	348	100,348	100,348	–	–	–	–
Loans and receivables	170,263	85	170,348	170,348	198,263	–	198,263	198,263
Financial liabilities								
Trade payables and other creditors	156,486	–	156,486	156,486	149,901	–	149,901	149,901
Bank loans	(383)	–	(383)	–	509,873	4,208	514,081	514,208
Working capital loan	(361)	–	(361)	–	49,991	12	50,003	50,012
Medium term notes – AUD floating rate	253,511	2,208	255,719	256,274	254,750	4,892	259,642	264,870
Capital bonds – fixed rate	305,307	3,321	308,628	329,667	304,752	3,165	307,917	276,149
Senior bonds – fixed rate	144,578	1,105	145,683	148,303	–	–	–	–
Fixed interest rate bonds	–	–	–	–	196,858	1,362	198,220	198,792
Senior notes – USD fixed rate	464,549	6,998	471,547	471,903	365,994	6,850	372,844	395,899
Floating rate notes	1,183,793	7,648	1,191,441	1,206,851	1,181,209	20,568	1,201,777	1,220,569
Medium term notes – GBP fixed rate	288,787	10,289	299,076	304,940	296,141	4,833	300,974	349,894
Other	575	–	575	575	575	–	575	575
Derivative financial instruments – assets								
Interest rate swaps	–	–	–	–	32,341	5,411	37,752	37,752
Interest rate caps	–	–	–	–	2,880	116	2,996	2,996
Cross currency swaps	50,952	6,380	57,332	57,332	6,377	(459)	5,918	5,918
Forward exchange contracts	601	–	601	601	–	–	–	–
Derivative financial instruments – liabilities								
Interest rate swaps	93,547	9,651	103,198	103,198	5,498	257	5,755	5,755
Cross currency swaps	12,223	(3,687)	8,536	8,536	67,099	(2,613)	64,486	64,486
Forward exchange contracts	–	–	–	–	199	–	199	199

	PARENT 2009				PARENT 2008			
	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT (EXCLUDING ACCRUALS) $000	CARRYING AMOUNT ACCRUALS $000	TOTAL CARRYING AMOUNT $000	FAIR VALUE $000
Financial assets								
Cash and cash equivalents	38,738	–	38,738	38,738	52,749	–	52,749	52,749
Short term deposits	100,000	348	100,348	100,348	–	–	–	–
Loans and receivables	545,816	85	545,901	545,901	1,004,415	–	1,004,415	1,004,415
Financial liabilities								
Trade payables and other creditors	615,028	–	615,028	615,028	208,693	–	208,693	208,693
Bank loans	(383)	–	(383)	–	509,873	4,208	514,081	514,208
Working capital loan	(361)	–	(361)	–	49,991	12	50,003	50,012
Medium term notes – AUD floating rate	253,511	2,208	255,719	256,274	254,750	4,892	259,642	264,870
Capital bonds – fixed rate	305,307	3,321	308,628	329,667	304,752	3,165	307,917	276,149
Senior bonds – fixed rate	144,578	1,105	145,683	148,303	–	–	–	–
Fixed interest rate bonds	–	–	–	–	196,858	1,362	198,220	198,792
Senior notes – USD fixed rate	464,549	6,998	471,547	471,903	365,994	6,850	372,844	395,899
Floating rate notes	1,183,793	7,648	1,191,441	1,206,851	1,181,209	20,568	1,201,777	1,220,569
Medium term notes – GBP fixed rate	288,787	10,289	299,076	304,940	296,141	4,833	300,974	349,894
Derivative financial instruments – assets								
Interest rate swaps	–	–	–	–	32,341	5,411	37,752	37,752
Interest rate caps	–	–	–	–	2,880	116	2,996	2,996
Cross currency swaps	50,952	6,380	57,332	57,332	6,377	(459)	5,918	5,918
Forward exchange contracts	601	–	601	601	–	–	–	–
Derivative financial instruments – liabilities								
Interest rate swaps	93,547	9,651	103,198	103,198	5,498	257	5,755	5,755
Cross currency swaps	12,223	(3,687)	8,536	8,536	67,099	(2,613)	64,486	64,486
Forward exchange contracts	–	–	–	–	199	–	199	199

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

FAIR VALUES (CONT.)

The following methods and assumptions were used to estimate the carrying amount and fair value of each class of financial instrument. The fair value measurements are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial instruments held by the group were based on the level 2 fair value hierarchy, and were calculated using valuation models applying observable market data.

Loans and receivables, trade payables and other creditors, cash and cash equivalents, short term deposits

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

Bank loans, working capital loans and floating rate notes

The total carrying amount includes the principal, interest accrued and unamortised costs. Interest accruals are included in the balance sheet within payables and accruals.

Medium term notes

The total carrying amount for the AUD and the GBP medium term notes includes the principal converted at contract rates, interest accrued, unamortised costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Capital bonds – fixed rate

The total carrying amount includes the principal, interest accrued and unamortised costs. Interest accruals are included in the balance sheet within payables and accruals.

Fixed interest rate bonds

The total carrying amount includes the principal, interest accrued, unamortised finance costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals. The fixed interest rate bonds were repaid on maturity in March 2009.

Senior bonds – fixed rate

The total carrying amount includes the principal, interest accrued, unamortised costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Senior notes – USD fixed rate

The total carrying amount for the senior notes – USD fixed rate includes the principal converted at contract rates, interest accrued, unamortised costs and a fair value adjustment for the component of the risk that is hedged. Interest accruals are included in the balance sheet within payables and accruals.

Derivative instruments

The total carrying amount of these derivative instruments is the same as the fair value and includes interest accrued. Interest accruals are included in the balance sheet within payables and accruals.

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 main objectives are to minimise the cost of total debt, control variations in the interest expense of the debt portfolio from year to year and to match where practicable the interest rate risk profile of debt with the risk profile of the group's assets. The treasury policy sets parameters for managing the interest rate maturity profile. The parameters depend upon the Standard & Poor's credit rating and the Reserve Bank of New Zealand continuing to implement monetary policy through adjustments to the official cash rate.

The weighted average interest rates of borrowings were as follows:

	GROUP 2009		GROUP 2008	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	–	–	9.01	510,000
Working capital loan	–	–	8.65	50,000
Medium term notes – AUD floating rate	3.68	250,000	8.40	250,000
Capital bonds – fixed rate	8.00	307,205	8.00	307,205
Senior bonds – fixed rate	7.80	150,000	–	–
Fixed interest rate bonds	–	–	6.81	200,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	3.39	1,200,000	9.21	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	7.63	285,614
Other	–	575	–	575
		2,611,709		3,221,709

	PARENT 2009		PARENT 2008	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Bank loans	–	–	9.01	510,000
Working capital loan	–	–	8.65	50,000
Medium term notes – AUD floating rate	3.68	250,000	8.40	250,000
Capital bonds – fixed rate	8.00	307,205	8.00	307,205
Senior bonds – fixed rate	7.80	150,000	–	–
Fixed interest rate bonds	–	–	6.81	200,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	3.39	1,200,000	9.21	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	7.63	285,614
		2,611,134		3,221,134

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

INTEREST RATE RISK (CONT.)

The weighted average interest rates of interest rate swaps were as follows:

	GROUP & PARENT 2009			GROUP & PARENT 2008		
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NOTIONAL AMOUNT $000
Interest rate swaps (floating to fixed)						
Maturing in less than 1 year	3.01	7.08	100,000	8.91	6.66	70,000
Maturing between 1 and 2 years	3.10	6.86	475,000	8.86	7.46	420,000
Maturing between 2 and 5 years	3.07	6.81	365,000	8.85	6.83	860,000
Maturing after 5 years	3.01	7.12	400,000	8.86	7.12	400,000
			1,340,000			1,750,000
Interest rate swaps (fixed to floating)						
Maturing in less than 1 year	–	–	–	6.81	9.10	200,000
Maturing after 5 years	7.80	5.47	150,000	–	–	–
			150,000			200,000
Forward starting interest rate swaps (floating to fixed)						
Maturing after 5 years	N/A	6.71	760,000	N/A	6.73	800,000
			760,000			800,000
Interest rate cap						
Maturing in less than 1 year	N/A	N/A	400,000	–	–	–
Maturing between 1 and 2 years	–	–	–	8.65	7.95	400,000
			400,000			400,000

The weighted average interest rates of cross currency swaps were as follows:

	GROUP & PARENT 2009				GROUP & PARENT 2008			
	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	AUD/ USD/GBP PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NZD $000	WEIGHTED AVERAGE INTEREST RATE RECEIVE LEG %	AUD/ USD/GBP PRINCIPAL AMOUNT '000	WEIGHTED AVERAGE INTEREST RATE PAY LEG %	NZD $000
Cross currency swaps								
AUD : NZD								
Maturing between 1 and 2 years	3.68	203,750	3.76	250,000	–	–	–	–
Maturing between 2 and 5 years	–	–	–	–	8.40	203,750	9.40	250,000
		203,750		250,000		203,750		250,000
USD : NZD								
Maturing between 2 and 5 years	5.04	15,000	3.37	22,817	5.04	15,000	9.23	22,817
Maturing after 5 years	5.69	260,000	3.58	395,498	5.69	260,000	9.43	395,498
		275,000		418,315		275,000		418,315
GBP : NZD								
Maturing after 5 years	7.63	115,000	10.84	285,614	7.63	115,000	10.84	285,614
		115,000		285,614		115,000		285,614

Bank loans, working capital loans, AUD medium term notes and floating rate notes are at floating rates.

A portion of the floating rate notes are hedged through interest rate swaps which convert the floating rate into a fixed rate.

The AUD medium term notes are fully hedged through cross currency swaps (eliminating the foreign currency risk). The majority of the ensuing floating exposure is hedged through interest rate swaps (floating to fixed).

Fixed interest rate bonds were at fixed interest rates and were repaid on maturity in March 2009. These bonds were hedged by interest rate swaps (fixed to floating).

Senior bonds were issued at fixed interest rates. These bonds are hedged by interest rate swaps (fixed to floating).

The senior notes – USD fixed rate are hedged through cross currency swaps (eliminating the foreign currency risk) and converting the interest rate to NZD floating. The ensuing floating interest rate exposure is not hedged.

The GBP medium term notes are at fixed interest rates and are hedged by cross currency swaps (eliminating the foreign currency risk). The pay leg of the cross currency swaps is in NZD and is fixing the interest rate.

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

The interest rate caps were set at 7.95% and therefore no exchange of cash will take place if the interest rate on the receive leg is below the set rate.

Capital bonds were issued at a fixed interest rate and are not hedged.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

FOREIGN EXCHANGE RISK

The group has conducted transactions in foreign currencies for the purpose of protecting the NZD value of capital expenditure. The group has outstanding forward exchange contracts. These are used to hedge forecasted foreign currency exposure arising out of the capital expenditure program. Hence at balance date there is no significant exposure to foreign currency risk. The spot rates shown in the table below are as at the balance date for each period disclosed.

	GROUP & PARENT 2009				GROUP & PARENT 2008			
	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN NZD $000	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) NZD $000
Currency								
EUR	465	0.46	0.49	71	3,593	0.48	0.50	321
USD	15,431	0.65	0.61	524	13,194	0.76	0.72	(520)
AUD	78	0.80	0.85	6	–	–	–	–
Total				601				(199)

CREDIT RISK

In the normal course of business, the group is exposed to credit risks from energy retailers, financial institutions and customers. 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 fair value of each financial instrument.

	GROUP		PARENT	
	2009 FAIR VALUE $000	2008 FAIR VALUE $000	2009 FAIR VALUE $000	2008 FAIR VALUE $000
Cash and cash equivalents	54,690	53,581	38,738	52,749
Short term deposits	100,348	–	100,348	–
Loans and receivables	170,348	198,263	545,901	1,004,415
Interest rate swaps	–	37,752	–	37,752
Cross currency swaps	57,332	5,918	57,332	5,918
Interest rate caps	–	2,996	–	2,996
Forward exchange contracts	601	–	601	–

The aging of trade receivables at the balance date was:

	GROUP		PARENT	
	2009 CARRYING AMOUNT $000	2008 CARRYING AMOUNT $000	2009 CARRYING AMOUNT $000	2008 CARRYING AMOUNT $000
Not past due	138,900	133,093	77,786	65,656
Past due 1–30 days	15,915	7,818	700	1,028
Past due 31–120 days	5,561	7,107	1,162	2,895
Past due more than 120 days	9,853	9,490	6,735	5,861
Total	170,229	157,508	86,383	75,440

The group holds a provision for doubtful debts against the amounts disclosed above of $5.9 million (2008: $5.4 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

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. Cash flow reporting systems are maintained to monitor the forecast liquidity position over an outlook of five years.

The day-to-day liquidity exposure is managed by ensuring that sufficient levels of liquid assets and committed facilities are maintained for the next four to five weeks based on daily rolling operational cash flow forecasts. Short term liquidity crisis management is monitored by ensuring sufficient borrowing capacity and liquid assets are available as determined from a monthly rolling 18 month cash flow forecast.

The long term liquidity exposure is managed by ensuring estimated deficits in net cash flow are able to be met as determined by the yearly rolling five year cash flow forecast. Undrawn committed facilities of $325 million (30 June 2008: $240 million) were available.

	GROUP 2009				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CON-TRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	125,967	20,422	–	–	146,389
Finance leases	2,794	2,313	1,696	–	6,803
Medium term notes – AUD floating rate	12,064	267,474	–	–	279,538
Capital bonds – fixed rate	24,576	24,576	331,849	–	381,001
Senior bonds – fixed rate	10,335	11,700	35,100	155,850	212,985
Senior notes – USD fixed rate	24,069	24,069	93,671	511,760	653,569
Floating rate notes	85,236	54,261	251,115	1,502,695	1,893,307
Medium term notes – GBP fixed rate	22,355	22,355	67,065	404,955	516,730
Other	575	–	–	–	575
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	(24,069)	(24,069)	(93,671)	(511,760)	(653,569)
Outflow	15,736	22,280	111,452	533,263	682,731
Cross currency swaps AUD : NZD					
Inflow	(12,064)	(267,474)	–	–	(279,538)
Outflow	10,814	262,274	–	–	273,088
Cross currency swaps GBP : NZD					
Inflow	(22,355)	(22,355)	(67,065)	(404,955)	(516,730)
Outflow	30,973	30,972	93,005	432,929	587,879
Forward exchange contracts					
Inflow	(4,244)	–	(21,882)	–	(26,126)
Outflow	4,244	–	21,882	–	26,126
Net settled derivatives					
Interest rate swaps and interest rate caps	48,345	38,179	18,387	3,812	108,723
	355,351	466,977	842,604	2,628,549	4,293,481

	GROUP 2008				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CON-TRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	129,005	16,123	–	–	145,128
Finance leases	2,916	2,537	2,801	–	8,254
Bank loans	520,942	–	–	–	520,942
Working capital loan	50,024	–	–	–	50,024
Medium term notes – AUD floating rate	23,133	23,424	278,655	–	325,212
Capital bonds – fixed rate	24,576	24,576	356,358	–	405,510
Fixed interest rate bonds	210,215	–	–	–	210,215
Senior notes – USD fixed rate	23,191	23,191	88,712	468,930	604,024
Floating rate notes	109,044	94,234	267,050	1,592,226	2,062,554
Medium term notes – GBP fixed rate	17,429	22,943	68,828	438,547	547,747
Other	575	–	–	–	575
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	(23,191)	(23,191)	(88,712)	(468,930)	(604,024)
Outflow	40,377	36,970	130,591	582,404	790,342
Cross currency swaps AUD : NZD					
Inflow	(23,133)	(23,424)	(278,655)	–	(325,212)
Outflow	24,080	20,847	270,954	–	315,881
Cross currency swaps GBP : NZD					
Inflow	(17,429)	(22,943)	(68,828)	(438,547)	(547,747)
Outflow	31,227	30,972	93,001	463,894	619,094
Forward exchange contracts					
Inflow	(25,394)	–	–	–	(25,394)
Outflow	25,394	–	–	–	25,394
Net settled derivatives					
Interest rate swaps and interest rate caps	(20,439)	(3,367)	(11,042)	(2,088)	(36,936)
	1,122,542	222,892	1,109,713	2,636,436	5,091,583

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

LIQUIDITY RISK (CONT.)

	PARENT 2009				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CON-TRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	68,943	–	–	–	68,943
Finance leases	168	279	101	–	548
Medium term notes – AUD floating rate	12,064	267,474	–	–	279,538
Capital bonds – fixed rate	24,576	24,576	331,849	–	381,001
Senior bonds – fixed rate	10,335	11,700	35,100	155,850	212,985
Senior notes – USD fixed rate	24,069	24,069	93,671	511,760	653,569
Floating rate notes	85,236	54,261	251,115	1,502,695	1,893,307
Medium term notes – GBP fixed rate	22,355	22,355	67,065	404,955	516,730
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	(24,069)	(24,069)	(93,671)	(511,760)	(653,569)
Outflow	15,736	22,280	111,452	533,263	682,731
Cross currency swaps AUD : NZD					
Inflow	(12,064)	(267,474)	–	–	(279,538)
Outflow	10,814	262,274	–	–	273,088
Cross currency swaps GBP : NZD					
Inflow	(22,355)	(22,355)	(67,065)	(404,955)	(516,730)
Outflow	30,973	30,972	93,005	432,929	587,879
Forward exchange contracts					
Inflow	(4,244)	–	(21,882)	–	(26,126)
Outflow	4,244	–	21,882	–	26,126
Net settled derivatives					
Interest rate swaps and interest rate caps	48,345	38,179	18,387	3,812	108,723
	295,126	444,521	841,009	2,628,549	4,209,205

	PARENT 2008				
	PAYABLE WITHIN 1 YEAR $000	PAYABLE BETWEEN 1 AND 2 YEARS $000	PAYABLE BETWEEN 2 AND 5 YEARS $000	PAYABLE AFTER 5 YEARS $000	TOTAL CON-TRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables	72,249	–	–	–	72,249
Finance leases	181	168	461	–	810
Bank loans	520,942	–	–	–	520,942
Working capital loan	50,024	–	–	–	50,024
Medium term notes – AUD floating rate	23,133	23,424	278,655	–	325,212
Capital bonds – fixed rate	24,576	24,576	356,358	–	405,510
Fixed interest rate bonds	210,215	–	–	–	210,215
Senior notes – USD fixed rate	23,191	23,191	88,712	468,930	604,024
Floating rate notes	109,044	94,234	267,050	1,592,226	2,062,554
Medium term notes – GBP fixed rate	17,429	22,943	68,828	438,547	547,747
Derivative financial (assets)/liabilities					
Cross currency swaps USD : NZD					
Inflow	(23,191)	(23,191)	(88,712)	(468,930)	(604,024)
Outflow	40,377	36,970	130,591	582,404	790,342
Cross currency swaps AUD : NZD					
Inflow	(23,133)	(23,424)	(278,655)	–	(325,212)
Outflow	24,080	20,847	270,954	–	315,881
Cross currency swaps GBP : NZD					
Inflow	(17,429)	(22,943)	(68,828)	(438,547)	(547,747)
Outflow	31,227	30,972	93,001	463,894	619,094
Forward exchange contracts					
Inflow	(25,394)	–	–	–	(25,394)
Outflow	25,394	–	–	–	25,394
Net settled derivatives					
Interest rate swaps and interest rate caps	(20,439)	(3,367)	(11,042)	(2,088)	(36,936)
	1,062,476	204,400	1,107,373	2,636,436	5,010,685

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.) »»

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS

The sensitivity analysis has been determined based on the exposure to interest rates and foreign exchange rates for both derivatives and non-derivative instruments at the balance date. It is assumed that the amount of the liability at the balance date was outstanding for the whole year. A ten percent and a one percent increase or decrease is used for foreign exchange rates and interest rates respectively and these changes represent management's assessment of the reasonably possible change over a year.

Cash flow sensitivity analysis for variable rate instruments

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rate would have no material impact on profits as changes in the fair value of these swaps are taken through equity where the hedge is an effective hedge. The fair value of these interest rate swaps is $94.4 million loss (2008: $26.8 million gain). A fall of 1% in interest rate would lower equity by $42.9 million (2008: $52.8 million) whereas an increase of 1% in interest rate would increase equity by $40.7 million (2008: $50.1 million).

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and treated as cash flow hedges and hence any changes in interest rate would have no material impact on profits as changes in the fair value of these swaps are taken through equity where the hedge is an effective hedge. The fair value of these interest rate swaps is $6.7 million loss (2008: $8.1 million gain). The fall of 1% in interest rate would lower equity by $32.8 million (2008: $27.8 million) whereas an increase of 1% in interest rate would increase equity by $29.9 million (2008: $24.9 million).

Floating rate notes of $85 million (2008: $85 million) and bank loans formerly held (2008: $100 million) have not been hedged and hence a fall in interest rate by 1% would increase profit by $0.9 million (2008: $1.3 million) whereas an increase in interest rate by 1% would decrease profit by $0.9 million (2008: $1.3 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

Fair value sensitivity analysis for fixed rate instruments

Interest rate swaps hedging the fixed interest rate bonds are hedge accounted and treated as fair value hedges and hence any changes in interest rates would have no material impact on profits arising from changes in fair value as the changes in fair value of the swaps would be offset by changes in the fair value of the underlying exposure for the NZ$150 million senior bonds (2008: NZ$200 million fixed interest rate bonds) as the hedge is an effective hedge. The fair value of these interest rate swaps is $2.1 million loss (2008: $2.9 million loss). However, since the interest rate is converted to floating, a fall in interest rate of 1% would increase profit by $1.5 million (2008: $2.0 million) and an increase in interest rate of 1% would decrease profit by $1.5 million (2008: $2.0 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

Fair value sensitivity analysis for unhedged derivatives (fair value through profit and loss)

Interest rate caps have not been designated as part of a hedge accounting relationship. Hence changes in fair values are realised in the income statement. The fair value of these interest rate caps is $nil (2008: $3.0 million). A fall in interest rate by 1% would reduce profit by $nil (2008: $0.9 million) whereas an increase in interest rate by 1% would increase profit by $nil (2008: $2.7 million). The interest expense movement is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period.

Fair value sensitivity analysis for cross currency swaps (cash flow hedge/fair value hedge)

Cross currency swaps hedging the foreign currency denominated debt are hedge accounted and treated either as a cash flow hedge or a fair value hedge depending upon the risk being hedged. Any changes in fair value arising out of foreign exchange movements would have no impact on profit as the receive leg of the cross currency swap exactly offsets the interest payments of the underlying exposure. The fair value of these cross currency swaps is $48.8 million gain (2008: $58.6 million loss). However, changes in the interest rate would impact profit as shown in the table below. The impact on profit is calculated for one year and proportionally allocated over the number of days, if maturity occurs within the period. The changes in the interest rate would have no impact on profit or loss in relation to GBP : NZD cross currency swaps as the payment leg (NZD) is fixed.

	GROUP & PARENT 2009		GROUP & PARENT 2008	
	–1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000	–1% CHANGE IN INTEREST RATE $000	+1% CHANGE IN INTEREST RATE $000
Cross currency swaps				
AUD : NZD	250	(250)	250	(250)
USD : NZD	4,183	(4,183)	4,183	(4,183)
Total impact on profit increase/(decrease)	4,433	(4,433)	4,433	(4,433)

Fair value sensitivity analysis for forward exchange contracts (cash flow hedges)

Forward exchange contracts hedging the forecasted foreign currency exposure arising out of the capital expenditure program are treated as cash flow hedges and hence any changes in foreign exchange rates would have no material impact on profits as changes in the fair value of these contracts are taken through equity where the hedge is an effective hedge. The fair value of these forward exchange contracts is $0.6 million gain (2008: $0.2 million loss).

	GROUP & PARENT 2009		GROUP & PARENT 2008	
	–10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000	–10% CHANGE IN FX RATE $000	+10% CHANGE IN FX RATE $000
Forward exchange contracts				
EUR	112	(92)	812	(490)
USD	2,469	(2,020)	1,902	(1,556)
AUD	11	(9)	–	–
Total impact on equity increase/(decrease)	2,592	(2,121)	2,714	(2,046)

CAPITAL MANAGEMENT

The capital management policies are formulated and applied to the Vector group as a whole. The group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The group monitors capital on the basis of the net debt to net debt plus equity ratio. This ratio is calculated as net debt divided by net debt plus equity, where net debt is calculated as total debt less cash and cash equivalents and short term deposits.

The net debt to net debt plus equity ratios at 30 June 2009 and 30 June 2008 were as follows:

	GROUP	
	2009 $000	2008 $000
Current borrowings	575	757,297
Non-current borrowings	2,639,781	2,402,846
Total borrowings	2,640,356	3,160,143
Less: cash and cash equivalents	(54,690)	(53,581)
Less: short term deposits	(100,000)	–
Net debt	2,485,666	3,106,562
Total equity	2,058,893	1,901,324
Net debt plus equity	4,544,559	5,007,886
Net debt to net debt plus equity ratio	55%	62%

FINANCIAL GUARANTEES

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. No claims have been made against the guarantees hence there is no impact on the balance sheet of the group and the parent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

29. CONTINGENT LIABILITIES

The directors are aware of claims that have been made against the group and, where appropriate, have recognised provisions for these within note 22 of these financial statements. No material contingent liabilities requiring disclosure have been identified.

30. TRANSACTIONS WITH RELATED PARTIES

The group has engaged in the following transactions with the Auckland Energy Consumer Trust (AECT) which is the majority shareholder of Vector Limited.

	PARENT	
	2009 $000	2008 $000
Payment of dividend to the AECT	99,508	97,630

Note 16 identifies all entities including associates, partnerships and joint ventures 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.

The group and parent entered into the following transactions with subsidiaries, associates and other related companies:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Cash advances to subsidiaries	–	–	206,534	35,960
Loans to parent/repaid by subsidiaries	–	–	1,135,086	300,417
Employee costs recharged to subsidiaries	–	–	13,423	–
Management fees payable by subsidiaries	–	–	43,394	–
Interest receivable from Vector Communications Limited and NGC Holdings Limited	–	–	2,954	8,276
Income from financial services provided to Stream Information Partnership	–	–	70	70
Sale of gas distribution services to Vector Gas Limited	–	–	4,506	4,721
Purchase of telecommunications services from Vector Communications Limited	–	–	2,508	2,338
Income from call centre services provided to Vector Communications Limited	–	–	94	–
Purchase of vegetation management services from Tree Scape Limited	3,545	8,451	3,545	8,451
Purchase of electricity meters and metering services from Energy Intellect Limited	1,474	1,346	–	–
Loan to and interest receivable from Advanced Metering Services Limited	4,535	–	4,535	–
Purchase of management services from Advanced Metering Services Limited	10,311	5,365	–	–
Administrative and other services provided to Advanced Metering Services Limited	1,320	1,323	1,320	1,323
Sales to Kapuni Energy Joint Venture	–	6,997	–	–
Purchases from Kapuni Energy Joint Venture	11,330	13,345	–	–

In May 2008, the parent transferred $628.6 million of assets and $68.7 million of liabilities attributable to its Wellington electricity network to Vector Metering Data Services Limited and its subsidiary, Vector Wellington Electricity Networks Limited. Consideration for the transfer was exactly equal to the carrying values of the net assets transferred such that no gain or loss was recognised in the income statement of the parent for the year ended 30 June 2008.

Sales to Kapuni Energy Joint Venture in the year ended 30 June 2008 are now transacted directly with Vector Kapuni Limited, a subsidiary of the group which is the 50% joint venture partner in Kapuni Energy Joint Venture. Accordingly, such sales are now fully eliminated on consolidation in the consolidated financial statements.

The following amounts were receivable by/(payable by) the parent from/(to) subsidiaries at balance date:

	PARENT 2009 $000	PARENT 2008 $000
Receivable by the parent from:		
NGC Holdings Limited	–	83,051
MEL Network Limited	67,220	67,220
Poihipi Land Limited	8	8
Vector Communications Limited	54,907	34,797
Broadband Services Limited	366	366
Vector Stream Limited	5,057	4,398
Vector Gas Contracts Limited	359,125	200,672
Elect Data Service (Australia) Pty Limited	595	363
Vector Management Services Limited	–	286
On Gas Limited	36,421	1,184
Vector Wellington Electricity Networks Limited	–	467,921
Vector Metering Data Services Limited	–	91,806
	523,699	952,072
Less: provision against advances to subsidiaries	(67,220)	(67,220)
Total advances to subsidiaries	456,479	884,852
Payable by the parent to:		
NGC Holdings Limited	(211,449)	–
Vector Gas Investments Limited	(563)	–
Vector Kapuni Limited	(7,024)	–
Vector Management Services Limited	(5,396)	–
NGC Metering Limited	(37,822)	(45,147)
Vector Gas Limited	(54,638)	(76,706)
Mercury Geotherm Limited	(1,314)	(245)
Auckland Generation Limited	(13,334)	(13,334)
MEL Silverstream Limited	(371)	(371)
Salamanca Holdings Limited	(9)	(9)
Vector Metering Data Services Limited	(213,097)	–
Total advances from subsidiaries	(545,017)	(135,812)

At 30 June 2009, there are no material outstanding balances (other than the loan to Advanced Metering Services Limited disclosed on page 62) due to or from associates and joint ventures which are related parties of Vector Limited. Interest on the loan to Advanced Metering Services Limited is charged at 12% per annum and is payable quarterly.

The above advances to or from subsidiaries are non-interest bearing and repayable on demand, with the exception of the receivable balance from Vector Communications Limited for which interest is accrued at the BKBM rate plus 2% per annum. Advances to subsidiaries are at arms' length.

A provision of $67.2 million (2008: $67.2 million) is held against Vector Limited's receivable from MEL Network Limited. No related party debts have been written off or forgiven during the period. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009 (CONT.)

31. KEY MANAGEMENT PERSONNEL

This table includes directors fees and remuneration of the Group CEO and the members of his Executive Team during the periods presented.

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Directors fees	900	886	818	810
Salary and other short-term employee benefits	3,336	4,659	3,336	3,573
Post employment benefits	49	4	49	4
Redundancy and termination benefits	374	1,932	374	1,767
Other long term benefits	–	86	–	29
Total	4,659	7,567	4,577	6,183

32. EVENTS AFTER BALANCE DATE

On 25 August 2009, the board declared a final dividend for the year ended 30 June 2009 of 7.25 cents per share.

On 1 July 2009, the group repurchased $40 million of its floating rate notes.

On 31 July 2009, four subsidiaries of the group were removed from the Companies Register. These companies are Auckland Network Limited, Energy North Limited, MEL Silverstream Limited and Vector Power Limited.

No adjustments are required to these financial statements in respect of these events.

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 registers made during the year ended 30 June 2009 are set out in this Statutory Information section.

INFORMATION USED BY DIRECTORS

During the financial year there were no notices from directors of Vector Limited, or any subsidiary, 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

As permitted by the constitution and the Companies Act 1993, Vector Limited has indemnified its directors, and those directors who are directors of subsidiaries against potential liabilities and costs they may incur for acts or omissions in their capacity as directors. In addition, Vector Limited has indemnified certain senior employees against potential liabilities and costs they may incur for acts or omissions in their capacity as employees of Vector Limited, or directors of Vector subsidiaries.

During the financial year, Vector Limited paid insurance premiums in respect of directors and certain senior employees' liability insurance which covers risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

DONATIONS

Vector Limited made a donation of $30,000 during the year ended 30 June 2009.

CREDIT RATING

At 25 August 2009 Vector Limited had a Standard & Poor's credit rating of BBB+/stable, and a Moody's credit rating of Baa1 stable.

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 2009:

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 Vector shares.

Listing rule 9.3.1: Vector Limited has been granted a waiver to the extent necessary to allow the AECT to vote on any ordinary resolution to increase Vector's directors' remuneration.

NZDX Listing rule 11.1.1: Vector Limited has been granted a waiver so that a transfer of senior bonds issued by Vector may be refused if the transfer is not in multiples of $1,000 and/or results in the transferor or transferee holding an aggregate principal amount of bonds of less than $5,000.

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 2009, Vector Limited made payments to J Carmichael, S Chambers and K Sherry, trustees of the AECT (Vector Limited's majority shareholder) totalling $182,260 in respect of their attendance at meetings of the Vector Limited Board.

STATUTORY INFORMATION (CONT.)

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2009 or resigned (R) as a director during the year ended 30 June 2009. Directors marked (A) were appointed during the year.

PARENT	DIRECTORS
Vector Limited	P Bird, J Carmichael (A), A Carter, S Chambers (R), H Fletcher, J Miller (A), A Paterson, K Sherry, M Stiassny, R Thomson

All of the above directors in office at 30 June 2009 are independent directors, except for J Carmichael and K Sherry who are trustees of the Auckland Energy Consumer Trust (Vector Limited's majority shareholder).

SUBSIDIARIES	DIRECTORS
Auckland Generation Limited	S Mackenzie, K Nickels (R)
Auckland Network Limited	S Mackenzie, K Nickels (R)
Broadband Services Limited	M Stiassny
Elect Data Services (Australia) Pty Limited	S Mackenzie, I McClelland
Energy North Limited	S Mackenzie, K Nickels (R)
Liquigas Limited	M Armstrong (A) (R), A Ball (A), T Barstead, J Cumming (R), A Gilbert (A), P Harford (R), M Karbanowicz, A Knight (R), I Lindsay, S Mackenzie, A Newnham (R), K Nickels (A) (R), J Seymour, A Smith, D Thomas (A), D Wilson
MEL Silverstream Limited	S Mackenzie, K Nickels (R)
MEL Network Limited	S Mackenzie, K Nickels (R)
Mercury Geotherm Limited (in receivership)	M Franklin, A McLachlan, D Ross
NGC Limited	A Ball (A), A Knight (R), K Nickels (R)
NGC Holdings Limited	P Bird, J Carmichael (A), A Carter, S Chambers (R), H Fletcher, J Miller (A), A Paterson, K Sherry, M Stiassny, R Thomson
NGC Metering Limited	S Mackenzie, K Nickels (R)
On Gas Limited	A Ball (A), A Knight (R), K Nickels (R)
Poihipi Land Limited (in receivership)	M Franklin, A McLachlan, D Ross
Salamanca Holdings Limited	S Mackenzie, M Underhill
Stream Information Limited	A Ball (A), W Falconer, C Gallaher (R), D Houldsworth (R), S Mackenzie (R), N MacCulloch (A), D McCarthy (A)
UnitedNetworks Limited	S Mackenzie, K Nickels (R)
UnitedNetworks Employee Share Schemes Trustee Limited	S Mackenzie, K Nickels (R)
Vector Communications Limited	P Bird, J Carmichael (A), A Carter, S Chambers (R), H Fletcher, J Miller (A), A Paterson, K Sherry, M Stiassny, R Thomson
Vector Gas Limited	A Ball (A), A Knight (R), K Nickels (R)
Vector Gas Contracts Limited	A Ball (A), A Knight (R), K Nickels (R)
Vector Gas Investments Limited	A Ball (A), A Knight (R), K Nickels (R)
Vector Kapuni Limited	A Ball (A), A Knight (R), K Nickels (R)
Vector Management Services Limited	A Ball (A), A Knight (R), K Nickels (R)
Vector Metering Data Services Limited	P Bird, J Carmichael (A), A Carter, S Chambers (R), H Fletcher, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Power Limited	S Mackenzie, K Nickels (R)
Vector Stream Limited	S Mackenzie, K Nickels (R)

ASSOCIATES	DIRECTORS
Energy Intellect Limited	W Falconer, D Houldsworth (R), A Knight (R), B Leighs, R Longuet, N MacCulloch (A), S Mackenzie, M Stiassny, D Thomas (A)
NZ Windfarms Limited	V Buck, W Creech (A), B Leay (R), S Mackenzie, K McConnell (R), J McKee, M Stiassny, D Walker
Tree Scape Limited	A Ball (A), E Chignell, S Mackenzie, P Smithies, D Tompkins (R), 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 2009:

DIRECTORS OF VECTOR LIMITED	PAID BY PARENT $	PAID BY SUBSIDIARIES $
P Bird	90,000	–
J Carmichael	62,260	–
A Carter	90,000	–
S Chambers (R)	30,000	–
H Fletcher	90,000	–
J Miller	nil	–
A Paterson	90,000	–
K Sherry	90,000	–
M Stiassny	180,000	–
R Thomson	90,000	–

DIRECTORS OF SUBSIDIARIES	PAID BY PARENT $	PAID BY SUBSIDIARIES $
A Ball	–	2,641*
T Barstead	–	5,000
J Cumming (R)	–	5,000
S Dale (R)	–	2,500
P Harford (R)	–	2,245*
M Karbanowicz	–	7,359
A Knight (R)	–	1,097*
I Lindsay	–	36,658
S Mackenzie	–	2,500*
A Newnham (R)	–	2,500
J Seymour	–	2,500*
D Wilson	–	2,110*

*Directors' fees relating to any Vector employee are paid to the company.

STATUTORY INFORMATION (CONT.)

DIRECTORS (CONT.)

DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited up to 30 June 2009 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
P Bird	InfraCo Limited	Director
	InfraCo Asia Development Pte Limited	Director
	N M Rothschild and Sons (Singapore) Limited	Director
	Remote Energy Monitoring (Holdings) Limited	Shareholder
	Rothschild Investment Banking	a Managing director
J Carmichael	Aku Investments Limited	Director
	Auckland Energy Consumer Trust	Trustee
	Energy Trusts of New Zealand	Executive member
A Carter	Bell Tea and Coffee Company Limited and subsidiaries	Chairman
	Foodstuffs (Auckland) Limited and subsidiaries	Managing director
	Foodstuffs Fresh (Auckland) Limited	Chairman
	Foodstuffs (N.Z.) Limited and subsidiaries	Managing director
	James Gilmour and Co Limited	Director
	Metfood Pty Limited	Director
	National Trading Company Limited	Director
	Maurice Carter Charitable Trust	Trustee
S Chambers (R)	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust	Trustee
	ChambersCraigJarvis	Managing partner
	New Zealand Post Limited	Director
H Fletcher	Arrow Wrights Limited	Chairman and shareholder
	Dilworth Trust	Trustee
	Fletcher Brothers Limited	Chairman and shareholder
	Fletcher Building Limited	Director and shareholder
	IAG New Zealand Holdings Limited	Chairman
	Insurance Australia Group Limited	Director
	Lakes Station Partnership	Partner
	L.E.K. Consulting Limited	Member of New Zealand Advisory Board
	No 8 Ventures and its investments	Investor
	Reserve Bank of New Zealand	Director
	Rubicon Limited	Director and shareholder
	The University of Auckland	Councillor
	The University of Auckland Foundation	Member
J Miller	Contact Energy Limited	Shareholder
	Craigs Investment Partners Limited	Director
	Infratil Limited	Shareholder
	NZ Windfarms Limited	Shareholder

DIRECTOR	ENTITY	POSITION
A Paterson	Abano Healthcare Limited	Chairman
	BPAC New Zealand Limited	Chairman
	Governing Board of The Centre of Research Excellence for Growth and Development (University of Auckland)	Chairman
	Massey University Council	Councillor
	Metrowater Limited	Director
	Nga Pae o Te Maramatanga (Maori CoRE)	Board member
	Oversight Committee (Ambulance NZ)	Chairman
	Reserve Bank of New Zealand	Deputy chairman
K Sherry	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust	Trustee
	Bell-Booth Sherry	Principal
	Energy Trusts of New Zealand	Deputy chair
	Sasha & Otto Limited	Director and shareholder
M Stiassny	Atapo Corporation Limited	Director and shareholder
	Auckland Hebrew Congregation Trust Board	Chairman
	Community Relocation Limited	Director and shareholder
	Gadol Corporation Limited	Director and shareholder
	Grafton Investments Limited	Director
	KordaMentha	Partner
	NZ Racing Board	Chairman
	Triceps Holdings Limited	Director and shareholder
R Thomson	Calnan Holdings Limited	Director and shareholder
	R & M Holdings Limited	Director and shareholder

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

DIRECTORS OF SUBSIDIARIES

Entries in the interests register of subsidiaries up to 30 June 2009 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
S Mackenzie	Gas Industry Company Limited	Director

STATUTORY INFORMATION (CONT.)

EMPLOYEES

The number of current employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2009 are set out in the table below. The information includes salaries paid during the year ended 30 June 2009 and bonus payments made in respect of financial year 2008. The total bonus payments which were made by the parent and subsidiaries are $3,090,829 and $332,540 respectively. No bonus payments were made in respect of the year ended 30 June 2009.

CURRENT EMPLOYEES	PARENT	SUBSIDIARIES
$100,001 – $110,000	47	3
$110,001 – $120,000	31	6
$120,001 – $130,000	25	2
$130,001 – $140,000	17	3
$140,001 – $150,000	10	–
$150,001 – $160,000	10	1
$160,001 – $170,000	8	3
$170,001 – $180,000	2	–
$180,001 – $190,000	4	1
$190,001 – $200,000	7	1
$200,001 – $210,000	2	2
$210,001 – $220,000	1	1
$220,001 – $230,000	3	–
$230,001 – $240,000	1	–
$240,001 – $250,000	3	1
$260,001 – $270,000	4	–
$270,001 – $280,000	4	–
$280,001 – $290,000	1	–
$300,001 – $310,000	2	1
$310,001 – $320,000	1	–
$320,001 – $330,000	1	–
$330,001 – $340,000	1	–
$340,001 – $350,000	1	–
$460,001 – $470,000	1	–
$570,001 – $580,000	1	–
$1,220,001 – $1,230,000	1	–

The number of former employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2009 are set out in the table below. The information includes salaries paid during the year ended 30 June 2009 and bonus payments made in respect of financial year 2008. The total bonus payments which were made by the parent are $715,677.

FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS)	PARENT	SUBSIDIARIES
$100,001 – $110,000	1	–
$110,001 – $120,000	1	–
$130,001 – $140,000	2	–
$140,001 – $150,000	3	–
$150,001 – $160,000	2	–
$180,001 – $190,000	1	–
$190,001 – $200,000	1	–
$220,001 – $230,000	1	–
$230,001 – $240,000	1	–
$240,001 – $250,000	1	–
$260,001 – $270,000	2	–
$300,001 – $310,000	2	–
$530,001 – $540,000	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 25 August 2009:

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	1,181	18.84%	6,333,667	2.06%
10,000 – 49,999	3,847	61.39%	77,286,366	25.16%
50,000 – 99,999	783	12.49%	45,133,000	14.69%
100,000 – 499,999	409	6.53%	59,169,000	19.26%
500,000 – 999,999	20	0.32%	11,884,000	3.87%
1,000,000 plus	24	0.38%	107,391,967	34.96%
	6,267	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 25 August 2009:

DIRECTOR	NUMBER OF BONDS
J Miller	80,000
A Paterson	25,000
M Stiassny	150,000

STATUTORY INFORMATION (CONT.)

BONDHOLDER STATISTICS (CONT.) »»

7.80% SENIOR RETAIL BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
5,000 – 9,999	230	11.12%	1,256,000	0.84%
10,000 – 49,999	1,347	65.14%	24,948,000	16.63%
50,000 – 99,999	289	13.97%	15,586,000	10.39%
100,000 – 499,999	157	7.59%	24,234,000	16.16%
500,000 – 999,999	21	1.02%	13,442,000	8.96%
1,000,000 plus	24	1.16%	70,534,000	47.02%
	2,068	100.00%	150,000,000	100.00%

The following current director of the parent is a holder (either beneficially or non-beneficially) of Vector Limited senior retail bonds as at 25 August 2009:

DIRECTOR	NUMBER OF BONDS
A Carter	10,000

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 25 August 2009:

SHAREHOLDER	ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES HELD
Auckland Energy Consumer Trust	751,000,000	75.10%
New Zealand Central Securities Depository Limited [1]	57,494,815	5.75%
Custodial Services Limited – A/C 3	8,081,531	0.81%
FNZ Custodians Limited	4,307,713	0.43%
Vector Limited	4,244,923	0.42%
Investment Custodial Services Limited – A/C C	3,989,571	0.40%
Custodial Services Limited – A/C 2	2,851,123	0.29%
Private Nominees Limited – residents A/C	1,914,872	0.19%
Forsyth Barr Custodians Limited – Account 1 M	1,601,068	0.16%
Investment Custodial Services Limited – A/C R	1,545,044	0.15%
Custodial Services Limited – A/C 4	1,285,506	0.13%
NZPT Custodians (Grosvenor) Limited	1,274,972	0.13%
Custodial Services Limited – A/C1	1,233,532	0.12%
Custodial Services Limited – A/C 9 – MDZ	1,110,990	0.11%
Masfen Securities Limited	919,714	0.09%
Portfolio Custodian Limited – 044768 A/C	830,000	0.08%
Portfolio Custodian Limited – A/C 085280	810,000	0.08%
Loris Equities Limited	637,018	0.06%
NZ Guardian Trust Company Limited – NZSX 50 Portfolio Index Fund	597,319	0.06%
M A Janssen Limited	566,800	0.06%
	846,296,511	84.62%

[1] New Zealand Central Securities Depository (NZCSD) is a depository system which allows electronic trading of securities to members.
As at 25 August 2009, the 10 largest shareholdings in Vector Limited held through NZCSD were:

SHAREHOLDER	ORDINARY SHARES HELD	PERCENTAGE OF ORDINARY SHARES HELD
HSBC Nominees (New Zealand) Limited A/C State Street	11,366,403	1.14%
Accident Compensation Corporation	10,348,350	1.03%
National Nominees New Zealand limited	8,918,831	0.89%
Citibank Nominees (New Zealand) Limited	7,432,241	0.74%
New Zealand Superannuation Fund Nominees Limited	4,149,668	0.41%
HSBC Nominees (New Zealand) Limited	3,935,513	0.39%
Custody and Investment Nominees Limited	2,455,767	0.25%
ANZ Nominees Limited	2,437,103	0.24%
Guardian Trust Investment Nominees (RWT) Limited	1,494,358	0.15%
TEA Custodians Limited	1,166,355	0.12%

Substantial security holders as at 25 August 2009:

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 25 August 2009, voting securities issued by Vector Limited totalled 1,000,000,000 ordinary shares. Of these shares 4,244,923 are held by Vector Limited with the rights and obligations attaching to those shares being suspended pursuant to the provisions of section 67B of the Companies Act 1993.

Ordinary shares distribution as at 25 August 2009:

RANGE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 499	7,828	19.43%	2,479,959	0.25%
500 – 999	4,099	10.17%	3,206,220	0.32%
1,000 – 4,999	21,632	53.70%	38,512,808	3.85%
5,000 – 9,999	3,231	8.02%	21,324,812	2.13%
10,000 – 49,999	3,128	7.76%	54,920,533	5.49%
50,000 – 99,999	212	0.53%	13,356,311	1.34%
100,000 plus	157	0.39%	866,199,357	86.62%
	40,287	100.00%	1,000,000,000	100.00%

SHAREHOLDER STATISTICS (CONT.)

Analysis of shareholders as at 25 August 2009:

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	1,374	3.41%	15,168,351	1.52%
Individual holders	25,235	62.64%	71,166,953	7.12%
Joint	12,148	30.16%	53,123,930	5.31%
Nominee companies	864	2.14%	99,637,996	9.96%
Vector Limited	1	0.00%	4,244,923	0.42%
Other	664	1.65%	5,657,847	0.57%
	40,287	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 25 August 2009:

DIRECTOR	NUMBER OF SHARES
J Carmichael	1,322
A Carter	21,322
H Fletcher	1,322
J Miller	1,713
A Paterson	20,002
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 2009 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
A Carter	Beneficial	28 August 2008	$2.29	10,000
A Paterson	Non-beneficial	29 August 2008	$2.32	10,000

FINANCIAL CALENDAR

2009	
Annual meeting	October
1st quarter operational update	October
2010	
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter operational update	May
Full year result	August
Final dividend*	September
Annual report	September

*Dividends are subject to board determination

INVESTOR INFORMATION

Ordinary shares in Vector Limited are listed and quoted on the New Zealand Stock Market (NZSX) under the company code VCT. Vector also has senior retail and capital bonds listed and quoted on the New Zealand Debt Market (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

DIRECTORY

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