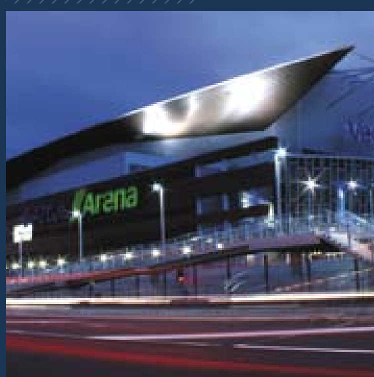
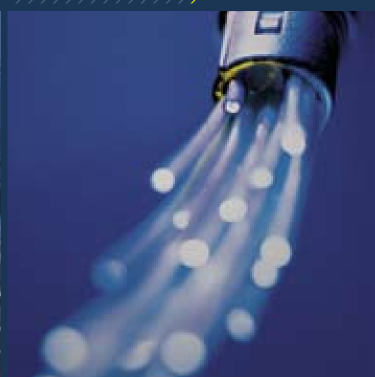
Vector®

Shareholder Review / 2010

VECTOR LIMITED





Welcome /

Welcome to the Vector 2010 shareholder review. As a leading infrastructure company we deliver the energy and communication services that our customers rely on to live, work and play.

Our assets have been integral to the growth of Auckland for the past 100 years and our trials of new technology and converged infrastructure networks will ensure that we'll be just as relevant in the next century, too »

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Operational statistics /

	2010	2009
ELECTRICITY		
Customers	528,245	523,394
Volume distributed (GWh)	8,168	8,240
Networks length (km)	17,661	17,539
GAS TRANSPORTATION		
Distribution customers	152,267	149,516
Distribution volume (PJ)	21	21
Distribution mains network length (km)	6,956	6,907
Transmission volume (PJ)	94	92
Transmission system length owned (km)	2,292	2,286
Transmission system length operated/managed (km)	1,282	1,230
GAS WHOLESALE		
Natural gas sales (PJ)*	32	31
Gas liquids sales (tonnes)	73,436	80,946
Liquigas LPG throughput (tonnes)	66,096	129,277
Liquigas LPG tolling** (tonnes)	109,969	99,758
TECHNOLOGY		
Electricity: smart meters	114,272	50,029
Electricity: simple meters***	624,535	665,358
Electricity: prepay meters	6,384	7,568
Electricity: time of use meters	11,132	11,084
Gas meters	77,595	75,467
Data management services connections	8,807	15,232

528,245

ELECTRICITY CUSTOMERS

152,267

GAS DISTRIBUTION CUSTOMERS

756,323

ELECTRICITY METERS

8,168

ELECTRICITY VOLUME DISTRIBUTED (GWh)

17,661

ELECTRICITY NETWORKS LENGTH (km)

21

GAS DISTRIBUTION VOLUME (PJ)

32

NATURAL GAS SALES (PJ)

114,272

ELECTRICITY SMART METERS

* Excludes gas sold as gas liquids as these are included within the gas liquids sales tonnage.
** Tolling volumes include product tolled in Taranaki and further tolled in the South Island.
*** ICPs

MICHAEL STIASSNY
Chairman

Growing with Auckland and New Zealand

Vector continues to grow, recording a pleasing and steady lift in financial performance in the face of continued challenging economic conditions and subdued customer demand »

Last year we noted that global economic conditions had been the most challenging in decades. Twelve months on there are signs of improvement, but the global and domestic economic recovery is fragile. There is a long way to go before conditions return to pre-recession levels.

Vector remains in good health with more customers, larger networks and viable growth options. From a financial perspective we have improved profit, a strong balance sheet and funds available to grow.

Although electricity consumption declined slightly this year due to warmer early winter temperatures, gas volumes improved and customer numbers across our energy distribution networks grew by 1.1%.

The biggest value driver for Vector's network businesses is regulation. New Zealand's Government has earmarked infrastructure spending as a way to drive economic growth but unless the regulatory environment is supportive, the sector will struggle to attract the capital required.

As a leading infrastructure company we are an active voice in the current regulatory debate and will continue to strive for a result that balances appropriate commercial returns with customer outcomes.

Alongside the other bidders for the Government's ultra fast broadband initiative, we await the decision of Crown Fibre Holdings. With a 10 year track record in fibre networks Vector has made a strong case for an open access nationwide fibre to the door network. Together with members of the New Zealand Regional Fibre Group we can bring ultra fast fibre to about 80% of New Zealanders.

Each year more than 95% of our dividend stays in New Zealand, and under our fibre submission, shareholders will benefit economically, as well as socially. If it stacks up commercially we are well positioned and a strong contender to provide Auckland's fibre to the door solution.

FINANCIAL PERFORMANCE

Net profit after tax (NPAT) is $193.5 million. Included in this year's result is a one time, non cash gain due to changes in the tax regime announced by the Government in this year's budget. Excluding this gain, underlying NPAT is $172.6 million, a 4.7% improvement on 2009.

DIVIDEND

The board has declared a final dividend of 7.5 cents per share, taking the total dividend for the year to 14 cents, up from 13.75 cents for 2009. The final dividend will be fully imputed at the prevailing company tax rate of 30 percent.

SUMMARY

Despite the challenges, Vector has recorded another year of pleasing profit growth. The board thanks Vector's employees and shareholders for their continued support.

MICHAEL STIASSNY
Chairman

Solid financial performance /

$578.1m

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

$193.5m

NET PROFIT AFTER TAX

IMPROVED DIVIDEND

Vector's dividend policy is to target a dividend payout ratio of 60% of free cash flows on average over time (net of replacement capital expenditure) subject to maintaining an investment grade credit rating. This year's dividend is a 1.8% increase on 2009 and represents a payout ratio of 51% of free cash flows and reflects the board's view of the current regulatory environment and growth options available to the company.

Improved balance sheet strength /

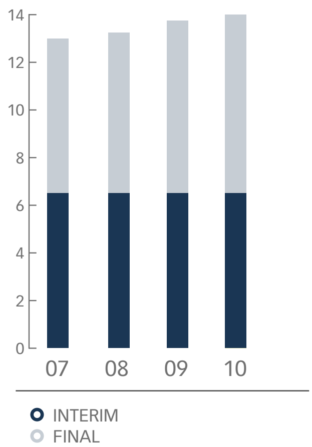
54%

NET DEBT/NET DEBT + EQUITY

BBB+/stable

STANDARD & POOR'S RATING RETAINED

DIVIDENDS DECLARED CENTS PER SHARE



SIMON MACKENZIE
Group Chief Executive Officer

Steady result, outstanding team

This year the team at Vector has delivered improved network reliability and customer service across our core networks of gas and electricity as well as pursuing significant growth opportunities in smart metering and the Government's ultra fast broadband initiative »

Our business faces both challenges and opportunities in each of its segments. In electricity and gas transportation we are in the midst of a regulatory reset that will determine rates of return and prices for the next five years.

In gas wholesale we are facing the wind down of our legacy natural gas contracts, intense competition and the expiration of legacy LPG contracts saw Liquigas change its business model and begin to charge for access to its infrastructure.

In technology we are installing smart meters at a record rate and our communications business lodged a compelling commercial submission to be part of the Government's ultra fast broadband initiative.

Despite the prevailing economic conditions and warmer temperatures affecting electricity volumes, Vector has reported a pleasing and steady improvement in financial performance, with underlying net profit after tax increasing by 4.7%.

> "Our many achievements would not be possible without the dedication of our team."

Revenue increased by 1.1% to reach $1,187 million. EBITDA declined by 0.7% to $578 million. Electricity EBITDA rose 6.3% to reach $356 million, gas transportation EBITDA improved by 4.8% to $160 million, gas wholesale EBITDA declined $17 million to $64 million and technology EBITDA was flat at $52 million.

REGULATION

Regulation is the most significant factor influencing the returns in our business. We have been actively engaging with the Commerce Commission as it determines new input methodologies that will govern our pricing, asset valuation, cost allocation and return on investment for the next five years.

With billions of dollars invested in infrastructure assets, alongside regulatory certainty there has to be adequate and appropriate incentives to invest and attract shareholders and lenders to our business. The Government has mandated appropriate commercial returns and we believe that this approach serves the long term interests of all stakeholders.

Regulation must be an appropriate mix of theory and commercial reality.

We would like to see incentives to invest in our infrastructure networks, for developing energy efficient solutions giving customers more choice, for undergrounding more of our electricity network in response to demand and for delivering even better service outcomes for customers.

The current direction of the regime provides no such incentives and remains uncertain. We will continue to strongly pursue the right regulatory regime for the long term interests of our business, shareholders and customers.

SECURITY OF SUPPLY

Vector works closely with Transpower on security of electricity supply issues that affect the Auckland region. This year we signed a conditional agreement to provide Transpower with long term access to some of our assets, including the tunnel that links Auckland's CBD to Penrose.

Transpower will bring additional bulk electricity supply to the region, strengthening electricity reliability to Auckland and north of Auckland. This contract is expected to generate $53 million paid over two years.

FIBRE

We are a strong contender to participate in the Government's ultra fast broadband initiative and believe our infrastructure experience and local ownership set us apart from other bidders.

Open access networks is what we do. We've had a fibre network for the past 10 years providing services to mobile phone network operators, television companies and internet service providers. Our solution for Auckland has no legacy copper assets to leverage or complex structural issues to contend with.

We have advocated for, and are already delivering, open access fibre to the door. Vector has the best solution for Auckland and together with the New Zealand Regional Fibre Group the best solution for New Zealand – locally owned, simple, clean, fast and ultimatum free.

There has been a lot of news commentary devoted to the fibre debate, but what is most important is keeping pace with our trading partners and driving economic growth. Fibre deployment has to happen quickly. As part of our fibre to the door awareness campaign, we asked the people of New Zealand to join the discussion. We were overwhelmed with more than 70,000 hits to our dedicated website, with most of them asking: "When can I get fibre to the door?"

If we get the opportunity and providing it makes commercial sense, we're ready to expand our fibre network now.

RENEWABLE ENERGY

Last year we shared our vision for the home of the near future and this year Vector has taken a further step towards making this vision a reality with two significant projects.

In partnership with Hubbards Foods we are trialling New Zealand's largest installation of second generation thin film solar panels to help determine the suitability of this technology to local conditions and the impact on our electricity network. In the future many homes and businesses could be providing home generated electricity back to the grid. Vector needs to understand the technical viability as well as the commercial opportunities offered by this technology.

At Hobsonville Point, we are providing an integrated fibre and energy solution to Auckland's newest residential development. We have future proofed the development's electricity infrastructure to facilitate alternative energy generation and take advantage of emerging technologies.

> "Our fibre solution is locally owned, simple, clean, fast and ultimatum free."

PEOPLE

Our many achievements would not be possible without the dedication of our team. The past couple of years have been challenging, particularly as there were no salary adjustments or bonuses paid in 2009. Nevertheless, our staff continue to support the business with effort, ideas and enthusiasm, which has been most appreciated.

LOOKING AHEAD

We will be vigorously pursuing growth opportunities, driving efficiencies and adding to our networks in line with the continuing expansion of the Auckland region. In the regulatory debate we will be an active and vocal participant as we seek commercial returns balanced with customer outcomes and we'll strive to improve our network reliability and customer service, building on our success of the past 12 months.

SIMON MACKENZIE
Group Chief Executive Officer

Service and delivery

OUR BUSINESS

› Electricity networks servicing more than 528,000 customers in Auckland

› Natural gas distribution networks servicing more than 152,000 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 more than 28,000 customers throughout New Zealand

› Electricity and gas metering services via approximately 834,000 meters* at homes and businesses throughout New Zealand

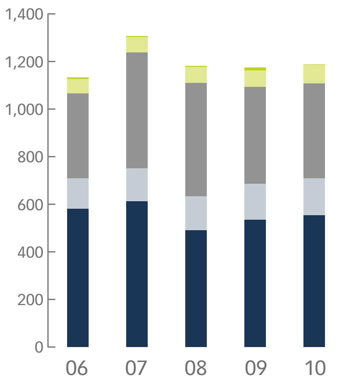
› Fibre optic broadband communications networks in Auckland and Wellington

› A multi-utility training facility

› Fifty percent owner of a professional arboriculture and vegetation management company

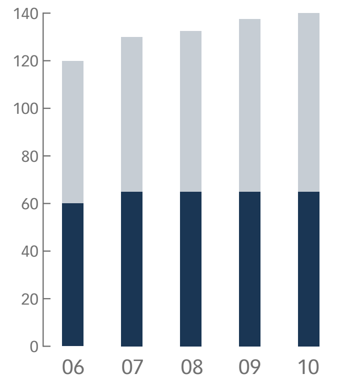
* ICPs

TOTAL INCOME[1]
$ MILLION



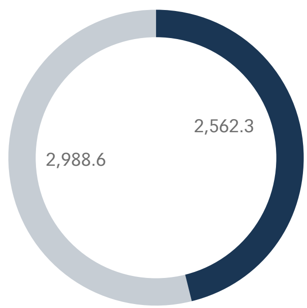
ELECTRICITY
GAS TRANSPORTATION
GAS WHOLESALE
TECHNOLOGY
OTHER

DIVIDENDS DECLARED
$ MILLION



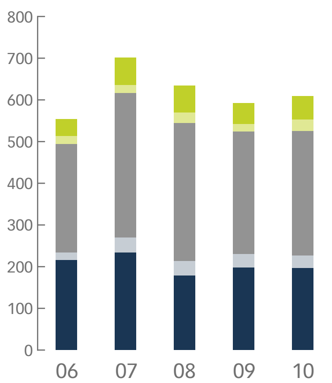
INTERIM
FINAL

SOURCE OF FUNDING $ MILLION
AS AT 30 JUNE 2010



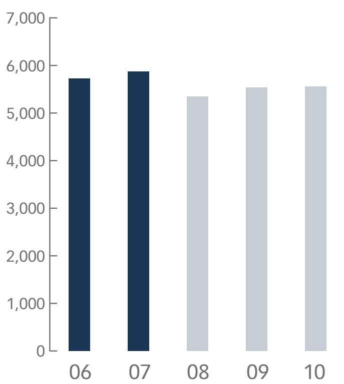
TOTAL DEBT
EQUITY AND OTHER LIABILITIES

OPERATING EXPENDITURE[1]
$ MILLION



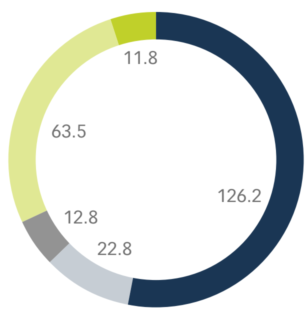
ELECTRICITY
GAS TRANSPORTATION
GAS WHOLESALE
TECHNOLOGY
OTHER

TOTAL ASSETS[1]
$ MILLION



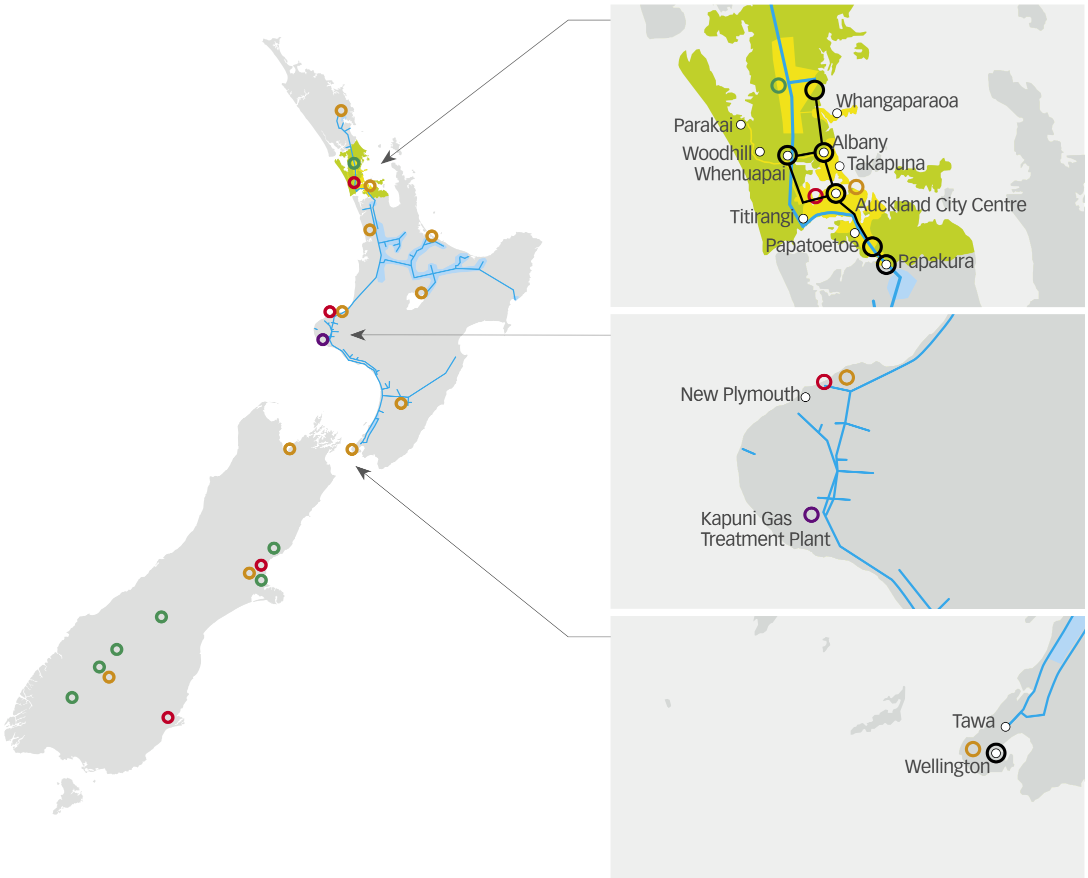
AFTER WELLINGTON NETWORK SALE
BEFORE WELLINGTON NETWORK SALE

CAPITAL EXPENDITURE $ MILLION
FOR THE YEAR ENDED 30 JUNE 2010



ELECTRICITY
GAS TRANSPORTATION
GAS WHOLESALE
TECHNOLOGY
OTHER

COVERAGE AREA



KEY

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

Financial highlights[1]

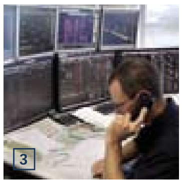
YEARS ENDED 30 JUNE	2010 $MILLION	2009 $MILLION	CHANGE %
Total income	1,187.4	1,174.2	+1.1
EBITDA	578.1	582.2	-0.7
Depreciation and amortisation	(156.3)	(145.4)	+7.5
EBIT	421.8	436.8	-3.4
NPAT attributable to shareholders of Vector Limited	193.5[2]	164.9	+17.3
Total equity	2,084.2	2,058.9	+1.2
Total assets	5,550.9	5,538.6	+0.2
Net debt (net of cash and short term deposits)	2,447.5	2,485.7	-1.5
KEY FINANCIAL MEASURES			
EBITDA/total income	48.7%	49.6%	-1.8
EBIT/total income	35.5%	37.2%	-4.6
Equity/total assets	37.5%	37.2%	+0.8
Gearing (net debt/net debt+equity)	54.0%	54.7%	-1.3
Net interest cover (EBIT/net finance costs)	2.5 times	2.3 times	+8.7
Earnings (NPAT) per share	19.4 cents[3]	16.5 cents[3]	+17.6
Dividends declared per share (fully imputed)	14.00 cents	13.75 cents	+1.8

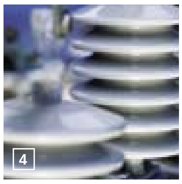
[1] Prepared on a continuing operations basis excluding the Wellington electricity network in financial years 2008 to 2010; Results reported under NZ IFRS from 1 July 2006; Year ended 30 June 2006 reported under previous NZ GAAP.

[2] Includes $20.9 million one-off, non-cash decrease in deferred tax liability due to tax regime changes announced in the 2010 Government budget.

[3] Calculated using a weighted average number of shares of 995,755,077 (2009: 997,221,099) due to treasury shares purchased during prior period.

Essential infrastructure





1. Our Auckland CBD to Penrose tunnel
2. The efforts of Vector's frontline employees and contractors substantially reduced outage times
3. Control room staff monitor the load across our networks
4. High voltage electricity insulators

6,422
VISITORS TO VECTOR'S ONLINE OUTAGE CENTRE

4,851
NEW CONNECTIONS

$163.9m
SPENT ON GROWING, REPLACING AND MAINTAINING THE NETWORKS

122km
GROWTH IN ELECTRICITY NETWORKS LENGTH

66.8mins
SAIDI PERFORMANCE

The operation of a long term business like electricity infrastructure has to transcend recessionary conditions. At Vector we continue to invest for the future growth of our network, improve our performance and serve our customers better than ever »

Electricity revenue improved by $20.3 million to reach $553.9 million, and earnings before interest, tax, depreciation and amortisation (EBITDA) grew $21.2 million to reach $355.8 million.

Demand for electricity is heavily influenced by the weather, and Auckland's weather in 2010 was on average warmer than the year before. This was reflected in electricity volumes declining 1% to 8,168 gigawatt hours, compared to 8,240 gigawatt hours for 2009.

Electricity connections continue to rise, reflecting growth in the Auckland region. As Auckland's population grows, so do our customer numbers, which were up 4,851 on the year before. We are encouraged by a lift in customer contributions for new connections and relocations, a possible leading indicator of improved growth.

CAPITAL EXPENDITURE

Each year we invest significantly to build new network capacity in anticipation of future growth, replace existing components and carry out repairs and maintenance. Significant projects included in our 2010 $126 million capital spend include work to add bulk capacity and reinforce security of supply to Auckland's CBD and the North Shore.

We continue our substation construction and upgrade programme with eight substations either built, under construction or significantly upgraded during the year.

We have been working alongside the Rugby World Cup organisers to provide technical advice and support in preparation for the event next year.

CUSTOMER SERVICE AND NETWORK PERFORMANCE

Last year we reported our goal of improving customer service and network reliability. While there is always more that can be done, we have lifted our performance in both of these areas due to a renewed focus on service and enhanced communication.

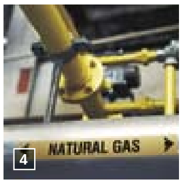
We have introduced a number of measures to communicate outage status updates to our customers, and now use our website, text and twitter. In the past year customer visits to our outage centre www.vector.co.nz/outages increased by 167% as customers use new technologies such as iPhones to access this information.

Mild, settled weather, a proactive approach to vegetation management and changes to our network configuration have achieved a very pleasing improvement in network performance. The concerted efforts of frontline Vector employees and contractors to respond to service disruptions and improve network performance and reliability saw the power restored in just over an hour in the case of most outages.

The SAIDI index (system average interruption duration index) showed the average time a customer was without power was 66.8 minutes for the year to 31 March 2010. This compares favourably to the target of 104 minutes set by the Commerce Commission and 2009's SAIDI performance of 104.1 minutes.

"We have improved customer service and network reliability due to a renewed focus on service and enhanced communication."

Making connections



21PJ
VOLUME DISTRIBUTED ON THE GAS DISTRIBUTION NETWORK

$159.7m
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

1. Kupe natural gas is shipped around the North Island using our transmission network
2. Customer connections to our distribution network grew faster this year
3. We supply natural gas to over 30 towns and cities in the North Island
4. A gas distribution network nearly 7,000 km long

$38.0m
SPENT ON GROWING, REPLACING AND MAINTAINING NETWORK CAPACITY

94PJ
VOLUME DISTRIBUTED ON THE GAS TRANSMISSION NETWORK

2,751
NEW GAS CONNECTIONS

Our gas transportation business involves the shipping of natural gas around the North Island. We own significant gas network infrastructure and also manage gas transmission pipelines for other industry participants »

"We have seen improvement in revenue, earnings, volumes and connections."

This year we have seen improvements in revenue, earnings, volumes and connections. Revenue grew to $194.2 million up 2.2% on 2009. In addition to CPI price adjustments in accordance with regulation, volumes increased marginally and customer contributions revenue grew. We also entered into new agreements for capacity access to our transmission pipelines. Earnings before interest, tax, depreciation and amortisation (EBITDA) was $159.7 million, up $7.3 million on the year before.

GROWTH

Customer connections in gas distribution grew 2,751 or 1.8% to 152,267, improving on 2009's growth rate of 1.6%. While volumes were down slightly at 21.1 petajoules, we are heartened by the increase in customer contributions as a potential early sign of future connections growth. Gas transmission volumes grew 2.4% to 94.3 petajoules.

This year nearly $23 million was invested in building new or replacing existing gas infrastructure. A significant gas transmission capital project in Auckland's Westfield-Southdown area has improved security of supply. Work was undertaken by Vector and a team of international experts over 18 months to build a new pipeline and prepare for the imminent lowering of the main trunk rail line.

LEADING THE INDUSTRY

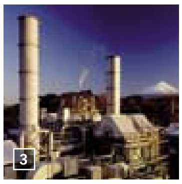
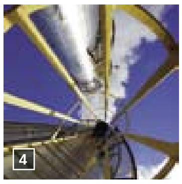
Vector is working with Government agencies, regulatory bodies, shippers and large users of natural gas to understand the current and future needs of the northern transmission pipeline.

We will be working with the industry to manage load on the pipeline and with Government to find a long term solution which protects our existing contractual arrangements and creates an environment in which commercial firms can build, manage and make profit from new infrastructure.

We play a leading role in the operation of New Zealand's gas transmission system. As the critical contingency operator (CCO), appointed by the Gas Industry Company we are the lead agency in managing events impacting New Zealand's security of natural gas supply. Our role is to provide leadership and protocols to be followed in the event of a national gas supply emergency.

New Zealand's newest natural gas field, Kupe, is expected to provide between 10% and 15% of the country's natural gas demand and commenced production in December 2009. The newly commissioned connection to our transmission pipeline, enables the field's operators to ship gas around the North Island.

Adapting to change

1. OnGas has grown its share of the higher margin cylinder market
2. Our Kapuni gas treatment plant celebrates its 40th birthday in 2010
3. Our Kapuni plant is a major asset on the Kapuni field
4. Driving efficiencies, innovation and productivity is a major focus for our Kapuni team

98.4%

UPTIME AT KAPUNI GAS PROCESSING PLANT

$64.1m

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

109,969t

LIQUIGAS TOLLING VOLUMES

32PJ

NATURAL GAS SALES

28,453

ONGAS LPG CUSTOMERS

Our competitive gas wholesale segment comprises our activities as a processor and wholesaler of natural gas and related products, and as an importer, wholesaler, retailer and storer of LPG »

GAS WHOLESALE

Alongside the core task of getting on with business we faced a number of complex challenges this year including a potential redetermination of Kapuni gas reserves, the continued wind down of legacy contracts, emissions trading and a change in business model for Liquigas.

Revenue was $402.8 million, a 2.5% decrease on the year before and as expected, earnings before interest, tax and depreciation (EBITDA), declined by $16.6 million to $64.1 million, reflecting the decreasing contribution from legacy gas contracts.

GAS SALES

The gas sales team has won new business and recontracted customers, to diversify our portfolio.

Our long term legacy contracts have provided a well priced source of natural gas that we have been able to sell at good margins. As these legacy contracts expire, so does our ability to maintain our historically high gas trading margin. We have been active in replacing our legacy contracts with medium term supply agreements and remain in a strong position matching gas supply to a portfolio of customer contracts.

KAPUNI REDETERMINATION

As we previously reported the Kapuni Mining Companies (KMC) called for a redetermination downward of the original recoverable gas reserves (ORGR) of the Kapuni field. We sought advice from an international petroleum reservoir expert who analysed the field data and concluded that there is significantly more gas remaining in the Kapuni field than estimated by the miners. Since presenting our evidence to the KMC in February this year, they have taken no further steps to pursue a redetermination and two new wells at Kapuni have been drilled, one of which has begun producing. In our view this is further evidence that if the redetermination was pursued the quantity of ORGR would be increased not decreased.

KAPUNI GAS TREATMENT PLANT

At Kapuni, we process natural gas, producing LPG and by-products such as CO_2, that is used in the soft drinks industry. In its 40th year, our plant remains a major asset on the Kapuni field and achieves consistently high levels of uptime and reliability. Our team continues to drive efficiencies, innovation and productivity improvements.

LPG

Despite a flat LPG market, our OnGas subsidiary has grown market share in the higher margin cylinder business. We have also grown our presence with the purchase of two businesses, began shipping LPG to the Pacific Islands and now have over 28,000 customers. We have a contract for supply from the Kupe field and have begun to sell and ship Kupe LPG around the North Island.

LIQUIGAS

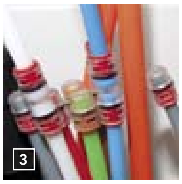
Vector holds a 60.25% share in Liquigas, a company that stores, distributes and trades in bulk LPG, operating from depots in Auckland, Taranaki, Christchurch and Dunedin.

In December 2009 Liquigas' long term contract for LPG sourced from the Maui field expired. This required a change in focus and business model. The company is now deriving revenue from the use of its infrastructure, and has negotiated long term contracts with all its customers.

"We remain in a strong position, matching gas supply to customer contracts."

Rapid growth






1. Vector is leading provider of open access fibre networks
2. We have accelerated our installation rate of smart meters this year
3. Our fibre optic network continues to grow
4. The Fibre to the Door campaign caught the nation's imagination

12.4%
INCREASE IN TECHNOLOGY REVENUE

72,931
VISITS TO THE FIBRE TO THE DOOR WEBSITE

$63.5m
CAPITAL EXPENDITURE

39%
EXPANSION OF FIBRE OPTIC NETWORK

114,272
SMART METERS INSTALLED

It has been a busy and productive year for Vector's growing technology businesses as we more than doubled our deployment of smart meters, expanded our high speed fibre optic communications network and lodged a compelling commercial proposal to supply ultra fast fibre broadband to the door of Aucklanders »

Alongside these achievements we have grown technology revenue by 12.4% to $79.8 million.

METERING

Metering is a vital component of any infrastructure business, and Vector provides gas and electricity metering infrastructure in Auckland and across New Zealand.

We see a big future for smart meters, particularly as the technology has the potential to deliver solutions across a wide range of utilities and related services. This new technology presents Vector with a significant opportunity to grow its presence in metering and we are actively pursuing new customers and contracts.

Until recently, Vector delivered on its smart meter objectives through an investment in Advanced Metering Services, a company owned in 50:50 partnership with Siemens. In January, we bought Siemens's share and now own 100% of our smart meter business. Since then we have accelerated our smart meter installation rate.

We now have 114,272 smart meters installed as we fulfil our contracts with Genesis Energy and Contact Energy. To protect our smart meter assets and future revenue we have completed switching agreements with almost all major electricity retailers. These agreements facilitate competition in the retail electricity market and protect our smart meter revenues.

FIBRE

Our communications business has again expanded in the past 12 months.

In addition to extending our high speed fibre optic Auckland network, we have won significant new corporate accounts and in June commenced delivering services in Christchurch on behalf of our Auckland customers.

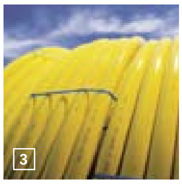
The biggest opportunity for our communications business is the Government's ultra fast broadband initiative, but only if it stacks up commercially. In January we lodged our proposal to supply fibre to the door of every home and business premises in Auckland, and we took the fibre debate to the people of New Zealand with our 'Fibre to the Door' awareness campaign.

As a foundation member of the New Zealand Regional Fibre Group we were instrumental in coordinating regional electricity lines and fibre companies to work together, submitting closely aligned urban and rural proposals for fibre roll outs covering approximately 80% of New Zealand.

In short, we are doing everything that we can to position Vector as a viable and credible provider of fibre services, and alongside other bidders in this process await the decision of Crown Fibre Holdings.

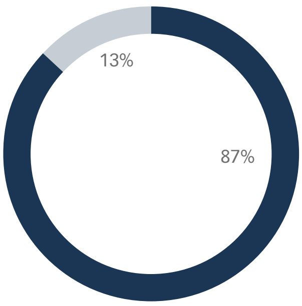
"We took the fibre debate to the people of New Zealand with our 'Fibre to the Door' awareness campaign."

Balanced outcomes



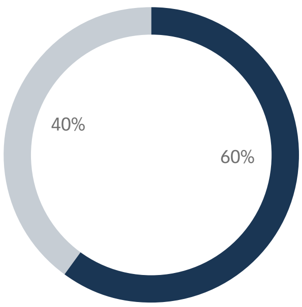
1. We would like to see incentives to put more of our network underground
2. We have billions of dollars invested in our infrastructure assets
3. Investment in infrastructure is a cornerstone of economic growth
4. Low voltage insulator

ASSETS[1]
AS AT 30 JUNE 2010



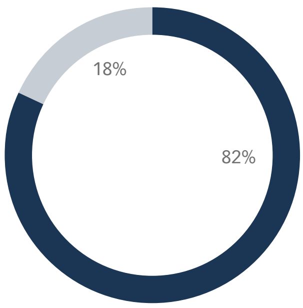
REGULATED[4]
UNREGULATED

REVENUE[2]
YEAR ENDED 30 JUNE 2010



REGULATED[4]
UNREGULATED

EBITDA[3]
YEAR ENDED 30 JUNE 2010



REGULATED[4]
UNREGULATED

[1] Calculated as the net assets for the electricity and gas transportation segments as a percentage of the total assets in the four operating segments.
[2] Calculated as the external operating revenue for the electricity and gas transportation segments as a percentage of total external operating revenues.
[3] Calculated as EBITDA for the electricity and gas transportation segments as a percentage of the total EBITDA in the four operating segments.
[4] The electricity and gas transportation segments are subject to regulated price path controls.

Regulation is a key area of focus and value driver for Vector. It is one of the biggest factors influencing the operational and financial performance of the company »

Our network businesses are subject to regulation by the Commerce Commission, under the provisions of the Commerce Act 1986.

Regulation is imposed where there is a lack of competition, or where competition is unlikely. Vector's electricity, gas distribution and gas transmission network businesses are three such examples.

The goal of regulation is to promote competitive outcomes. In order to achieve this, various factors including Vector's prices, asset values, method of allocating costs across business units and tax treatments are controlled to ensure balance between the interests of consumers (network reliability and acceptable pricing) and returns to investors. These factors are called input methodologies. Because the domestic and global economies and business environment are dynamic, the input methodologies are reviewed and updated every seven years.

Setting the input methodologies in this way helps to provide regulatory certainty to companies like Vector. Once the input methodologies are determined they will form the basis of a review of Vector's prices. This process is called a 'regulatory reset', and Vector is currently in the middle of a regulatory reset that will govern prices and other inputs from 2012.

IMPORTANCE OF INFRASTRUCTURE

Investment in infrastructure is a cornerstone of economic growth and from a holistic perspective, regulation has a big part to play in improving New Zealand's economic outlook.

The challenge for the Commerce Commission is to create a regulatory environment for infrastructure that supports the country's economic objectives and meets the Government's vision of regulatory certainty and commercially realistic returns.

We have said all along that regulation must provide certainty and stability for investment.

For a company like Vector that may invest nearly $2.5 billion in its network businesses over the next decade as well as relying heavily on overseas lenders for funding, the current input methodologies are an incomplete and inappropriate package.

We'd like to see the regulatory environment create a win: win outcome for customers and commercial interests.

KEEPING PACE WITH AUSTRALIA

Alongside economic growth, closing the gap with Australia is a key goal of the Government. Australia's economy is strong and one of the few to escape a recession as a result of the global financial crisis. The Commission's draft decision on weighted average cost of capital (WACC), that sets the returns that network infrastructure companies can earn, doesn't support this goal. New Zealand WACCs can't be the same or below the level set by Australian regulation, given the need to attract capital to New Zealand.

REGULATION HAS ITS PLACE

Vector understands the need for regulation. Our submissions to the Commerce Commission seek better outcomes for Vector and the long term interests of customers.

Our business depends on international capital being attracted to New Zealand by realistic commercial returns. We argue that commercial terms that foster investment and improved network reliability align with customer interests. An unbalanced result in this current reset process would be a short sighted outcome. To view our submissions to the Commerce Commission, visit: www.vector.co.nz/corporate/submissions

"Regulation has a big part to play in improving New Zealand's economic outlook."

Valuing our communities

1. Crossing the Road to Safety wins the safety category in the New York Telly Awards
2. Gladstone School year six students learn about electricity safety
3. Vector Arena – Auckland's premier entertainment venue
4. Vector Wellington Orchestra baby pops programme introduces classical music to school children

2,000

EMPLOYEES AND CONTRACTORS ATTENDED VECTOR'S SAFETY DAY

82,000

PEOPLE ENTERTAINED BY THE VECTOR WELLINGTON ORCHESTRA

360,954

PEOPLE ATTENDED AN EVENT AT THE VECTOR ARENA THIS YEAR

59%

IMPROVEMENT IN LOST TIME INJURY FREQUENCY RATE

12,032

SCHOOL CHILDREN LEARNT HOW TO STAY SAFE AROUND ELECTRICITY THIS YEAR

We have strong links with the community reinforcing the message of safety for those in and around our networks. Since 2005 more than 70,000 Auckland school children have learnt how to stay safe around electricity, sharing the message with friends and whanau »

Our long standing partnerships with Vector Arena and Vector Wellington Orchestra enable hundreds of thousands of people to be entertained every year, and we continue to build on the leadership skills of Vector employees as well as providing special networking opportunities for our female leaders through our Global Women sponsorship.

SAFETY

The safety of our employees, contractors and the community is a top priority for Vector. We work hard to promote the safety message and ensure that our safety policy is much more than just words on a page.

This year, more than 2,000 employees and contractors attended Vector's safety day seminars, held in Auckland, Hamilton, Wellington, Taranaki and Christchurch. Attendance was compulsory for every employee, regardless of their role.

The programme included a special dvd presentation, '*Crossing the Road to Safety*', commissioned to illustrate the importance of safety. Starring Vector employees and contractors in real life situations, alongside local celebrity Pio Terei, it won accolades in two prestigious international competitions. To view the dvd visit: www.vector.co.nz/safety and click on the link.

To support the safety of our customers and the wider community we provide important safety information and advice for people working around our networks, boaties and DIYers.

Educating young users of electricity is important too. Since 2005, primary school children in the Auckland region have been learning how to stay safe around electricity with Vector's help. More than 12,000 school children heard this important message this year. A new sustainable energy module, aimed at year five and six students will be launched in term four of 2010.

COMMUNITY

We are an active member of the communities in which we operate, and support a number of long term sponsorships. Our involvement with the Vector Wellington Orchestra enables the orchestra to introduce classical music to school children and pre schoolers, and present its highly successful subscription series and outdoor concerts. The orchestra performs with prestigious performers from New Zealand and abroad and accompanies other arts organisations in New Zealand such as the Royal New Zealand Ballet, NBR New Zealand Opera, Wellington Musical theatre and the Orpheus Choir.

Auckland's Vector Arena plays host to rock bands, family themed shows and sporting and business events. It is a vital piece of infrastructure and focal point for the Auckland community that we are proud to be associated with. Nearly 361,000 people attended an event at the arena this past year.

Vector also supports the New Zealand Shareholders' Association and Kiwi Can, a life skills and values programmes for 5 to 12 year olds. Delivered through primary and intermediate schools, Kiwi Can aims to equip young New Zealanders with a sense of self worth and self confidence and the ability to take responsibility and be accountable for their actions.

PEOPLE

Our people bring our business to life and Vector is committed to building the skills of employees in all positions. Our future success partly depends upon fostering our talent pool so that we have the right people with the right skills. This year 21 of Vector's future leaders completed The University of Auckland's Business School's Excelerator leadership programme. The next step in building leadership capability will focus on people who lead teams and those with specialised technical knowledge. This group will receive individual coaching and a personalised development plan to help them realise their leadership potential.

Our association with New Zealand Global Women provides Vector's female leaders with the opportunity to network with and learn from some of New Zealand's most recognised and accomplished senior women leaders. This year we were privileged to host Dame Jenny Shipley who spoke about women in leadership roles in the utility industry.

"Our safety policy is much more than just words on a page."

Directors' profiles

With the guidance of the board, Vector maintains its position as a leading multi infrastructure company »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1» Michael Stiassny

BCom, LLB, CA

CHAIRMAN AND INDEPENDENT DIRECTOR

Michael Stiassny 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, and chairman of the Institute's Auckland branch. Michael has been on the Vector board for eight years.

2» Peter Bird

BA, MA, PhD

INDEPENDENT DIRECTOR

Peter Bird is a managing director of investment banking at Rothschild. His 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. Peter has worked as an economic consultant, as an economic researcher in the oil and nuclear sectors and as an academic economist at Stirling University. Peter has been on the Vector board for three years and four months.

3» James Carmichael

BE, FIPENZ

NON-INDEPENDENT DIRECTOR

James Carmichael is a trustee of the Auckland Energy Consumer Trust and an executive of Energy Trusts New Zealand (ETNZ). His significant international energy sector experience includes responsibility for multi billion dollar energy assets and acquisition strategy for PowerGen International Limited and thermal and hydro power generation investment decisions for Ranhill Power Berhad. James has been on the Vector board for one year and 11 months.

4» Tony Carter

BE (Hons), ME, MPhil

INDEPENDENT DIRECTOR

Antony (Tony) Carter is managing director of Foodstuffs (Auckland) Limited and managing director of Foodstuffs (NZ) Limited, roles that he has held since 2001. He has a long career in the retail sector, including director and chairman of Mitre 10 New Zealand Limited. Tony will be leaving Foodstuffs at the end of the year, to become a fulltime independent director. He has been appointed to the board of directors of Fletcher Building Limited from 1 September 2010. Tony has been on the Vector board for three years and four months.

5» Hugh Fletcher

BSc, MBA (Stanford), MCom (Hons)

INDEPENDENT DIRECTOR

Hugh Fletcher is a former CEO of Fletcher Challenge Limited and is currently a non-executive director and deputy chair of the Reserve Bank of New Zealand, and a director of 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. Hugh has been on the Vector board for three years and four months.

6» James Miller

BCom, FCA

INDEPENDENT DIRECTOR

James Miller has 20 years' experience in the energy industry, specialising 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, an accredited director of the Institute of Directors and has attended the Harvard University Advanced Management Programme. He is presently a board member of the New Zealand Exchange and Auckland International Airport. James has been on the Vector board for one year and three months.

7» Alison Paterson

CNZM, QSO, DCom(hc), FCA, ADistFInstD

INDEPENDENT DIRECTOR

Alison Paterson 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) and the Oversight Committee at Ambulance NZ and former chairman of the Electricity and Gas Complaints Commission. She is also a board member of Metrowater Limited, Stevenson Group Limited and Nga Pae o Te Maramatanga (Maori CoRE), and a councillor of Massey University. Alison has been on the Vector board for three years and six months.

8» Karen Sherry

MA (Hons), LLB (Hons)

NON-INDEPENDENT DIRECTOR

Karen Sherry has been a trustee since 1994 and is a former chair of the Auckland Energy Consumer Trust. She is also the 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. Karen has been on the Vector board for four years and two months.

9» Bob Thomson

BEng (Electrical), DipBS

INDEPENDENT DIRECTOR

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

Directors' tenure as at September 2010

Management team profiles

The collective skills of our management team helps Vector adapt to changing markets and develop new ones »

1» Simon Mackenzie

Grad Dip BS (Dist), Dip Fin, NZCE

GROUP CHIEF EXECUTIVE OFFICER

During his 12 years with Vector, 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 joined Vector from Ernst & Young where he led its national financial services practice and was a partner in its assurance and advisory division. Prior to his accounting career, he worked in the UK power generation industry. Alex is a member of the Institute of Directors.

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» Daniel McCarthy

M.Eng, M.A. (Hons)

GROUP GENERAL MANAGER COMMERCIAL

Daniel leads commercial activity and customer relationships across the group's infrastructure businesses, and 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 delivering strong commercial outcomes for shareholders.

5» 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 at 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 and overseas. David has been with Vector since September 2008.

6» 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 station developments.

7» David Worsnop

BE (Hons)

GROUP GENERAL MANAGER SERVICE DELIVERY

David leads Vector's service delivery activities across the gas distribution, gas transmission and electricity distribution networks.
David brings a wealth of expertise to Vector having had over 35 years' experience in the infrastructure sector. He joined Vector in 2008 having previously been the CEO of Hastie NZ, an Australasian building services and climate control group of companies.

Guiding principles

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

This section provides an overview of Vector's main corporate policies, practices and processes which have been adopted by and are followed by Vector's board. More information can be found at www.vector.co.nz/corporate/investor-relations/governance

Vector's securities are listed on NZX Limited's NZSX. The capital bonds and senior bonds of Vector are quoted on that exchange. Vector's governance practices comply with the NZSX Listing Rules, relevant laws and Vector's constitution.

Our governance practices incorporate the Securities Commission's Corporate Governance Principles, the NZX Corporate Governance Best Practice Code and adopts best practice in New Zealand. Vector has also adopted the ASX Corporate Governance Council's Principles and Recommendations, as appropriate, to ensure our corporate governance practices reflect best practice.

PROMOTING ETHICAL AND RESPONSIBLE DECISION MAKING

Vector expects its directors and employees to act legally, ethically and with integrity in a manner consistent with Vector's policies, procedures and values. The following measures have been put in place to assist with this:

» Code of Conduct
Sets out the ethical standards expected from Vector's directors, employees and contractors

» Director's Code of Practice
Sets out additional standards expected from Vector's directors when carrying out their duties as directors of Vector

» Protected Disclosures Policy
Recognises the protections afforded employees under the Protected Disclosures Act 2000 and supports employees who, acting in good faith, report any serious wrongdoing

» Interests Register
Vector maintains an interests register in which relevant transactions and matters involving the directors are recorded. See the 'Statutory Information' section of this Annual Report for details of directors' interests

» Insider Trading Policy
Details Vector's policy on, and rules for, dealing in Vector securities, Vector bonds, any other listed securities of Vector or its subsidiaries, and any listed derivatives

» Continuous Disclosure Policy
Affirms Vector's commitment to provide accurate, timely, orderly, consistent and credible disclosure and compliance with its continuous disclosure obligations.

ENSURING SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Vector's practices are designed to:

» Enable the board to provide strategic guidance for the company and effective oversight of management

» Clarify the roles and responsibilities of Vector's directors and senior executives in order to facilitate board and management accountability to both the company and its shareholders

» Ensure a balance of authority so that no single individual has unfettered powers.

The board has an obligation to create shareholder wealth (with a long term bias) and in that context to have due regard to the interests of other stakeholders. The board exercises this obligation through the approval of appropriate corporate strategies, practices and processes. These include the approval of transactions and commitments not within the authorities delegated by the board to management and the review of company performance against strategic objectives.

Vector achieves board and management accountability through its board charter, which sets out matters reserved for the board and responsibilities delegated to the group chief executive officer, and a formal delegation of authority policy. The effect of this framework is that whilst the board has statutory responsibility for the activities of the company, this is exercised through the delegation to the group chief executive officer, who is responsible for the day to day leadership and management of the company. The framework also reserves certain matters for the decision of the board.

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 2010, the board comprised nine directors, all of whom are non-executive directors. The board has a formal board charter detailing the board's purpose, responsibilities, composition and operation, which is published on Vector's website. The board usually meets monthly but, as required, does meet between regular scheduled meetings.

TABLE OF ATTENDANCE

Attendance records of board and committee meetings for the year ended 30 June 2010 are provided in the table below:

	Full Board	Audit Committee	Risk and Assurance Committee	Remuneration Committee	Nominations Committee	Regulatory Committee
Total Meetings	10	4	4	2	1	2
Current Directors						
Michael Stiassny	10	3	4	2	1	2
Peter Bird	10	1*	1*	2*	0	2
James Carmichael	10	4	4	2*	0	2
Tony Carter	10	2*	4	2	1	1*
Hugh Fletcher	10	4	0	2*	1	0
James Miller	10	4	4	2*	0	2
Alison Paterson	9	4	3	2	1	1*
Karen Sherry	10	3	4	2	0	2
Bob Thomson	9	4	4	2*	0	2

* Director attending committee meeting who is not a member of the committee

The board charter contemplates a need for the directors to seek independent professional advice in certain situations and there is a procedure agreed by the board for directors to obtain this advice at the expense of the company.

DIRECTOR INDEPENDENCE

The board has determined the independence of directors as required by the NZSX Listing Rules. The board has determined the following directors to be independent directors: Michael Stiassny, Peter Bird, Tony Carter, Hugh Fletcher, James Miller, Alison Paterson and Bob Thomson. Only independent directors are eligible to be the board chairperson. James Carmichael and Karen Sherry are not independent directors as they are also trustees of the Auckland Energy Consumer Trust (AECT), Vector's majority shareholder. Directors are required to inform the board of all relevant information which may affect their independence.

BOARD COMMITTEES

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

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 which is published on Vector's website. The committee's members as at 30 June 2010 were Alison Paterson (chair), James Carmichael, Hugh Fletcher, James Miller, Karen Sherry, Michael Stiassny and Bob Thomson.

Regulatory Committee

Provides strategic guidance and feedback on Vector's regulatory policy and practice. A full description of the regulatory committee's composition and duties is contained in the regulatory committee charter which is published on Vector's website. The committee's members as at 30 June 2010 were James Miller (chair), Peter Bird, James Carmichael, Karen Sherry, Michael Stiassny and Bob Thomson.

Risk and Assurance Committee

Assists with strategic guidance and oversight of Vector's risk management and assurance policy and practice. A full description of the risk and assurance committee's composition and duties is contained in the risk and assurance committee charter which is published on

Vector's website. Risk and assurance committee members as at 30 June 2010 were Karen Sherry (chair), James Carmichael, Tony Carter, James Miller, Alison Paterson, Michael Stiassny and Bob Thomson.

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 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 which is published on Vector's website. Members of the nominations committee as at 30 June 2010 were Michael Stiassny (chair), Tony Carter, Hugh Fletcher and Alison Paterson.

Remuneration Committee
Considers all senior management appointments and contractual terms, reviews the company remuneration policy and, from time to time, remuneration of directors.

The remuneration committee evaluates the performance of the group chief executive and provides input into the process and review by the group chief executive of the performance of senior management. The evaluations are based on criteria that include the performance of Vector and the accomplishment of strategic objectives. During the year ended 30 June 2010, performance evaluations of the group chief executive and senior management were conducted in accordance with this process.

A full description of the remuneration committee's composition and duties is contained in the remuneration committee charter which is published on Vector's website. Members of the remuneration committee as at 30 June 2010 were Tony Carter (chair), Alison Paterson, Karen Sherry and Michael Stiassny.

BOARD REMUNERATION

Vector's directors do not participate in an executive remuneration or share scheme. Directors do not receive any options, bonus payments or any incentive based remuneration. The company does not have a scheme for retirement benefits to be given to directors.

The directors' remuneration is set out in the Statutory Information section of this Annual Report. Vector's director and executive remuneration policy is published on Vector's website.

BOARD PERFORMANCE EVALUATION

The board charter includes a requirement for the chairperson to meet regularly with each director to review his or her individual performance. In addition the board charter requires a review of the performance of the board as a whole on an annual basis. During the year ending 30 June 2010, the performance of the directors was reviewed in accordance with the board charter.

STAKEHOLDER RELATIONS

Vector's commitments to its various stakeholders, including shareholders, are part of the board charter and the company's code of conduct. Vector's stakeholder relations policy is published on Vector's website.

SHAREHOLDERS

Vector recognises the rights of shareholders as the owners of the company and encourages their ongoing active interest in the company's affairs by:

» communicating with them effectively
» 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.

Vector's shareholder relations policy is published on Vector's website.

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 policy, consultation, pricing reporting and understanding of overhead electricity lines obligations.

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 financial results.

Information presented at these briefings, and public announcements made at other times are published on the NZX website in accordance with NZSX Listing Rules. In addition, they are made available on Vector's website following their NZX release.

Stakeholders can register online 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.

If you have any questions or would like to request a copy of the annual or interim report, please email investor@vector.co.nz or phone +64 9 978 7804.

RECOGNISING AND MANAGING RISK

Vector recognises and manages risk by ensuring it has effective, systemised, coordinated and appropriate risk management practices in place. These practices are aligned to the ISO standard 31000 introduced in 2009. In doing so, Vector not only protects and enhances value to its stakeholders but also meets its obligations as both an owner and manager of critical infrastructure and as a listed company.

During the year ended 30 June 2010, management has reported to the board on the effectiveness of the company's risk management practices. As part of that report, appropriate assurances were received from management that the system of risk management and internal control is operating effectively in all material respects. These practices are also subject to internal audit review.

The processes involved require the maintenance of risk registers that identify material risks facing the company and the status of the initiatives employed to reduce them. The risk registers are reviewed regularly. The risk and assurance committee reviews, on a rotating basis, individual key risks faced by the company. Regulatory risks and risks regarding the security of Vector's networks are escalated to the board.

DIFFERENCES IN PRACTICE TO NZSX CODE AND ASX RECOMMENDATIONS

Vector's corporate governance practices meet the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council's Principles and Recommendations other than NZX principle 2.7 which encourages directors to take a portion of their remuneration under a performance-based equity security compensation plan. Vector does not have an equity security compensation plan for directors and notes that while this is encouraged under this principle it is not required.

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 »

LIQUIGAS

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

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

NZ WINDFARMS

Vector holds a cornerstone 22.11% 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. In May 2010, Vector participated in the NZ Windfarms rights issue, acquiring an additional 47,980,362 shares and increasing its shareholding from 19.99% to 22.11%.

STREAM INFORMATION

Stream Information is a 70:30 partnership 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 has 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.

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.

This report is printed on Advance Laser, an environmentally responsible paper produced using farmed Eucalyptus trees, and manufactured under the environmental management system ISO 14001. The water used in the production of Advance Laser is sourced from Advance Agro's own purpose built reservoir which collects rainwater and run off. Advance Agro uses tree waste (bark & lignin) as fuel for power plants to generate electricity to run its mill. The ink used in the production of this report is 100% vegetable based, mineral oil free and manufactured from 100% renewable resources.

Insight Creative Limited. Auckland. Wellington. Sydney. VEC042 09/10

Financial review / for the year ended 30 June 2010

	2010 $MILLION	2009 $MILLION
INCOME STATEMENT[1]		
Total income	1,187.4	1,174.2
Operating expenditure	(609.3)	(592.0)
EBITDA	578.1	582.2
Depreciation and amortisation	(156.3)	(145.4)
EBIT	421.8	436.8
Net finance costs	(167.0)	(189.5)
Share of net (loss)/profit from associates	(2.3)	1.2
Impairment of investment in associate	(4.1)	(6.5)
Profit before income tax	248.4	242.0
Income tax expense[2]	(49.3)	(68.2)
Profit after income tax[2]	199.1	173.8
Profit attributable to non-controlling interests in subsidiaries	(5.6)	(8.9)
Profit attributable to shareholders of the parent[2]	193.5	164.9
ASSETS		
Current assets	318.0	391.3
Intangible assets	1,612.2	1,601.1
Property, plant and equipment	3,540.2	3,459.6
Other non-current assets	80.5	86.6
	5,550.9	5,538.6
EQUITY AND LIABILITIES		
Current liabilities excluding current borrowings	215.7	201.7
Total borrowings	2,562.3	2,640.4
Deferred tax liability	478.0	505.8
Other non-current liabilities	210.7	131.8
Equity	2,084.2	2,058.9
	5,550.9	5,538.6
CASH FLOW[3]		
Net cash flows from operating activities	367.5	330.3
Dividends paid[4]	(140.9)	(136.7)
Capital expenditure payments	(220.4)	(237.1)
Cash inflow/(outflow) before external funding and investments	6.2	(43.5)
Net borrowings repaid	(35.4)	(615.6)
Short term deposits withdrawn/(invested)	100.0	(100.0)
Purchase of treasury shares	–	(8.9)
Investing activities excluding capital expenditure	(10.7)	769.1
Increase in cash	60.1	1.1

[1] Continuing operations basis, excludes Wellington operation sold July 2008.
[2] Includes $20.9 million one-off non-cash decrease in deferred tax liability due to tax regime changes announced in the 2010 Government budget.
[3] Includes results for the Wellington operation prior to the sale on 24 July 2008.
[4] Includes dividends paid to non-controlling interests in subsidiaries.

This Shareholder Review should be read in conjunction with the enclosed Vector Limited Annual Report 2010.

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 at **www.nzx.com** Further information about Vector is available on our website **www.vector.co.nz**

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Vector

Annual Report / 2010

VECTOR LIMITED

Financial statements

For the year ended 30 June 2010

CONTENTS

2010 FINANCIAL STATEMENTS

The directors are pleased to present the financial statements of the group for the year ended 30 June 2010.

For and on behalf of directors

Director 27 August 2010

Director 27 August 2010

For and on behalf of management

Group Chief Executive Officer 27 August 2010

Chief Financial Officer 27 August 2010

Auditor's report

For the year ended 30 June 2010

KPMG

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 2010. This information is stated in accordance with the accounting policies set out on pages 10 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 2010 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 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 27 August 2010 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

Income statement

For the year ended 30 June 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
In respect of continuing operations:					
Operating revenue	3	1,185,827	1,173,947	645,582	632,680
Other income	3	1,613	211	1,002	184
Total income		1,187,440	1,174,158	646,584	632,864
Electricity transmission expenses		(128,842)	(118,461)	(128,842)	(118,461)
Gas purchases and production expenses		(267,055)	(262,431)	–	–
Network and asset maintenance expenses		(73,716)	(80,179)	(41,744)	(49,586)
Personnel expenses		(62,808)	(54,225)	(59,727)	(57,310)
Other expenses		(76,876)	(76,684)	(50,514)	(49,761)
Operating expenditure	4	(609,297)	(591,980)	(280,827)	(275,118)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		578,143	582,178	365,757	357,746
Depreciation and amortisation	5	(156,319)	(145,362)	(96,090)	(86,902)
Profit before interest and income tax		421,824	436,816	269,667	270,844
Finance income	6	7,456	16,144	9,310	17,090
Finance costs	6	(174,429)	(205,684)	(176,479)	(207,060)
Share of net (loss)/profit from associates	17	(2,305)	1,208	–	–
Impairment of investment in associate	17	(4,136)	(6,519)	(4,136)	(6,519)
Profit before income tax		248,410	241,965	98,362	74,355
Income tax expense	7	(49,292)	(68,210)	(5,413)	(18,959)
Profit after income tax from continuing operations		199,118	173,755	92,949	55,396
Profit/(loss) after income tax from discontinued operations	1	–	205,586	–	(2,015)
Net profit for the period		199,118	379,341	92,949	53,381
Net profit for the period attributable to:					
Non-controlling interests in subsidiaries		5,650	8,881	–	–
Shareholders of the parent		193,468	370,460	92,949	53,381

		GROUP	
	NOTE	2010	2009
Basic and diluted earnings per share (cents)			
Continuing operations	12	19.4	16.5
Discontinued operations	12	–	20.6
Total		19.4	37.1

Statement of comprehensive income

For the year ended 30 June 2010

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Net profit for the period	199,118	379,341	92,949	53,381
Other comprehensive income net of tax				
Change in fair value of cash flow hedges	(32,950)	(76,242)	(32,950)	(76,242)
Translation of foreign operations	38	81	–	–
Other comprehensive income for the period net of tax	(32,912)	(76,161)	(32,950)	(76,242)
Total comprehensive income for the period net of tax	166,206	303,180	59,999	(22,861)
Total comprehensive income for the period attributable to:				
Non-controlling interests in subsidiaries	5,650	8,881	–	–
Shareholders of the parent	160,556	294,299	59,999	(22,861)

Statement of changes in equity

For the year ended 30 June 2010

GROUP 2010

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period		874,979	(8,934)	(78,011)	210	1,253,768	16,881	2,058,893
Comprehensive income								
Net profit for the period		–	–	–	–	193,468	5,650	199,118
Other comprehensive income								
Change in fair value of cash flow hedges		–	–	(42,669)	–	–	–	(42,669)
Translation of foreign operations		–	–	–	38	–	–	38
Income tax relating to components of other comprehensive income	10	–	–	9,719	–	–	–	9,719
Total comprehensive income		–	–	(32,950)	38	193,468	5,650	166,206
Transactions with owners								
Dividends	11	–	–	–	–	(136,916)	(3,975)	(140,891)
Total transactions with owners		–	–	–	–	(136,916)	(3,975)	(140,891)
Balance at end of the period		874,979	(8,934)	(110,961)	248	1,310,320	18,556	2,084,208

GROUP 2009

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED EARNINGS $000	NON-CONTROLLING INTERESTS $000	TOTAL EQUITY $000
Balance at beginning of the period		874,979	–	(1,769)	129	1,015,513	12,472	1,901,324
Comprehensive income								
Net profit for the period		–	–	–	–	370,460	8,881	379,341
Other comprehensive income								
Change in fair value of cash flow hedges		–	–	(109,675)	–	–	–	(109,675)
Translation of foreign operations		–	–	–	81	–	–	81
Income tax relating to components of other comprehensive income	10	–	–	33,433	–	–	–	33,433
Total comprehensive income		–	–	(76,242)	81	370,460	8,881	303,180
Transactions with owners								
Treasury shares purchased	11	–	(8,934)	–	–	–	–	(8,934)
Dividends	11	–	–	–	–	(132,205)	(4,472)	(136,677)
Total transactions with owners		–	(8,934)	–	–	(132,205)	(4,472)	(145,611)
Balance at end of the period		874,979	(8,934)	(78,011)	210	1,253,768	16,881	2,058,893

GROUP

	NOTE	2010	2009
Total tangible assets per share (cents)	12	395.5	395.4
Net tangible assets per share (cents)	12	47.4	46.0

Statement of changes in equity

For the year ended 30 June 2010 (cont.)

PARENT 2010

	NOTE	ISSUED SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at beginning of the period		874,979	(8,934)	(78,011)	727,509	1,515,543
Comprehensive income						
Net profit for the period		–	–	–	92,949	92,949
Other comprehensive income						
Change in fair value of cash flow hedges		–	–	(42,669)	–	(42,669)
Income tax relating to components of other comprehensive income	10	–	–	9,719	–	9,719
Total comprehensive income		–	–	(32,950)	92,949	59,999
Transactions with owners						
Dividends	11	–	–	–	(136,916)	(136,916)
Total transactions with owners		–	–	–	(136,916)	(136,916)
Balance at end of the period		874,979	(8,934)	(110,961)	683,542	1,438,626

PARENT 2009

	NOTE	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
Comprehensive income						
Net profit for the period		–	–	–	53,381	53,381
Other comprehensive income						
Change in fair value of cash flow hedges		–	–	(109,675)	–	(109,675)
Income tax relating to components of other comprehensive income	10	–	–	33,433	–	33,433
Total comprehensive income		–	–	(76,242)	53,381	(22,861)
Transactions with owners						
Treasury shares purchased	11	–	(8,934)	–	–	(8,934)
Dividends	11	–	–	–	(132,205)	(132,205)
Total transactions with owners		–	(8,934)	–	(132,205)	(141,139)
Balance at end of the period		874,979	(8,934)	(78,011)	727,509	1,515,543

Statement of financial position

As at 30 June 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
CURRENT ASSETS					
Cash and cash equivalents		114,812	54,690	96,791	38,738
Short term deposits		–	100,000	–	100,000
Receivables and prepayments	13	163,767	190,633	98,966	107,184
Derivative financial instruments	28	11	208	11	208
Inventories	14	4,204	2,208	33	58
Income tax	8	35,193	43,606	34,838	43,606
Advances to subsidiaries	30	–	–	637,868	456,479
Total current assets		317,987	391,345	868,507	746,273
NON-CURRENT ASSETS					
Receivables and prepayments	13	1,428	5,890	1,428	5,890
Derivative financial instruments	28	50,344	51,345	50,344	51,345
Deferred tax asset	9	2,700	1,137	–	–
Investments in subsidiaries	16	–	–	1,407,346	1,403,536
Income tax	8	448	–	–	–
Investments in associates	17	25,525	28,193	16,374	17,511
Intangible assets	19	1,612,228	1,601,095	554,770	557,838
Property, plant and equipment	20	3,540,245	3,459,587	2,572,755	2,523,722
Total non-current assets		5,232,918	5,147,247	4,603,017	4,559,842
Total assets		5,550,905	5,538,592	5,471,524	5,306,115
CURRENT LIABILITIES					
Payables and accruals	21	189,131	179,887	129,464	119,606
Provisions	22	16,825	17,384	5,048	5,439
Derivative financial instruments	28	8,362	2,099	8,362	2,099
Borrowings	27	249,654	575	249,079	–
Income tax	8	1,428	2,370	–	–
Advances from subsidiaries	30	–	–	797,884	545,017
Total current liabilities		465,400	202,315	1,189,837	672,161
NON-CURRENT LIABILITIES					
Payables and accruals	21	25,821	27,137	708	943
Provisions	22	3,000	1,000	–	–
Derivative financial instruments	28	181,815	103,671	181,815	103,671
Borrowings	27	2,312,644	2,639,781	2,312,644	2,639,781
Deferred tax liability	10	478,017	505,795	347,894	374,016
Total non-current liabilities		3,001,297	3,277,384	2,843,061	3,118,411
Total liabilities		3,466,697	3,479,699	4,032,898	3,790,572
EQUITY					
Equity attributable to shareholders of the parent		2,065,652	2,042,012	1,438,626	1,515,543
Non-controlling interests in subsidiaries		18,556	16,881	–	–
Total equity		2,084,208	2,058,893	1,438,626	1,515,543
Total equity and liabilities		5,550,905	5,538,592	5,471,524	5,306,115

Cash flow statement

For the year ended 30 June 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
OPERATING ACTIVITIES					
Cash provided from:					
Receipts from customers		1,214,575	1,170,655	612,042	577,882
Interest portion of repayments on finance leases		108	117	108	117
Interest received on deposits		7,142	14,841	6,096	14,480
Income tax refund		9	19	9	–
Dividends received from associate		200	–	200	–
		1,222,034	1,185,632	618,455	592,479
Cash applied to:					
Payments to suppliers and employees		(611,840)	(579,668)	(272,954)	(256,820)
Income tax paid		(61,564)	(62,424)	(56,203)	(57,051)
Interest paid on finance leases		(422)	(633)	(44)	(54)
Interest paid		(180,670)	(212,570)	(180,529)	(212,570)
		(854,496)	(855,295)	(509,730)	(526,495)
Net cash flows from operating activities		367,538	330,337	108,725	65,984
INVESTING ACTIVITIES					
Cash provided from:					
Advances from/repaid by subsidiaries		–	–	371,428	1,135,086
Proceeds from sale of property, plant and equipment and software		990	557	802	390
Bank balances acquired on acquisition of Advanced Metering Services Limited		132	–	–	–
Net proceeds from sale of discontinued operations	15	–	772,950	–	–
		1,122	773,507	372,230	1,135,476
Cash applied to:					
Advances to/repaid to subsidiaries		–	–	(207,691)	(206,534)
Purchase and construction of property, plant and equipment and software		(220,404)	(237,107)	(137,703)	(149,503)
Acquisition of gas businesses		(1,253)	–	–	–
Repayment of loan from third party		(3,500)	–	–	–
Purchase of investment in associate	17	(7,103)	–	(7,103)	–
Loans to associates		(6,500)	(4,450)	(6,500)	(4,450)
Loan repaid by associate		6,500	–	6,500	–
		(232,260)	(241,557)	(352,497)	(360,487)
Net cash flows (used in)/from investing activities		(231,138)	531,950	19,733	774,989

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
FINANCING ACTIVITIES					
Cash provided from/(applied to):					
Proceeds from borrowings		54,000	245,000	54,000	245,000
Repayment of borrowings		(87,402)	(855,000)	(87,402)	(855,000)
Withdrawal of short term deposits		100,000	200,000	100,000	200,000
Short term deposits		–	(300,000)	–	(300,000)
Debt raising costs incurred		–	(3,763)	–	(3,763)
Capital portion of payments under finance leases		(1,995)	(1,817)	(97)	(95)
Capital portion of receipts on finance leases		10	13	10	13
Dividends paid to shareholders of the parent		(136,916)	(132,205)	(136,916)	(132,205)
Dividends paid to non-controlling interests in subsidiaries		(3,975)	(4,472)	–	–
Purchase of treasury shares		–	(8,934)	–	(8,934)
Net cash flows used in financing activities		(76,278)	(861,178)	(70,405)	(854,984)
Net increase/(decrease) in cash and cash equivalents		60,122	1,109	58,053	(14,011)
Cash and cash equivalents at beginning of the period		54,690	53,581	38,738	52,749
Cash and cash equivalents at end of the period		114,812	54,690	96,791	38,738
Cash and cash equivalents comprises:					
Bank balances		54,812	19,690	36,791	3,738
Short term deposits maturing within three months		60,000	35,000	60,000	35,000
		114,812	54,690	96,791	38,738
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the period		199,118	379,341	92,949	53,381
ITEMS CLASSIFIED AS INVESTING ACTIVITIES					
Net loss on disposal of property, plant and equipment and software intangibles		4,676	12,021	2,910	8,711
Gain on sale of discontinued operations		–	(202,902)	–	–
		4,676	(190,881)	2,910	8,711
NON-CASH ITEMS					
Depreciation and amortisation		156,319	145,362	96,090	86,902
Impairment of investment in associate	17	4,136	6,519	4,136	6,519
Management fee income	30	–	–	(41,548)	(43,394)
Non-cash portion of finance costs		(7,828)	1,492	(8,276)	1,822
Net impact on profit or loss of acquisition of Advanced Metering Services Limited		–	–	1,794	–
(Decrease)/increase in deferred tax liability		(20,882)	4,801	(16,403)	5,863
(Decrease)/increase in provisions		(962)	(11,060)	(391)	177
Share of net loss/(profit) of associates	17	2,305	(1,208)	–	–
		133,088	145,906	35,402	57,889
CASH ITEMS NOT IMPACTING PROFIT					
Dividend received from associate		200	–	–	–
		200	–	–	–
MOVEMENT IN WORKING CAPITAL					
(Decrease)/increase in payables and accruals		(3,268)	5,560	3,597	(4,250)
(Increase)/decrease in inventories		(1,996)	5,168	25	(44)
Decrease/(increase) in receivables and prepayments		27,102	(17,856)	8,220	(5,138)
Decrease/(increase) in net income tax assets		8,618	3,099	(34,378)	(44,565)
		30,456	(4,029)	(22,536)	(53,997)
Net cash flows from operating activities		367,538	330,337	108,725	65,984

Statement of accounting policies

For the year ended 30 June 2010

REPORTING ENTITY

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 2010 and were authorised for issue by the directors on 27 August 2010.

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

BASIS OF PREPARATION

The financial statements have been prepared in accordance with NZ GAAP. 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.

STATEMENT OF COMPLIANCE

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

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.

PRESENTATION OF FINANCIAL STATEMENTS

In accordance with the revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective for financial periods commencing on or after 1 January 2009, movements in equity resulting from transactions other than those with owners are presented in a statement of comprehensive income and movements in equity resulting from transactions with owners are presented in a statement of changes in equity. Since this change in accounting policy only impacts presentation aspects, there are no impacts on the income statement, the statement of financial position or the cash flow statement. Comparative information has been re-presented so that it conforms to the revised standard.

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.

A) 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. 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. These judgements impact upon the basis of consolidation accounting which is used to recognise the group's investments in the consolidated financial statements. Further information regarding the bases of consolidation is included in the following section on Significant Accounting Policies.

Classification of expenditure in relation to property, plant and equipment

On initial recognition of items of property, plant and equipment, judgements must be made about whether costs incurred relate to bringing the items to working condition for their intended use, and therefore are appropriate for capitalisation as part of the cost of the item, or whether they should be expensed as incurred. As required by NZ IAS 16, *Property, Plant and Equipment*, management must exercise their judgement to assess the amount of overhead costs which can be reasonably directly attributed to the construction or acquisition of items of property, plant and equipment.

For example, employee costs arising directly from such activities are capitalised within the initial cost of property, plant and equipment. Thereafter, judgement is also 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.

B) SOURCES OF ESTIMATION UNCERTAINTY

The following are sources of estimation uncertainty where management have assessed there is a significant risk that a material adjustment to the carrying amounts of the assets or liabilities involved could possibly occur within the year ended 30 June 2011.

Valuation of goodwill and property, plant and equipment

At 30 June 2010, the carrying value of goodwill is $1,554.3 million. 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 operating segments 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.

Management must also consider whether any indicators of impairment have occurred which might require impairment testing of the current carrying values of property, plant and equipment. At 30 June 2010, the carrying value of property, plant and equipment is $3,540.2 million. Assessing whether individual assets or a grouping of related assets (which generate cash flows co-dependently) 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.

Outcomes in the next financial period may be different to the assumptions made. It is impracticable to quantify the impact should assumptions be materially different to actual outcomes, which may result in material adjustments to the carrying amounts of goodwill and property, plant and equipment reported in these financial statements.

Valuation of financial instruments

At 30 June 2010, the total carrying value of the group's borrowings and derivative financial instruments is a liability of $2,702.1 million. Management have estimated the fair value of the group's financial instruments based on valuation models that use observable market inputs. Note 28 of these financial statements provides a list of the key observable inputs that management have applied in reaching their estimates of the fair values of financial instruments and also provides a sensitivity analysis detailing the potential future impacts of reasonably possible changes in those observable inputs over the next financial period.

SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of profit or loss, comprehensive income, assets, liabilities, equity 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 profit 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 in other comprehensive income. 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

Statement of accounting policies

For the year ended 30 June 2010 (cont.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.)

A) BASIS OF CONSOLIDATION (CONT.)

Acquisition or disposal during the period (cont.)

instruments. Where an entity or a group of assets within an entity is held for sale, that 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 group of assets and any related goodwill.

Goodwill arising on obtaining control of a subsidiary or an associate

Where an acquisition results in obtaining control of a subsidiary or an associate for the first time, the carrying amount of any previous non-controlling interest held by the group is first remeasured to fair value and the difference between the carrying amount and the remeasured fair value is recognised in the income statement. Goodwill is then calculated as the sum of the fair value of the consideration paid, the remeasured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties less the fair value of the total identifiable assets and liabilities of the acquiree at the date of the acquisition.

If the fair value of the total identifiable assets and liabilities acquired exceeds the sum of the fair value of the consideration paid, the remeasured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties then a gain representing a bargain purchase is recognised in the income statement.

Goodwill arising on acquisition of an additional interest in an associate while retaining significant influence

Where an acquisition results in the group obtaining an additional non-controlling interest in an associate while retaining significant influence, goodwill is calculated as the difference between the fair value of the consideration paid and the amount of the group's acquired incremental share of the fair values of the total identifiable assets and liabilities of the acquiree at the date of the acquisition.

If the group's acquired incremental share of the fair values of the acquiree's total identifiable assets and liabilities exceeds the fair value of the consideration paid, the excess is included in the share of net profit from associates in the income statement.

Subsequent measurement of goodwill

Subsequent to initial recognition goodwill is tested annually for impairment. 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 OF PROPERTY, PLANT AND EQUIPMENT AS A RESULT OF A BUSINESS COMBINATION

The group's accounting policies require the assessment of the fair value of the total identifiable assets and liabilities acquired when the group first obtains control of those assets and liabilities as a result of a business combination. In particular, a large proportion of the group's property, plant and equipment has been acquired in previous business combinations. The fair values of these acquired assets have been established for distribution systems on the basis of depreciated replacement cost and for other property, plant and equipment on the basis of market value. On adoption of International Financial Reporting Standards, the group opted to deem the historic cost of such property, plant and equipment to be equal to the assessed fair values. As a result, the group now reports property, plant and equipment on a historic cost basis and does not carry out regular revaluations of property, plant and equipment.

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 statement of financial position. Where a portion of the contribution is subject to rebates based on connection targets, the expected amount of future rebates is also recognised as deferred income in the statement of financial position.

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 COSTS

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

Finance costs 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 other comprehensive income in which case the movement is then also recognised as an adjustment in other comprehensive income against the item to which the temporary difference relates. 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.

Statement of accounting policies

For the year ended 30 June 2010 (cont.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.) »»

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 net profit for the period 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 operating segments, 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 operating segments to which goodwill has been allocated.

Easements

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

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.

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 statement of financial position. Leased property, plant and equipment are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment apportioned between the reduction of the outstanding liability and the finance expense. The finance expense is charged to the 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 statement of financial position.

Leasehold improvements

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

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.

Statement of accounting policies

For the year ended 30 June 2010 (cont.)

SIGNIFICANT ACCOUNTING POLICIES (CONT.) »»

R) PROVISIONS (CONT.)

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, short term deposits maturing within three months 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 recognised in other comprehensive income. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the income statement within finance costs.

Amounts accumulated in other comprehensive income 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 recognised in other comprehensive income are transferred from other comprehensive income 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. Thereafter, any cumulative gain or loss previously recognised in other comprehensive income is only recognised in profit or loss 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 previously recognised in other comprehensive income 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
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 statement of financial position 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, if any, at the present value of expected future payments for claims incurred.

U) CASH FLOW STATEMENT

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

Operating activities include the principal revenue-producing activities and 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 and 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 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 2010 have not been applied in preparing these consolidated financial statements.

NZ IFRS 9, *Financial Instruments: Classification and Measurement*
The first phase of amendments to NZ IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. All financial assets are to be classified on the basis of the objectives of the entity's business model for managing the financial assets. Under NZ IFRS 9 financial assets are initially measured at fair value plus particular transaction costs and subsequently measured at amortised cost or fair value. These amendments result in a simplified approach to classifying financial assets by removing the held-to-maturity and available for sale financial asset categories which now exist in NZ IAS 39. These amendments which become mandatory for the financial statements for the year ended 30 June 2014 are not expected to have any material impact on either the separate financial statements of Vector Limited or the consolidated financial statements.

NZ IAS 24, *Related Party Disclosures (revised 2009)*
This standard has been revised to simplify and clarify the definition of a related party and to provide a partial exemption from the disclosure requirements for government-related entities. These amendments which become mandatory for the financial statements for the year ended 30 June 2012 are not expected to have any material 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 27 August 2010.

Notes to the financial statements

For the year ended 30 June 2010

1. CONTINUING AND DISCONTINUED OPERATIONS

		GROUP 2010			GROUP 2009		
	NOTE	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue		1,185,827	–	1,185,827	1,173,947	10,286	1,184,233
Other income		1,613	–	1,613	211	–	211
Total income		1,187,440	–	1,187,440	1,174,158	10,286	1,184,444
Operating expenditure		(609,297)	–	(609,297)	(591,980)	(3,574)	(595,554)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)		578,143	–	578,143	582,178	6,712	588,890
Depreciation and amortisation		(156,319)	–	(156,319)	(145,362)	–	(145,362)
Profit before interest and income tax		421,824	–	421,824	436,816	6,712	443,528
Finance income		7,456	–	7,456	16,144	–	16,144
Finance costs		(174,429)	–	(174,429)	(205,684)	(2,878)	(208,562)
Share of net (loss)/profit from associates		(2,305)	–	(2,305)	1,208	–	1,208
Impairment of investment in associate		(4,136)	–	(4,136)	(6,519)	–	(6,519)
Profit before income tax		248,410	–	248,410	241,965	3,834	245,799
Income tax expense		(49,292)	–	(49,292)	(68,210)	(1,150)	(69,360)
Profit after income tax and before gain on sale of discontinued operations		199,118	–	199,118	173,755	2,684	176,439
Gain on sale of discontinued operations (net of tax of $nil)	15	–	–	–	–	202,902	202,902
Net profit for the period		199,118	–	199,118	173,755	205,586	379,341
Represented by:							
Net profit attributable to non-controlling interests in subsidiaries		5,650	–	5,650	8,881	–	8,881
Net profit attributable to shareholders of the parent		193,468	–	193,468	164,874	205,586	370,460

	PARENT 2010			PARENT 2009		
	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000	CONTINUING OPERATIONS $000	DISCONTINUED OPERATIONS $000	TOTAL $000
Operating revenue	645,582	–	645,582	632,680	–	632,680
Other income	1,002	–	1,002	184	–	184
Total income	646,584	–	646,584	632,864	–	632,864
Operating expenditure	(280,827)	–	(280,827)	(275,118)	–	(275,118)
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	365,757	–	365,757	357,746	–	357,746
Depreciation and amortisation	(96,090)	–	(96,090)	(86,902)	–	(86,902)
Profit before interest and income tax	269,667	–	269,667	270,844	–	270,844
Finance income	9,310	–	9,310	17,090	–	17,090
Finance costs	(176,479)	–	(176,479)	(207,060)	(2,878)	(209,938)
Share of net (loss)/profit from associates	–	–	–	–	–	–
Impairment of investment in associate	(4,136)	–	(4,136)	(6,519)	–	(6,519)
Profit/(loss) before income tax	98,362	–	98,362	74,355	(2,878)	71,477
Income tax (expense)/benefit	(5,413)	–	(5,413)	(18,959)	863	(18,096)
Profit/(loss) after income tax and before gain on sale of discontinued operations	92,949	–	92,949	55,396	(2,015)	53,381
Gain on sale of discontinued operations (net of tax of $nil)	–	–	–	–	–	–
Net profit/(loss) for the period	92,949	–	92,949	55,396	(2,015)	53,381
Represented by:						
Net profit attributable to non-controlling interests in subsidiaries	–	–	–	–	–	–
Net profit attributable to shareholders of the parent	92,949	–	92,949	55,396	(2,015)	53,381

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

2. SEGMENT INFORMATION

Vector's internal reporting to the Group CEO and board is focused on the following businesses 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. 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 segments reported in these financial statements are the same as those reported in Vector's Annual Report for the year ended 30 June 2009.

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 the board of directors is also prepared on this basis. Segment profit reported to the Group CEO and the board of directors is profit before income tax. All financing costs and finance income are incorporated within Corporate activities and are not allocated to the segments.

The group engages with one major customer which contributes individually greater than ten percent of its total revenue. The customer contributed $156.4 million (2009: $142.2 million) which is reported in the Electricity and Gas Transportation segments.

GROUP 2010

	ELECTRICITY $000	GAS TRANS-PORTATION $000	GAS WHOLESALE $000	TECHNOLOGY $000	INTER-SEGMENT $000	TOTAL $000
External revenue:						
Operating revenue	552,942	154,590	398,230	77,056	–	1,182,818
Other income	801	283	494	33	–	1,611
Intersegment revenue	123	39,328	4,054	2,726	(46,231)	–
Segment revenue	553,866	194,201	402,778	79,815	(46,231)	1,184,429
External operating expenditure:						
Electricity transmission expenses	(128,842)	–	–	–	–	(128,842)
Gas purchases and production costs	–	(5,234)	(261,821)	–	–	(267,055)
Network and asset maintenance expenses	(37,623)	(15,129)	(13,503)	(7,449)	–	(73,704)
Personnel expenses	(10,778)	(4,352)	(11,717)	(9,746)	–	(36,593)
Other expenses	(18,731)	(5,699)	(11,677)	(10,423)	–	(46,530)
Intersegment expenditure	(2,119)	(4,062)	(39,927)	(123)	46,231	–
Operating expenditure	(198,093)	(34,476)	(338,645)	(27,741)	46,231	(552,724)
EBITDA	355,773	159,725	64,133	52,074	–	631,705
Depreciation and amortisation	(74,615)	(24,543)	(11,699)	(29,856)	–	(140,713)
Segment profit before income tax	281,158	135,182	52,434	22,218	–	490,992
Segment capital expenditure	126,238	22,838	12,751	63,451	–	225,278

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)
Personnel expenses	(8,505)	(3,844)	(12,473)	(5,957)	–	(30,779)
Other expenses	(25,114)	(8,030)	(9,516)	(8,055)	–	(50,715)
Intersegment expenditure	(1,933)	(4,398)	(39,270)	(94)	45,695	–
Operating expenditure	(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 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

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

2. SEGMENT INFORMATION (CONT.) »»

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

	GROUP 2010			GROUP 2009		
	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000	TOTAL INCOME $000	PROFIT BEFORE INCOME TAX $000	CAPITAL EXPENDITURE $000
Reported in segment information	1,184,429	490,992	225,278	1,162,250	491,442	225,930
Amounts not allocated to segments:						
Revenues from other utility-related activities	3,011	3,011	–	11,908	11,908	–
Operating expenditure attributable to corporate activities	–	(56,573)	–	–	(49,435)	–
Depreciation and amortisation of corporate assets	–	(15,606)	–	–	(17,099)	–
Finance income	–	7,456	–	–	16,144	–
Finance costs	–	(174,429)	–	–	(205,684)	–
Share of net (loss)/profit from associates	–	(2,305)	–	–	1,208	–
Impairment of investment in associate	–	(4,136)	–	–	(6,519)	–
Additions to corporate assets	–	–	11,866	–	–	12,790
Reported in consolidated financial statements	1,187,440	248,410	237,144	1,174,158	241,965	238,720

3. TOTAL INCOME

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Operating revenue					
Trading revenue:					
Energy sales		398,230	408,852	–	–
Provision of utility services		757,824	742,242	578,951	569,976
Customer contributions		29,773	22,853	25,083	19,310
Management fees from related parties	30	–	–	41,548	43,394
		1,185,827	1,173,947	645,582	632,680
Other income					
Gain on disposal of property, plant and equipment and software		1,613	211	802	184
Dividends	30	–	–	200	–
		1,613	211	1,002	184
Total		1,187,440	1,174,158	646,584	632,864

4. OPERATING EXPENDITURE

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Operating expenditure includes:					
Rental and operating lease costs		4,104	4,240	2,639	3,301
Other administration expenses		14,770	17,281	11,255	13,404
Loss on disposal of property, plant and equipment and software		6,289	12,212	3,712	8,895
Bad debts written-off		2,737	258	1,489	212
(Decrease)/increase in provision for doubtful debts		(1,039)	448	857	1,287
Donations		4	30	4	30
Director's fees	31	987	900	900	818
Contributions to KiwiSaver		598	478	529	428
Release of provision for contractual indemnity	24	–	(8,877)	–	–
Auditor's remuneration:					
Audit fees paid to auditors – KPMG		707	816	561	707
Fees paid for other assurance services provided – KPMG		592	422	592	422

Fees for other assurance services paid to the auditor primarily relate to the special purpose audits of regulatory disclosures such as the electricity threshold compliance statements.

5. DEPRECIATION AND AMORTISATION

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Depreciation of property, plant and equipment					
Distribution systems		95,541	94,688	79,985	70,530
Distribution buildings		1,299	1,258	1,299	1,258
Electricity and gas meters		21,025	16,950	–	–
Cogeneration plant		1,915	1,624	–	–
Computer and telecommunications equipment		11,489	7,575	2,344	2,230
Motor vehicles and mobile equipment		969	1,181	112	120
Other plant and equipment		7,064	3,538	249	246
Buildings		75	219	20	20
Leasehold improvements		2,363	1,643	2,235	1,597
	20	141,740	128,676	86,244	76,001
Amortisation of intangible assets					
Contractual agreements		139	–	–	–
Software		14,440	16,686	9,846	10,901
	19	14,579	16,686	9,846	10,901
Total		156,319	145,362	96,090	86,902

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

6. NET FINANCE COSTS

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Finance costs				
Interest expense	177,599	207,618	177,043	206,562
Loss on ineffective portion of cash flow hedges	–	13	–	13
Loss/(profit) on fair value movement on hedging instruments	42,976	(88,949)	42,976	(88,949)
(Profit)/loss on fair value movement on hedged items	(43,070)	89,286	(43,070)	89,286
Loss on financial instruments at fair value through profit or loss	–	1,004	–	1,004
Capitalised interest	(6,035)	(6,025)	(3,440)	(3,635)
Other net finance expenses/gains	2,959	2,737	2,970	2,779
	174,429	205,684	176,479	207,060
Finance income				
Interest income	(7,456)	(16,144)	(9,310)	(17,090)
	(7,456)	(16,144)	(9,310)	(17,090)
Net finance costs	166,973	189,540	167,169	189,970

Interest is capitalised on property, plant and equipment while under construction at an average rate of 7.1% per annum (2009: 8.1%).

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

7. INCOME TAX EXPENSE

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current income tax				
Current income tax expense	68,059	60,622	22,435	13,518
Relating to losses transferred from subsidiaries	–	–	(847)	–
Prior period adjustments recognised in the current period	162	3,934	228	(422)
Deferred income tax				
Relating to property, plant and equipment	13,497	3,584	3,915	5,682
Relating to other items in the statement of financial position	(9,617)	3,218	433	(116)
Relating to future change in buildings depreciation rules	9,232	–	7,939	–
Relating to future reduction in tax rate	(31,271)	–	(27,365)	–
Prior period adjustments recognised in the current period	(770)	(3,148)	(1,325)	297
Income tax expense	49,292	68,210	5,413	18,959
Reconciliation of income tax expense				
Profit before income tax	248,410	241,965	98,362	74,355
Tax at current rate of 30%	74,523	72,590	29,509	22,307
Future reduction in tax rate impacting deferred tax	(31,271)	–	(27,365)	–
Future change in buildings depreciation rules impacting deferred tax	9,232	–	7,939	–
Non-taxable items:				
Customer contributions	(7,865)	(6,856)	(6,604)	(5,793)
Impairment of investment in associate	1,241	1,956	1,241	1,956
Remeasurement of non-controlling interest in Advanced Metering Services Limited	–	–	537	–
Losses transferred from subsidiaries	–	–	(847)	–
Other	3,432	520	1,003	489
Income tax expense	49,292	68,210	5,413	18,959

In May 2010 the Government announced a reduction in the company tax rate to 28% and the removal of depreciation deductions for buildings. Both of these changes are effective from the 2011/2012 income year. In accordance with NZ IAS 12 Vector has restated its deferred tax liability to reflect these changes resulting in a reduction in income tax expense for the period of $22.0 million. The Government also announced that customer contributions would be taxable for those contributions received on or after 21 May 2010. This had the impact of increasing group tax expense by $1.1 million for the 2010 period.

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

8. INCOME TAX

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current tax asset				
Prepaid tax	35,193	43,606	34,838	43,606
Total	35,193	43,606	34,838	43,606
Non-current tax asset				
Research and development tax credit	448	–	–	–
Total	448	–	–	–
Current tax liability				
Income tax payable	1,428	2,370	–	–
Total	1,428	2,370	–	–
Imputation balances				
Balance at beginning of the period	(24,944)	(27,726)	–	–
Income tax payments during the period	59,828	59,444	–	–
Imputation credits attaching to dividends paid	(57,974)	(56,662)	–	–
Balance at end of the period	(23,090)	(24,944)	–	–
The imputation credits are available to shareholders of the parent:				
Through direct shareholding in the parent	(25,264)	(26,519)	–	–
Through indirect shareholding in subsidiary	2,174	1,575	–	–
Total	(23,090)	(24,944)	–	–

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	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of the period	1,137	1,137	–	–
Transfer to current tax on utilisation of tax losses	(8)	–	–	–
Acquisition of subsidiary	1,764	–	–	–
Impact of future reduction in tax rate	(193)	–	–	–
Balance at end of the period	2,700	1,137	–	–

The deferred tax assets acquired relate to the future income tax benefits of accumulated tax losses attributable to Advanced Metering Services Limited and are only available to be utilised to offset future taxable profits of that subsidiary company. All other deferred tax assets relate to the future income tax benefits of accumulated tax losses which are only available to Vector Communications and Vector Stream, also subsidiaries of the parent.

10. DEFERRED TAX LIABILITY

GROUP 2010

	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	539,080	(1,403)	(1,063)	(33,433)	2,614	505,795
Transfer to current tax on utilisation of tax losses	–	–	1,063	–	–	1,063
Amounts recognised in the income statement:						
Relating to the current period	13,497	(6,607)	(2,314)	–	(696)	3,880
Prior period adjustments recognised in the current period	(1,104)	338	–	–	(4)	(770)
Relating to future change in buildings depreciation rules	9,232	–	–	–	–	9,232
Relating to future reduction in tax rate	(31,847)	511	–	–	(128)	(31,464)
Amounts recognised directly in other comprehensive income	–	–	–	(12,801)	–	(12,801)
Amounts recognised directly in other comprehensive income relating to future reduction in tax rate	–	–	–	3,082	–	3,082
Balance at end of the period	528,858	(7,161)	(2,314)	(43,152)	1,786	478,017
Deferred tax assets	–	(7,161)	(2,314)	(43,152)	–	(52,627)
Deferred tax liabilities	528,858	–	–	–	1,786	530,644
Net deferred tax liability	528,858	(7,161)	(2,314)	(43,152)	1,786	478,017

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 on utilisation of tax losses	–	–	266	–	588	854
Amounts recognised in the income statement:						
Relating to the current period	3,584	4,441	(1,063)	–	(160)	6,802
Prior period adjustments recognised in the current period	(2,824)	(324)	–	–	–	(3,148)
Amounts recognised directly in other comprehensive income	–	–	–	(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

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

10. DEFERRED TAX LIABILITY (CONT.)

PARENT 2010

	PROPERTY, PLANT AND EQUIPMENT $000	PROVISIONS AND ACCRUALS $000	HEDGE RESERVE $000	OTHER $000	TOTAL $000
Balance at beginning of the period	409,857	(3,722)	(33,433)	1,314	374,016
Amounts recognised in the income statement:					
Relating to the current period	3,915	466	–	(33)	4,348
Prior period adjustments recognised in the current period	(876)	(456)	–	7	(1,325)
Relating to future change in buildings depreciation rules	7,939	–	–	–	7,939
Relating to future reduction in tax rate	(27,526)	248	–	(87)	(27,365)
Amounts recognised directly in other comprehensive income	–	–	(12,801)	–	(12,801)
Amounts recognised directly in other comprehensive income relating to future reduction in tax rate	–	–	3,082	–	3,082
Balance at end of the period	393,309	(3,464)	(43,152)	1,201	347,894
Deferred tax assets	–	(3,464)	(43,152)	–	(46,616)
Deferred tax liabilities	393,309	–	–	1,201	394,510
Net deferred tax liability	393,309	(3,464)	(43,152)	1,201	347,894

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 the current period	5,682	(35)	–	(81)	5,566
Prior period adjustments recognised in the current period	(336)	633	–	–	297
Amounts recognised directly in other comprehensive income	–	–	(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

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.

11. TRANSACTIONS WITH OWNERS

Vector Limited's final dividend for the year ended 30 June 2009 of 7.25 cents per share was paid on 15 September 2009 with a supplementary dividend of $0.4 million (equating to 1.28 cents per non-resident share). The interim dividend for the current year of 6.5 cents per share was paid on 14 April 2010 with a supplementary dividend of $0.3 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.

The total number of authorised and issued shares is 1,000,000,000 (2009: 1,000,000,000). All ordinary issued shares are fully paid, have no par value and carry equal voting rights and equal rights to a surplus on winding up of the parent.

The board authorised an on-market buy back of Vector Limited's shares in August 2008 with purchases occurring between 1 September 2008 and 27 August 2009. At balance date 4,244,923 shares had been purchased and are held as treasury shares.

12. FINANCIAL RATIOS

Earnings per share

The calculation of basic earnings per share for the year ended 30 June 2010 is based on the net profit attributable to ordinary shareholders of the parent of $193.5 million (2009: $370.5 million of which $205.6 million relates to discontinued operations) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 995,755,077 (2009: 997,221,099). 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 2010 are based on the carrying amounts of the total assets of $5,550.9 million (2009: $5,538.6 million) and net assets of $2,084.2 million (2009: $2,058.9 million) less total intangible assets of $1,612.2 million (2009: $1,601.1 million) and 995,755,077 ordinary shares outstanding as at 30 June 2010 (2009: 995,755,077).

13. RECEIVABLES AND PREPAYMENTS

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Current					
Trade receivables		143,367	170,229	80,104	86,383
Provision for doubtful debts		(4,857)	(5,896)	(3,833)	(2,976)
		138,510	164,333	76,271	83,407
Prepayments		6,824	6,463	4,262	3,940
Interest receivable		18,393	19,797	18,393	19,797
Other receivables		40	40	40	40
Total		163,767	190,633	98,966	107,184
Non-current					
Loan to associate	30	–	4,450	–	4,450
Other receivables		1,428	1,440	1,428	1,440
Total		1,428	5,890	1,428	5,890

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

14. INVENTORIES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Natural gas and by-products	1,667	1,552	–	–
Trading stock	2,504	598	–	–
Consumable spares	33	58	33	58
Total	4,204	2,208	33	58

15. DISCONTINUED OPERATIONS

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		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash flows from discontinued operations				
Net cash flows from operating activities	–	4,246	–	–
Net cash flows used in investing activities	–	(1,849)	–	–
Net cash flows from financing activities	–	9,653	–	–
Net cash inflow	–	12,050	–	–

	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 liability	(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

The consideration receivable at 30 June 2009 was subsequently received during the year ended 30 June 2010.

	GROUP
	2009 $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

16. INVESTMENTS

Investments in group companies comprise:

	PRINCIPAL ACTIVITY	PERCENTAGE HELD	
		2010	2009
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 tolling 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 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%
Advanced Metering Services Limited	Metering services	100%	50%
Non-trading subsidiaries			
Auckland Generation Limited	Holding company	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%
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	22%	20%
Joint venture interests			
Kapuni Energy Joint Venture	Cogeneration	50%	50%

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

16. INVESTMENTS (CONT.) ›››

During April 2010, the group subscribed to a rights issue by NZ Windfarms Limited and also acquired shares which were not taken up in the rights issue in its capacity as underwriter of the issue. In total the group acquired 47,980,362 additional shares for $7.2 million at 15 cents per share increasing the group's shareholding from 19.99% to 22.11%.

Previously, in December 2009, an impairment loss of $4.1 million was recognised in respect of the group's investment in NZ Windfarms Limited.

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.

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

17. INVESTMENT IN ASSOCIATES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Carrying amount of associates				
Balance at beginning of the period	28,193	33,504	17,511	24,030
Remeasurement and derecognition of non-controlling interest in Advanced Metering Services Limited	(3,130)	–	(4,104)	–
Impairment of investment in NZ Windfarms Limited	(4,136)	(6,519)	(4,136)	(6,519)
Acquisition of further investment in NZ Windfarms Limited	7,103	–	7,103	–
Share of net (loss)/profit of associates	(2,305)	1,208	–	–
Dividend received from associate	(200)	–	–	–
Balance at end of the period	25,525	28,193	16,374	17,511
Equity accounted earnings of associates				
(Loss)/profit before income tax	(2,824)	1,757	–	–
Income tax expense	519	(549)	–	–
Share of net (loss)/profit of associates	(2,305)	1,208	–	–
Total recognised revenues and expenses	(2,305)	1,208	–	–

The amount of goodwill included in the carrying amount of investments in associates is $15.8 million (2009: $15.8 million).

On 29 January 2010, the group purchased an additional 50% shareholding in Advanced Metering Services Limited (AMS) and now owns a 100% shareholding of the company. The non-controlling equity interest in AMS has therefore been derecognised and reclassified in the parent as an investment in a subsidiary.

As at 31 December 2009, an impairment loss of $4.1 million (2009: $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 declined between 31 December 2008 and 31 December 2009 from $0.70 per share to $0.42 per share. The recoverable amount determined at 31 December 2009 was estimated based on the investment's fair value less costs to sell by reference to this active market price on the New Zealand Stock Exchange.

In April 2010, the group acquired 47,980,362 additional shares issued by NZ Windfarms Limited at $0.15 per share pursuant to its 8 shares for 3 shares held rights issue.

The share price at 30 June 2010 of $0.21 per share supports the current carrying value of the group's investment in NZ Windfarms Limited at that date.

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Summarised financial information of associates (100%):				
Total assets	142,131	144,829	–	–
Total liabilities	21,880	41,164	–	–
Total revenue	50,769	56,358	–	–
Total net (loss)/profit after tax	(5,019)	3,263	–	–

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 joint venture is in the nature of jointly controlled assets. The joint venture partners jointly control the assets held by the joint venture and each bears an agreed share of the expenses incurred. Each joint venture partner recognises its share of the assets, liabilities, revenues and expenses in its separate financial statements. On consolidation, these amounts are also carried through into the financial statements of the group.

19. INTANGIBLE ASSETS

		GROUP 2010				
	NOTE	GOODWILL $000	CONTRACTUAL COMMITMENTS $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost						
Balance at beginning of the period		1,553,391	–	12,491	115,963	1,681,845
Acquisition of subsidiary		–	2,147	–	8,803	10,950
Additions		944	–	–	3	947
Transfers from property, plant and equipment		–	–	409	15,182	15,591
Balance at end of the period		1,554,335	2,147	12,900	139,951	1,709,333
Accumulated amortisation						
Balance at beginning of the period		–	–	–	(80,750)	(80,750)
Amortisation for the period	5	–	(139)	–	(14,440)	(14,579)
Transfers from property, plant and equipment		–	–	–	(1,776)	(1,776)
Balance at end of the period		–	(139)	–	(96,966)	(97,105)
Carrying amount at 30 June 2010		1,554,335	2,008	12,900	42,985	1,612,228

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

19. INTANGIBLE ASSETS (CONT.) »»

GROUP 2009

	NOTE	GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period		1,553,391	11,967	101,741	1,667,099
Additions		–	–	11,724	11,724
Disposals		–	–	(2,804)	(2,804)
Transfers from property, plant and equipment		–	524	5,302	5,826
Balance at end of the period		1,553,391	12,491	115,963	1,681,845
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	12,491	35,213	1,601,095

PARENT 2010

	NOTE	GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period		515,110	12,489	91,437	619,036
Transfers from property, plant and equipment		–	165	6,613	6,778
Balance at end of the period		515,110	12,654	98,050	625,814
Accumulated amortisation					
Balance at beginning of the period		–	–	(61,198)	(61,198)
Amortisation for the period	5	–	–	(9,846)	(9,846)
Balance at end of the period		–	–	(71,044)	(71,044)
Carrying amount at 30 June 2010		515,110	12,654	27,006	554,770

	NOTE	PARENT 2009 GOODWILL $000	EASEMENTS $000	SOFTWARE $000	TOTAL $000
Cost					
Balance at beginning of the period		515,110	11,967	83,619	610,696
Additions		–	–	10,622	10,622
Disposals		–	–	(2,804)	(2,804)
Transfers from property, plant and equipment		–	522	–	522
Balance at end of the period		515,110	12,489	91,437	619,036
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	12,489	30,239	557,838

Amortisation charge

Software intangibles are amortised on a straight line basis over their useful life.

Allocation of goodwill to cash-generating units

Goodwill is allocated to operating segments, being the lowest level at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each segment are $852.2 million for Electricity, $468.1 million for Gas Transportation, $219.2 million for Gas Wholesale, and $14.8 million for Technology (2009: $852.2 million, $468.1 million, $218.3 million, $14.8 million respectively).

Impairment testing

The recoverable amounts attributable to each segment 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. Key assumptions include the level of future EBITDA and levels of maintenance expenditure for each segment. Management believes that the ten year forecast period is justified due to the long-term nature of the group's capital investment in its electricity, gas and technology businesses. Terminal growth rates in a range of 0.0% to 3.5% are applied. Pre-tax discount rates between 8.9% and 18.7% are utilised. The specific rates applied vary for the specific segment being valued. Projected cash flows for regulated businesses are sensitive to assumptions made on uncertain future regulatory outcomes. Estimated future regulated network revenues and the related supportable levels of capital expenditure are based on current expectations of the outcome of uncertain price path resets. Two key drivers of the outcome of price path resets are the regulatory weighted average cost of capital ("WACC") and changes in the valuation of the regulatory asset base ("RAB"). For example increasing or decreasing our assumption as to the regulatory WACC by 0.1% would increase or decrease the valuation of the electricity segment by $68 million and the valuation of the gas transportation segment by $16 million. The government's ultra fast broadband initiative is taken into account in determining the value of the technology segment.

The recoverable amount of each segment 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.

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

20. PROPERTY, PLANT AND EQUIPMENT

GROUP 2010

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COGEN PLANT $000
Cost					
Balance at beginning of the period	3,232,120	69,441	45,374	209,381	11,112
Acquisition of subsidiary	–	–	–	12	–
Additions	–	–	–	2,065	2,362
Transfers:					
Intangible assets	–	–	–	–	–
Other classes	129,480	(1,510)	1,242	28,508	(329)
Disposals	(6,048)	–	–	(873)	(1,571)
Balance at end of the period	3,355,552	67,931	46,616	239,093	11,574
Accumulated depreciation					
Balance at beginning of the period	(306,178)	–	(3,794)	(58,061)	(7,458)
Depreciation	(95,541)	–	(1,299)	(21,025)	(1,915)
Transfers:					
Intangible assets	–	–	–	–	–
Other classes	1,868	–	(17)	(132)	(280)
Disposals	659	–	–	388	834
Balance at end of the period	(399,192)	–	(5,110)	(78,830)	(8,819)
Carrying amount at 30 June 2010	2,956,360	67,931	41,506	160,263	2,755

GROUP 2009

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	ELECTRICITY AND GAS METERS $000	COGEN 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:					
Intangible assets	–	–	–	–	–
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:					
Intangible assets	–	–	–	–	–
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

COMPUTER AND TELCO 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
99,766	7,462	99,259	6,263	8,615	9,925	93,227	3,891,945
827	–	83	–	–	165	6,386	7,473
200	258	6,973	–	–	–	224,339	236,197
(1,929)	–	–	–	–	–	(13,662)	(15,591)
32,988	(96)	22,445	(226)	(5,641)	353	(207,214)	–
–	(1,222)	(183)	–	–	–	–	(9,897)
131,852	6,402	128,577	6,037	2,974	10,443	103,076	4,110,127
(31,636)	(3,237)	(14,037)	–	(1,699)	(6,258)	–	(432,358)
(11,489)	(969)	(7,064)	–	(75)	(2,363)	–	(141,740)
1,776	–	–	–	–	–	–	1,776
(1,186)	207	(2,615)	–	1,448	707	–	–
–	421	138	–	–	–	–	2,440
(42,535)	(3,578)	(23,578)	–	(326)	(7,914)	–	(569,882)
89,317	2,824	104,999	6,037	2,648	2,529	103,076	3,540,245

COMPUTER AND TELCO 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	6,251	7,681	10,165	142,314	3,690,200
572	932	14,473	12	–	–	207,228	226,996
(5,302)	–	–	–	–	–	(524)	(5,826)
36,309	438	(8,145)	–	974	(237)	(253,060)	–
(4,897)	(194)	(464)	–	(40)	(3)	(2,731)	(19,425)
99,766	7,462	99,259	6,263	8,615	9,925	93,227	3,891,945
(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	6,263	6,916	3,667	93,227	3,459,587

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

PARENT 2010

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	COMPUTER AND TELCO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000
Cost					
Balance at beginning of the period	2,548,741	69,394	45,358	12,634	894
Additions	–	–	–	–	–
Transfers:					
Intangible assets	–	–	–	–	–
Other classes	127,754	(1,505)	1,239	1,380	–
Disposals	(6,048)	–	–	–	(12)
Balance at end of the period	2,670,447	67,889	46,597	14,014	882
Accumulated depreciation					
Balance at beginning of the period	(216,789)	–	(3,793)	(8,318)	(418)
Depreciation	(79,985)	–	(1,299)	(2,344)	(112)
Transfers:					
Other classes	(266)	–	(5)	273	–
Disposals	659	–	–	–	12
Balance at end of the period	(296,381)	–	(5,097)	(10,389)	(518)
Carrying amount at 30 June 2010	2,374,066	67,889	41,500	3,625	364

PARENT 2009

	DISTRIBUTION SYSTEMS $000	DISTRIBUTION LAND $000	DISTRIBUTION BUILDINGS $000	COMPUTER AND TELCO EQUIPMENT $000	MOTOR VEHICLES AND MOBILE EQUIPMENT $000
Cost					
Balance at beginning of the period	2,390,985	65,514	42,581	14,586	1,004
Additions	–	1,432	–	–	60
Transfers:					
Intangible assets	–	–	–	–	–
Other classes	167,332	2,448	2,777	1,611	–
Disposals	(9,576)	–	–	(3,563)	(170)
Balance at end of the period	2,548,741	69,394	45,358	12,634	894
Accumulated depreciation					
Balance at beginning of the period	(146,877)	–	(2,535)	(9,648)	(328)
Depreciation	(70,530)	–	(1,258)	(2,230)	(120)
Disposals	618	–	–	3,560	30
Balance at end of the period	(216,789)	–	(3,793)	(8,318)	(418)
Carrying amount at 30 June 2009	2,331,952	69,394	41,565	4,316	476

OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
12,157	420	1,347	8,240	61,636	2,760,821
845	–	–	–	146,599	147,444
–	–	–	–	(6,778)	(6,778)
(110)	–	(375)	675	(129,058)	–
–	–	–	–	–	(6,060)
12,892	420	972	8,915	72,399	2,895,427
(2,442)	–	(571)	(4,768)	–	(237,099)
(249)	–	(20)	(2,235)	–	(86,244)
(1)	–	375	(376)	–	–
–	–	–	–	–	671
(2,692)	–	(216)	(7,379)	–	(322,672)
10,200	420	756	1,536	72,399	2,572,755

OTHER PLANT AND EQUIPMENT $000	FREEHOLD LAND $000	BUILDINGS $000	LEASEHOLD IMPROVE-MENTS $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
9,110	420	1,385	7,925	102,037	2,635,547
1,979	–	–	–	135,674	139,145
–	–	–	–	(522)	(522)
1,068	–	2	315	(175,553)	–
–	–	(40)	–	–	(13,349)
12,157	420	1,347	8,240	61,636	2,760,821
(2,196)	–	(591)	(3,171)	–	(165,346)
(246)	–	(20)	(1,597)	–	(76,001)
–	–	40	–	–	4,248
(2,442)	–	(571)	(4,768)	–	(237,099)
9,715	420	776	3,472	61,636	2,523,722

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

20. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Interest and other internal costs are capitalised to property, plant and equipment while under construction. Interest is capitalised against property, plant and equipment at an average rate of 7.1% per annum (2009: 8.1% per annum). During the year $17.7 million (2009: $17.9 million) of interest and other internal costs were capitalised. Property, plant and equipment subject to finance lease arrangements are included in electricity and gas meters at a net book value of $3.7 million and in motor vehicles and mobile equipment at a net book value of $1.7 million (2009: $5.2 million and $2.4 million respectively).

Property, plant and equipment includes $1.7 million (2009: $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	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Current					
Trade payables and other creditors		131,870	122,806	77,715	68,943
Deferred income		2,886	3,161	–	–
Finance leases	26	1,836	2,356	256	125
Deferred consideration payable		2,546	1,026	1,500	–
Interest payable		49,993	50,538	49,993	50,538
Total		189,131	179,887	129,464	119,606
Non-current					
Deferred income		22,126	20,422	–	–
Deferred consideration payable		1,655	2,393	–	–
Finance leases	26	1,448	3,695	116	352
Other non-current payables		592	627	592	591
Total		25,821	27,137	708	943

The deferred consideration payable is in respect of Energy Intellect Limited, which is an associate company of the group and Advanced Metering Services Limited, which is a subsidiary of the group.

22. PROVISIONS

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Current					
Provision for employee entitlements	23	5,481	5,825	5,048	5,439
Other provisions	24	11,344	11,559	–	–
Total		16,825	17,384	5,048	5,439
Non-current					
Decommissioning provision	25	3,000	1,000	–	–
Total		3,000	1,000	–	–

23. PROVISION FOR EMPLOYEE ENTITLEMENTS

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of the period	5,825	5,545	5,439	5,262
Acquisition of subsidiary	382	–	–	–
Additions/(utilised)	(726)	280	(391)	177
Balance at end of the period	5,481	5,825	5,048	5,439

24. OTHER PROVISIONS

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of the period	11,559	24,915	–	–
Additions	770	2,665	–	–
Utilised	–	(4,058)	–	–
Reversed to the income statement	(985)	(11,963)	–	–
Balance at end of the period	11,344	11,559	–	–

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		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of the period	1,000	–	–	–
Additions	2,000	1,000	–	–
Balance at end of the period	3,000	1,000	–	–

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

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

26. COMMITMENTS

(a) 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	
	2010 $000	2009 $000	2010 $000	2009 $000
Estimated capital expenditure contracted for at balance date but not provided	117,489	133,091	25,720	26,238

(b) 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 at the end of the current lease term.

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Within one year	3,412	4,436	2,315	2,540
One to five years	2,930	5,322	992	2,312
Beyond five years	1,004	621	108	120
Total	7,346	10,379	3,415	4,972

(c) Finance lease commitments

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Minimum lease payments for finance lease liabilities				
Within one year	2,056	2,794	278	168
One to five years	1,576	4,009	121	380
Total	3,632	6,803	399	548
Less: future finance costs	(348)	(752)	(27)	(71)
Present value of minimum lease payments	3,284	6,051	372	477

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Present value of finance lease liabilities					
Within one year	21	1,836	2,356	256	125
One to five years	21	1,448	3,695	116	352
Present value of minimum lease payments		3,284	6,051	372	477

27. BORROWINGS

GROUP 2010

	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	–	–	–	–	–	(235)	–	(235)
Working capital loan	–	–	–	–	–	(224)	–	(224)
Medium term notes – AUD floating rate	250,000	–	–	–	250,000	(385)	(77)	249,538
Capital bonds – fixed rate	–	307,205	–	–	307,205	(1,297)	–	305,908
Senior bonds – fixed rate	–	–	150,000	–	150,000	(2,541)	2,688	150,147
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,225)	46,075	463,165
Floating rate notes	–	–	–	1,160,000	1,160,000	(13,545)	–	1,146,455
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,068)	(34,577)	246,969
Other	575	–	–	–	575	–	–	575
Total	250,575	307,205	172,817	1,841,112	2,571,709	(23,520)	14,109	2,562,298
Current borrowings	250,575	–	–	–	250,575	(844)	(77)	249,654
Non-current borrowings	–	307,205	172,817	1,841,112	2,321,134	(22,676)	14,186	2,312,644
Total	250,575	307,205	172,817	1,841,112	2,571,709	(23,520)	14,109	2,562,298

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

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

27. BORROWINGS (CONT.) »»

PARENT 2010

	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	–	–	–	–	–	(235)	–	(235)
Working capital loan	–	–	–	–	–	(224)	–	(224)
Medium term notes – AUD floating rate	250,000	–	–	–	250,000	(385)	(77)	249,538
Capital bonds – fixed rate	–	307,205	–	–	307,205	(1,297)	–	305,908
Senior bonds – fixed rate	–	–	150,000	–	150,000	(2,541)	2,688	150,147
Senior notes – USD fixed rate	–	–	22,817	395,498	418,315	(1,225)	46,075	463,165
Floating rate notes	–	–	–	1,160,000	1,160,000	(13,545)	–	1,146,455
Medium term notes – GBP fixed rate	–	–	–	285,614	285,614	(4,068)	(34,577)	246,969
Total	250,000	307,205	172,817	1,841,112	2,571,134	(23,520)	14,109	2,561,723
Current borrowings	250,000	–	–	–	250,000	(844)	(77)	249,079
Non-current borrowings	–	307,205	172,817	1,841,112	2,321,134	(22,676)	14,186	2,312,644
Total	250,000	307,205	172,817	1,841,112	2,571,134	(23,520)	14,109	2,561,723

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

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.

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.

Senior bonds – fixed rate $150 million are due to mature in October 2014. The fixed interest rate is 7.8% per annum paid 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.

In July 2009, the group repurchased $40 million of its floating rate notes from the $200 million 10 year tranche at a discount of $6.6 million. This discount is included as a gain within finance costs disclosed in the income statement. The floating rate notes repurchased were subsequently cancelled in August 2009.

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 fixed interest rate is 7.625% per annum. 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 2010 and 30 June 2009.

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

28. FINANCIAL INSTRUMENTS AND FINANCIAL 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 applies in its 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 (FINANCIAL ASSETS)

	GROUP 2010				GROUP 2009			
	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
Current assets								
Cash and cash equivalents	114,812	143	114,955	114,955	54,690	–	54,690	54,690
Short term deposits	–	–	–	–	100,000	348	100,348	100,348
Loans and receivables:								
Trade receivables (net of doubtful debts provision)	138,510	–	138,510	138,510	164,333	–	164,333	164,333
Other receivables	40	–	40	40	40	–	40	40
Total	253,362	143	253,505	253,505	319,063	348	319,411	319,411
Non-current assets								
Loans and receivables:								
Loan to associate	–	–	–	–	4,450	85	4,535	4,535
Other receivables	1,428	–	1,428	1,428	1,440	–	1,440	1,440
Total	1,428	–	1,428	1,428	5,890	85	5,975	5,975

	PARENT 2010				PARENT 2009			
	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
Current assets								
Cash and cash equivalents	96,791	143	96,934	96,934	38,738	–	38,738	38,738
Short term deposits	–	–	–	–	100,000	348	100,348	100,348
Loans and receivables:								
Advance to subsidiaries	637,868	–	637,868	637,868	456,479	–	456,479	456,479
Trade receivables (net of doubtful debts provision)	76,271	–	76,271	76,271	83,407	–	83,407	83,407
Other receivables	40	–	40	40	40	–	40	40
Total	810,970	143	811,113	811,113	678,664	348	679,012	679,012
Non-current assets								
Loans and receivables:								
Loan to associate	–	–	–	–	4,450	85	4,535	4,535
Other receivables	1,428	–	1,428	1,428	1,440	–	1,440	1,440
Total	1,428	–	1,428	1,428	5,890	85	5,975	5,975

FAIR VALUES (FINANCIAL LIABILITIES)

	GROUP 2010				GROUP 2009			
	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
Current liabilities								
Trade payables and other creditors	131,870	–	131,870	131,870	122,806	–	122,806	122,806
Finance leases	1,836	–	1,836	1,836	2,356	–	2,356	2,356
Deferred consideration payable	2,546	–	2,546	2,546	1,026	–	1,026	1,026
Bank loans	(235)	–	(235)	–	(383)	–	(383)	–
Working capital loan	(224)	–	(224)	–	(361)	–	(361)	–
Medium term notes – AUD floating rate	249,538	2,967	252,505	252,522	253,511	2,208	255,719	256,274
Other	575	–	575	575	575	–	575	575
Total	385,906	2,967	388,873	389,349	379,530	2,208	381,738	383,037
Non-current liabilities								
Deferred consideration payable	1,655	–	1,655	1,655	2,393	–	2,393	2,393
Finance leases	1,448	–	1,448	1,448	3,695	–	3,695	3,695
Other non-current payables	592	–	592	592	627	–	627	627
Capital bonds – fixed rate	305,908	3,298	309,206	325,603	305,307	3,321	308,628	329,667
Senior bonds – fixed rate	150,147	2,461	152,608	154,284	144,578	1,105	145,683	148,303
Senior notes – USD fixed rate	463,165	6,602	469,767	470,058	464,549	6,998	471,547	471,903
Floating rate notes	1,146,455	6,644	1,153,099	1,205,846	1,183,793	7,648	1,191,441	1,206,851
Medium term notes – GBP fixed rate	246,969	8,810	255,779	279,295	288,787	10,289	299,076	304,940
Total	2,316,339	27,815	2,344,154	2,438,781	2,393,729	29,361	2,423,090	2,468,379

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

FAIR VALUES (FINANCIAL LIABILITIES) (CONT.)

	PARENT 2010				PARENT 2009			
	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
Current liabilities								
Advances from subsidiaries	797,884	–	797,884	797,884	545,017	–	545,017	545,017
Trade payables and other creditors	77,715	–	77,715	77,715	68,943	–	68,943	68,943
Finance leases	256	–	256	256	125	–	125	125
Deferred consideration payable	1,500	–	1,500	1,500	–	–	–	–
Bank loans	(235)	–	(235)	–	(383)	–	(383)	–
Working capital loan	(224)	–	(224)	–	(361)	–	(361)	–
Medium term notes – AUD floating rate	249,538	2,967	252,505	252,522	253,511	2,208	255,719	256,274
Total	1,126,434	2,967	1,129,401	1,129,877	866,852	2,208	869,060	870,359
Non-current liabilities								
Finance leases	116	–	116	116	352	–	352	352
Other non-current payables	592	–	592	592	591	–	591	591
Capital bonds – fixed rate	305,908	3,298	309,206	325,603	305,307	3,321	308,628	329,667
Senior bonds – fixed rate	150,147	2,461	152,608	154,284	144,578	1,105	145,683	148,303
Senior notes – USD fixed rate	463,165	6,602	469,767	470,058	464,549	6,998	471,547	471,903
Floating rate notes	1,146,455	6,644	1,153,099	1,205,846	1,183,793	7,648	1,191,441	1,206,851
Medium term notes – GBP fixed rate	246,969	8,810	255,779	279,295	288,787	10,289	299,076	304,940
Total	2,313,352	27,815	2,341,167	2,435,794	2,387,957	29,361	2,417,318	2,462,607

FAIR VALUES (DERIVATIVE FINANCIAL INSTRUMENTS)

	GROUP & PARENT 2010				GROUP & PARENT 2009			
	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
Current assets								
Cross currency swaps	11	6	17	17	–	–	–	–
Forward exchange contracts	–	–	–	–	208	–	208	208
Total	11	6	17	17	208	–	208	208
Non-current assets								
Interest rate swaps	2,739	767	3,506	3,506	–	–	–	–
Cross currency swaps	47,605	5,940	53,545	53,545	50,952	6,380	57,332	57,332
Forward exchange contracts	–	–	–	–	393	–	393	393
Total	50,344	6,707	57,051	57,051	51,345	6,380	57,725	57,725
Current liabilities								
Interest rate swaps	8,138	4,049	12,187	12,187	2,099	725	2,824	2,824
Cross currency swaps	70	(1,043)	(973)	(973)	–	–	–	–
Forward exchange contracts	154	–	154	154	–	–	–	–
Total	8,362	3,006	11,368	11,368	2,099	725	2,824	2,824
Non-current liabilities								
Interest rate swaps	117,092	6,750	123,842	123,842	91,448	8,926	100,374	100,374
Cross currency swaps	63,798	(2,224)	61,574	61,574	12,223	(3,687)	8,536	8,536
Forward exchange contracts	925	–	925	925	–	–	–	–
Total	181,815	4,526	186,341	186,341	103,671	5,239	108,910	108,910

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

28. FINANCIAL INSTRUMENTS AND FINANCIAL 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 carried at fair value. Where financial instruments are measured at fair value they have been classified according to the following levels.

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 only financial instruments held by the group which are measured at fair value are derivatives. Their valuations are based on the level 2 fair value hierarchy, and were calculated using valuation models applying observable market data. Some of the key observable market data used is presented below.

	GROUP & PARENT 2010	GROUP & PARENT 2009
Foreign currency exchange rates		
NZD-GBP FX rate	0.45810	0.39225
NZD-USD FX rate	0.68480	0.64605
NZD-AUD FX rate	0.81525	0.80080
Interest rate swap rates		
3 month cash rate	3.13000	2.84333
1 year semi-annual swap rate	3.71000	2.99000
2 year semi-annual swap rate	4.07500	3.84000
3 year semi-annual swap rate	4.35000	4.58500
5 year semi-annual swap rate	4.76000	5.38000
7 year semi-annual swap rate	5.06000	5.72500
10 year semi-annual swap rate	5.35000	6.07500

The calculation of fair value for each financial instrument for either measurement or disclosure purposes are explained below. In each case, interest accrued is included separately in the statement of financial position either in receivables and prepayments for interest receivable or in payables and accruals for interest payable.

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 any 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.

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.

Capital bonds – fixed rate

The total carrying amount includes the principal, interest accrued and unamortised costs.

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.

Senior notes – USD fixed rate

The total carrying amount 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.

Derivative instruments

The total carrying amount of derivative instruments is the same as the fair value and includes interest accrued.

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 2010		GROUP 2009	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Medium term notes – AUD floating rate	5.04	250,000	3.68	250,000
Capital bonds – fixed rate	8.00	307,205	8.00	307,205
Senior bonds – fixed rate	7.80	150,000	7.80	150,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	3.05	1,160,000	3.39	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	7.63	285,614
Other	–	575	–	575
		2,571,709		2,611,709

	PARENT 2010		PARENT 2009	
	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000	WEIGHTED AVERAGE INTEREST RATE %	FACE VALUE $000
Medium term notes – AUD floating rate	5.04	250,000	3.68	250,000
Capital bonds – fixed rate	8.00	307,205	8.00	307,205
Senior bonds – fixed rate	7.80	150,000	7.80	150,000
Senior notes – USD fixed rate	5.65	418,315	5.65	418,315
Floating rate notes	3.05	1,160,000	3.39	1,200,000
Medium term notes – GBP fixed rate	7.63	285,614	7.63	285,614
		2,571,134		2,611,134

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

INTEREST RATE RISK (CONT.)

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

	GROUP & PARENT 2010			GROUP & PARENT 2009		
	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	2.85	6.86	475,000	3.01	7.08	100,000
Maturing between 1 and 2 years	3.11	6.81	215,000	3.10	6.86	475,000
Maturing between 2 and 5 years	3.01	6.80	150,000	3.07	6.81	365,000
Maturing after 5 years	3.01	6.95	500,000	3.01	7.12	400,000
			1,340,000			1,340,000
Interest rate swaps (fixed to floating)						
Maturing between 2 and 5 years	7.80	5.47	150,000	–	–	–
Maturing after 5 years	–	–	–	7.80	5.47	150,000
			150,000			150,000
Forward starting interest rate swaps (floating to fixed)						
Maturing after 5 years	N/A	6.78	660,000	N/A	6.71	760,000
			660,000			760,000
Interest rate cap						
Maturing in less than 1 year	–	–	–	N/A	N/A	400,000
			–			400,000

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

	GROUP & PARENT 2010				GROUP & PARENT 2009			
	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 (AUD : NZD)								
Maturing in less than 1 year	5.04	203,750	3.24	250,000	–	–	–	–
Maturing between 1 and 2 years	–	–	–	–	3.68	203,750	3.76	250,000
		203,750		250,000		203,750		250,000
Cross currency (USD : NZD)								
Maturing between 2 and 5 years	4.04	15,000	3.10	22,817	5.04	15,000	3.37	22,817
Maturing after 5 years	4.50	260,000	3.10	395,498	5.69	260,000	3.58	395,498
		275,000		418,315		275,000		418,315
Cross currency (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).

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

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) which convert 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 in NZD is also at a fixed interest rate.

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

FOREIGN EXCHANGE RISK

The group has conducted transactions in foreign currencies for the purpose of protecting the NZD cost 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 programme. 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 2010				GROUP & PARENT 2009			
CURRENCY	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) NZD $000	BUY '000	SPOT RATE	WEIGHTED AVERAGE EXCHANGE RATE	MARK TO MARKET GAIN/(LOSS) NZD $000
EUR	716	0.56	0.50	(157)	465	0.46	0.49	71
USD	13,487	0.68	0.61	(923)	15,431	0.65	0.61	524
AUD	–	–	–	–	78	0.80	0.85	6
Total				(1,080)				601

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

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	
	2010 FAIR VALUE $000	2009 FAIR VALUE $000	2010 FAIR VALUE $000	2009 FAIR VALUE $000
Cash and cash equivalents	114,955	54,690	96,934	38,738
Short term deposits	–	100,348	–	100,348
Loans and receivables	139,978	170,348	715,607	545,901
Interest rate swaps	3,506	–	3,506	–
Cross currency swaps	53,562	57,332	53,562	57,332
Forward exchange contracts	–	601	–	601

The ageing of trade receivables at balance date was:

	GROUP		PARENT	
	2010 CARRYING AMOUNT $000	2009 CARRYING AMOUNT $000	2010 CARRYING AMOUNT $000	2009 CARRYING AMOUNT $000
Not past due	120,367	138,900	70,142	77,786
Past due 1–30 days	9,308	15,915	1,533	700
Past due 31–120 days	4,114	5,561	1,440	1,162
Past due more than 120 days	9,578	9,853	6,989	6,735
Total	143,367	170,229	80,104	86,383

The group holds a provision for doubtful debts against the amounts disclosed above of $4.9 million (2009: $5.9 million).

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 of $325 million (30 June 2009: $325 million).

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.

	GROUP 2010				
	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 and other creditors	131,870	–	–	–	131,870
Finance leases	2,056	996	580	–	3,632
Medium term notes – AUD floating rate	263,540	–	–	–	263,540
Capital bonds – fixed rate	24,576	331,849	–	–	356,425
Senior bonds – fixed rate	15,739	15,739	189,347	–	220,825
Senior notes – USD fixed rate	22,707	22,707	87,266	461,198	593,878
Floating rate notes	49,222	56,535	206,451	1,386,744	1,698,952
Medium term notes – GBP fixed rate	19,142	19,140	57,427	327,603	423,312
Other	575	–	–	–	575
Derivative financial (assets)/liabilities					
Cross currency swaps (USD : NZD)					
Inflow	(22,707)	(22,707)	(87,266)	(461,198)	(593,878)
Outflow	18,508	21,575	94,636	490,099	624,818
Cross currency swaps (AUD : NZD)					
Inflow	(263,540)	–	–	–	(263,540)
Outflow	260,147	–	–	–	260,147
Cross currency swaps (GBP : NZD)					
Inflow	(19,142)	(19,140)	(57,427)	(327,603)	(423,312)
Outflow	30,973	31,058	92,920	401,955	556,906
Forward exchange contracts					
Inflow	(1,482)	–	(22,193)	–	(23,675)
Outflow	1,482	–	22,193	–	23,675
Net settled derivatives					
Interest rate swaps	41,686	29,140	57,431	17,387	145,644
	575,352	486,892	641,365	2,296,185	3,999,794

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

LIQUIDITY RISK (CONT.)

	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 CONTRACTUAL CASH FLOWS $000
Non-derivative financial liabilities					
Trade payables and other creditors	122,806	–	–	–	122,806
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	48,345	38,179	18,387	3,812	108,723
	352,190	446,555	842,604	2,628,549	4,269,898

	PARENT 2010				
	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 and other creditors	77,715	–	–	–	77,715
Finance leases	278	121	–	–	399
Medium term notes – AUD floating rate	263,540	–	–	–	263,540
Capital bonds – fixed rate	24,576	331,849	–	–	356,425
Senior bonds – fixed rate	15,739	15,739	189,347	–	220,825
Senior notes – USD fixed rate	22,707	22,707	87,266	461,198	593,878
Floating rate notes	49,222	56,535	206,451	1,386,744	1,698,952
Medium term notes – GBP fixed rate	19,142	19,140	57,427	327,603	423,312
Derivative financial (assets)/liabilities					
Cross currency swaps (USD : NZD)					
Inflow	(22,707)	(22,707)	(87,266)	(461,198)	(593,878)
Outflow	18,508	21,575	94,636	490,099	624,818
Cross currency swaps (AUD : NZD)					
Inflow	(263,540)	–	–	–	(263,540)
Outflow	260,147	–	–	–	260,147
Cross currency swaps (GBP : NZD)					
Inflow	(19,142)	(19,140)	(57,427)	(327,603)	(423,312)
Outflow	30,973	31,058	92,920	401,955	556,906
Forward exchange contracts					
Inflow	(1,482)	–	(22,193)	–	(23,675)
Outflow	1,482	–	22,193	–	23,675
Net settled derivatives					
Interest rate swaps	41,686	29,140	57,431	17,387	145,644
	518,844	486,017	640,785	2,296,185	3,941,831

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

28. FINANCIAL INSTRUMENTS AND FINANCIAL 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 and other creditors	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	48,345	38,179	18,387	3,812	108,723
	295,126	444,521	841,009	2,628,549	4,209,205

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 balance date. It is assumed that the amount of the liability at 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 current 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 other comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps is a $92.8 million loss (2009: $94.4 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $36.7 million (2009: $42.9 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $34.9 million (2009: $40.7 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 a $43.2 million loss (2009: $6.7 million loss). A fall of 1% in interest rate would result in a loss in other comprehensive income of $30.8 million (2009: $32.8 million) whereas an increase of 1% in interest rate would result in a gain in other comprehensive income of $28.5 million (2009: $29.9 million).

Floating rate notes of $45 million (2009: $85 million) have not been hedged and hence a fall of 1% in interest rate would increase profit by $0.5 million (2009: $0.9 million) whereas an increase of 1% in interest rate would decrease profit by $0.5 million (2009: $0.9 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 (2009: NZ$150 million senior bonds) as the hedge is an effective hedge. The fair value of these interest rate swaps is a $3.5 million profit (2009: $2.1 million loss). However, since the interest rate is converted to floating, a fall of 1% in interest rate would increase profit by $1.5 million (2009: $1.5 million) and an increase of 1% in interest rate would decrease profit by $1.5 million (2009: $1.5 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 a $7.0 million loss (2009: $48.8 million gain). 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. Any changes in the interest rate would have no impact on profits in relation to the GBP: NZD cross currency swaps as the NZD payment leg is at a fixed interest rate.

	GROUP & PARENT 2010		GROUP & PARENT 2009	
	−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	190	(190)	250	(250)
USD : NZD	4,183	(4,183)	4,183	(4,183)
Total impact on profit increase/(decrease)	4,373	(4,373)	4,433	(4,433)

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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

HEDGE ACCOUNTING AND SENSITIVITY ANALYSIS (CONT.)

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 programme 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 other comprehensive income where the hedge is an effective hedge. The fair value of these forward exchange contracts is a $1.1 million loss (2009: $0.6 million gain).

	GROUP & PARENT 2010		GROUP & PARENT 2009	
	–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	142	(116)	112	(92)
USD	2,181	(1,739)	2,469	(2,020)
AUD	–	–	11	(9)
Total impact on other comprehensive income increase/(decrease)	2,323	(1,855)	2,592	(2,121)

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 borrowings less cash and cash equivalents and short term deposits.

The net debt to net debt plus equity ratios at 30 June 2010 and 30 June 2009 were as follows:

	GROUP	
	2010 $000	2009 $000
Current borrowings	249,654	575
Non-current borrowings	2,312,644	2,639,781
Total borrowings	2,562,298	2,640,356
Less: cash and cash equivalents	(114,812)	(54,690)
Less: short term deposits	–	(100,000)
Net debt	2,447,486	2,485,666
Total equity	2,084,208	2,058,893
Net debt plus equity	4,531,694	4,544,559
Net debt to net debt plus equity ratio	54.0%	54.7%

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 statement of financial position of the group and the parent.

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.

Notes to the financial statements

For the year ended 30 June 2010 (cont.)

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	
	2010 $000	2009 $000
Payment of dividend to the AECT	103,263	99,508

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	
	2010 $000	2009 $000	2010 $000	2009 $000
Cash advances to subsidiaries	–	–	207,691	206,534
Loans to parent/repaid by subsidiaries	–	–	371,428	1,135,086
Employee costs recharged to subsidiaries	–	–	13,533	13,423
Management fees payable by subsidiaries	–	–	41,548	43,394
Income from financial services provided to Stream Information Partnership	–	–	70	70
Sale of gas distribution services to Vector Gas Limited	–	–	4,346	4,506
Interest receivable from Vector Communications Limited	–	–	2,900	2,954
Purchase of telecommunications services from Vector Communications Limited	–	–	2,680	2,508
Income from call centre services provided to Vector Communications Limited	–	–	123	94
Dividends received from Tree Scape Limited	–	–	200	–
Purchase of vegetation management services from Tree Scape Limited	4,892	3,545	4,892	3,545
Purchase of electricity meters and metering services from Energy Intellect Limited	1,683	1,474	–	–
Loan to and interest receivable from Advanced Metering Services Limited	–	4,535	–	4,535
Purchase of management services from Advanced Metering Services Limited	5,929	10,311	–	–
Administrative and other services provided to Advanced Metering Services Limited	251	1,320	372	1,320
Sales of operations and maintenance services to Kapuni Energy Joint Venture	1,167	1,097	–	–
Purchases of electricity and steam from Kapuni Energy Joint Venture	12,972	11,330	–	–
Administrative and other services provided to Kapuni Energy Joint Venture	66	62	–	–

Gas sales to Kapuni Energy Joint Venture are 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.

Tax losses of $2.6 million (with a tax effect of $0.8 million) have been transferred during the period from Vector Communications Limited for utilisation by Vector Limited to partially offset against its taxable profits for the period.

During January 2010, Vector Limited acquired a further 50% shareholding in Advanced Metering Services Limited for deferred consideration of $1.5 million. The deferred consideration is payable contingent upon the company achieving a target for the number of smart meters installed in New Zealand.

During April 2010, the group subscribed to a rights issue by NZ Windfarms Limited and also acquired shares which were not taken up in the rights issue in its capacity as underwriter of the issue. In total the group acquired 47,980,362 additional shares for $7,197,054, at 15 cents per share increasing the group's shareholding from 19.99% to 22.11%. Also during the year, the group granted NZ Windfarms Limited a loan of $6.5 million on commercial terms which was repaid in full in May 2010.

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

	PARENT 2010 $000	PARENT 2009 $000
Receivable by the parent from:		
MEL Network Limited	67,220	67,220
Poihipi Land Limited	8	8
Vector Communications Limited	67,663	54,907
Broadband Services Limited	366	366
Vector Stream Limited	5,621	5,057
Vector Gas Contracts Limited	546,079	359,125
Elect Data Service (Australia) Pty Limited	–	595
On Gas Limited	–	36,421
Advanced Metering Services Limited	18,131	–
	705,088	523,699
Less: provision against advances to subsidiaries	(67,220)	(67,220)
Total advances to subsidiaries	637,868	456,479
Payable by the parent to:		
NGC Holdings Limited	(251,311)	(211,449)
Vector Gas Investments Limited	(3,062)	(563)
Vector Kapuni Limited	(18,998)	(7,024)
Vector Management Services Limited	(4,822)	(5,396)
NGC Metering Limited	(22,422)	(37,822)
Vector Gas Limited	(264,375)	(54,638)
Mercury Geotherm Limited	(1,527)	(1,314)
On Gas Limited	(1,047)	–
Elect Data Service (Australia) Pty Limited	(2,186)	–
Auckland Generation Limited	(13,334)	(13,334)
MEL Silverstream Limited	(371)	(371)
Salamanca Holdings Limited	(9)	(9)
Vector Metering Data Services Limited	(214,420)	(213,097)
Total advances from subsidiaries	(797,884)	(545,017)

At 30 June 2010, there are no material outstanding balances due to or from associates and joint ventures which are related parties of Vector Limited.

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 (2009: $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 2010 (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	
	2010 $000	2009 $000	2010 $000	2009 $000
Directors fees	987	900	900	818
Salary and other short-term employee benefits	5,106	3,336	5,106	3,336
Post employment benefits	3	49	3	49
Redundancy and termination benefits	447	374	447	374
Other long term benefits	–	–	–	–
Total	6,543	4,659	6,456	4,577

32. EVENTS AFTER BALANCE DATE

In July 2010, the group established a new $50 million senior credit facility and a new $125 million working capital facility. These facilities will expire in August 2013 and December 2013 respectively. The facilities replace the existing $125 million senior credit facilities and $150 million working capital facility that were due to expire in August 2010 and December 2010 respectively.

On 27 August 2010, the board declared a final dividend for the year ended 30 June 2010 of 7.5 cents per share.

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 2010 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 donations of $4,000 during the year ended 30 June 2010. No donations were made by Vector's subsidiary companies.

CREDIT RATING

At 30 July 2010 Vector Limited had a Standard & Poor's credit rating of BBB+/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 2010:

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 2010, Vector Limited made payments to J Carmichael and K Sherry, trustees of the AECT (Vector Limited's majority shareholder) totalling $180,000 in respect of their attendance at meetings of the Vector Limited board.

Statutory information

DIRECTORS

The following directors of Vector Limited and current group companies held office as at 30 June 2010 or resigned (R) as a director during the year ended 30 June 2010. Directors marked (A) were appointed during the year.

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

All of the above directors in office at 30 June 2010 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
Advanced Metering Services Limited	T Hertling (R), S Mackenzie, P Maher (R), D McCarthy, P Ravlich (R), S Robinson (R), M Stiassny
Auckland Generation Limited	S Mackenzie, G Wilson (A)
Broadband Services Limited	M Stiassny
Elect Data Services (Australia) Pty Limited	S Mackenzie, I McClelland
Liquigas Limited	M Armstrong, A Ball, T Barstead, D Devers (A), A Gilbert, M Karbanowicz (R), E Kelly (A), I Lindsay, S Mackenzie, I Maloney (A), J Seymour, A Smith, D Thomas, D Wilson, G Wilson (A)
MEL Network Limited	S Mackenzie, G Wilson (A)
Mercury Geotherm Limited (in receivership)	M Franklin, A McLachlan, D Ross
NGC Limited	A Ball, G Wilson (A)
NGC Holdings Limited	P Bird, J Carmichael, A Carter, H Fletcher, J Miller, A Paterson, K Sherry, M Stiassny, R Thomson
NGC Metering Limited	S Mackenzie, G Wilson (A)
On Gas Limited	A Ball, G Wilson (A)
Poihipi Land Limited (in receivership)	M Franklin, A McLachlan, D Ross
Salamanca Holdings Limited	S Mackenzie, M Underhill
Stream Information Limited	A Ball, W Falconer, N MacCulloch, D McCarthy
UnitedNetworks Limited	S Mackenzie, G Wilson (A)
UnitedNetworks Employee Share Schemes Trustee Limited	S Mackenzie, G Wilson (A)
Vector Communications Limited	P Bird, J Carmichael, A Carter, H Fletcher, J Miller, A Paterson, K Sherry, M Stiassny, R Thomson
Vector Gas Limited	A Ball, G Wilson (A)
Vector Gas Contracts Limited	A Ball, G Wilson (A)
Vector Gas Investments Limited	A Ball, G Wilson (A)
Vector Kapuni Limited	A Ball, G Wilson (A)
Vector Management Services Limited	A Ball, G Wilson (A)
Vector Metering Data Services Limited	P Bird, J Carmichael, A Carter, H Fletcher, J Miller (A), A Paterson, K Sherry, M Stiassny, R Thomson
Vector Stream Limited	S Mackenzie, G Wilson (A)

ASSOCIATES	DIRECTORS
Energy Intellect Limited	W Falconer, B Leighs, R Longuet, N MacCulloch, S Mackenzie, M Stiassny, D Thomas
NZ Windfarms Limited	V Buck, W Creech, S Mackenzie, J McKee (R), M Stiassny, D Walker
Tree Scape Limited	A Ball, E Chignell, S Mackenzie, P Smithies, 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 during the year ended 30 June 2010:

DIRECTORS OF VECTOR LIMITED	PAID BY PARENT $	PAID BY SUBSIDIARIES $
P Bird	90,000	–
J Carmichael	90,000	–
A Carter	90,000	–
H Fletcher	90,000	–
J Miller	95,671	–
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 $
M Armstrong	–	5,000
A Ball	–	7,500*
T Barstead	–	5,000
A Gilbert	–	2,500
M Karbonowicz (R)	–	1,250
I Lindsay	–	39,785
S Mackenzie	–	5,000*
A Newnham (R)	–	1,250
J Seymour	–	5,000*
D Thomas	–	2,500*
D Wilson	–	5,000*

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

Statutory information

DIRECTORS (CONT.)

DIRECTORS OF VECTOR LIMITED

Entries in the interests register of Vector Limited up to 30 June 2010 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
P Bird	InfraCo Limited	Director
	InfraCo Asia Development Pte 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	Managing director
	Foodstuffs Fresh (Auckland) Limited	Chairman
	Foodstuffs (N.Z.) Limited and subsidiaries	Managing director
	James Gilmour and Co Limited	Director
	Liquorland Limited	Chairman
	Loughborough Investments Limited	Director and shareholder
	Metfood Pty Limited	Director
	National Trading Company Limited	Director
	Maurice Carter Charitable Trust	Trustee
H Fletcher	Dilworth Trust	Trustee
	Fletcher Building Limited	Director and shareholder
	IAG New Zealand Holdings Limited	Chairman
	Insurance Australia Group Limited	Director
	L.E.K. Consulting Limited	Member of New Zealand Advisory Board
	Reserve Bank of New Zealand	Deputy chairman
	Rubicon Limited	Director and shareholder
	The New Zealand Portrait Gallery	Trustee
	The University of Auckland	Councillor
	The University of Auckland Foundation	Member
J Miller	Auckland International Airport Limited	Director
	Contact Energy Limited	Shareholder
	Craigs Investment Partners Limited	Director
	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
	NHC PTY Co Limited	Director
	NZ Markets Disciplinary Tribunal	Member
	Oversight Committee (Ambulance NZ)	Chairman
	Stevenson Agriculture Limited	Chairman
	Stevenson Group Limited	Director
K Sherry	Auckland Energy Consumer Trust	Trustee
	Auckland Healthy Houses Trust	Trustee
	Bell-Booth Sherry	Principal
	Energy Trusts of New Zealand	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
	DNZ Property Fund Limited	Director
	Ferry View Farms Limited (in Receivership)	Receiver
	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 Thomson 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 2010 that are not set out elsewhere in this annual report:

DIRECTOR	ENTITY	POSITION
S Mackenzie	Gas Industry Company Limited	Director
D McCarthy	Gas Industry Company Limited	Director

Statutory information

EMPLOYEES

The number of current employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2010 are set out in the table below. The information includes salaries paid during the year ended 30 June 2010 and bonus payments made in respect of the financial year 2009. The total bonus payments which were made by parent and subsidiaries are $nil and $100,969 respectively.

CURRENT EMPLOYEES	PARENT	SUBSIDIARIES
$100,001 – $110,000	28	7
$110,001 – $120,000	40	5
$120,001 – $130,000	22	5
$130,001 – $140,000	14	2
$140,001 – $150,000	10	–
$150,001 – $160,000	14	3
$160,001 – $170,000	5	2
$170,001 – $180,000	4	–
$180,001 – $190,000	4	3
$190,001 – $200,000	1	1
$200,001 – $210,000	4	–
$210,001 – $220,000	1	–
$220,001 – $230,000	4	–
$230,001 – $240,000	1	–
$240,001 – $250,000	3	1
$250,001 – $260,000	–	1
$330,001 – $340,000	1	–
$340,001 – $350,000	1	–
$400,001 – $410,000	1	–
$440,001 – $450,000	1	–
$450,001 – $460,000	1	–
$480,001 – $490,000	1	–
$880,001 – $890,000	1	–

The number of former employees of the parent and subsidiaries receiving remuneration and benefits above $100,000 in the year ended 30 June 2010 are set out in the table below. The information includes salaries paid during the year ended 30 June 2010 and bonus payments made in respect of financial year 2009 and 2010. The total bonus payments which were made by the parent are $104,792.

FORMER EMPLOYEES (INCLUDING ANY TERMINATION PAYMENTS)	PARENT	SUBSIDIARIES
$100,001 – $110,000	4	–
$110,001 – $120,000	3	–
$120,001 – $130,000	3	–
$130,001 – $140,000	2	–
$170,001 – $180,000	3	–
$180,001 – $190,000	1	–
$210,001 – $220,000	1	–
$220,001 – $230,000	1	–
$230,001 – $240,000	1	–
$260,001 – $270,000	1	–
$270,001 – $280,000	1	–
$450,001 – $460,000	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.

Statutory information

BONDHOLDER STATISTICS

NZDX debt securities distribution as at 30 July 2010:

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%	4,666	0.00%
5,000 – 9,999	1,138	18.43%	6,120,667	1.99%
10,000 – 49,999	3,840	62.20%	77,143,700	25.11%
50,000 – 99,999	764	12.37%	44,029,000	14.33%
100,000 – 499,999	382	6.19%	56,152,000	18.28%
500,000 – 999,999	23	0.37%	13,965,000	4.55%
1,000,000 plus	24	0.39%	109,789,967	35.74%
	6,174	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 30 July 2010:

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

7.80% SENIOR RETAIL BONDS

RANGE	NUMBER OF BONDHOLDERS	PERCENTAGE OF BONDHOLDERS	NUMBER OF SECURITIES HELD	PERCENTAGE OF SECURITIES HELD
5,000 – 9,999	275	12.12%	1,565,000	1.04%
10,000 – 49,999	1,477	65.09%	27,728,000	18.49%
50,000 – 99,999	310	13.66%	16,911,000	11.27%
100,000 – 499,999	169	7.45%	27,005,000	18.00%
500,000 – 999,999	16	0.71%	9,584,000	6.39%
1,000,000 plus	22	0.97%	67,207,000	44.81%
	2,269	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 30 July 2010:

DIRECTOR	NUMBER OF BONDS
A Carter	10,000

SHAREHOLDER STATISTICS

Twenty largest registered shareholders as at 30 July 2010:

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]	47,664,220	4.77%
Custodial Services Limited <A/C 3>	9,256,930	0.93%
FNZ Custodians Limited	5,090,504	0.51%
Vector Limited	4,244,923	0.42%
Custodial Services Limited <A/C 2>	3,069,457	0.31%
Investment Custodial Services Limited <A/C C>	2,889,857	0.29%
Custodial Services Limited <A/C 1>	2,316,377	0.23%
Private Nominees Limited <residents A/C>	2,305,826	0.23%
Forsyth Barr Custodians Limited <Account 1 M>	2,047,609	0.20%
Custodial Services Limited <A/C 4>	1,787,454	0.18%
NZPT Custodians (Grosvenor) Limited	1,308,972	0.13%
Investment Custodial Services Limited <A/C R>	1,275,603	0.13%
Custodial Services Limited <A/C 9 – MDZ>	938,157	0.09%
JBWere (NZ) Nominees Limited <A/C 45230>	830,000	0.08%
JBWere (NZ) Nominees Limited <A/C 50609>	761,239	0.08%
ASB Nominees Limited <A/C 127956>	690,595	0.07%
Forsyth Barr Custodians Limited <Account 1 L>	639,918	0.06%
M A Janssen Limited	619,200	0.06%
Anthony Ian Gibbs & Valerie Jane Gibbs & Joseph Michael Windmeyer <Ruby Cove (1990) A/C>	552,460	0.06%
	839,289,301	83.93%

[1] New Zealand Central Securities Depository (NZCSD) is a depository system which allows electronic trading of securities to members.

Statutory information

SHAREHOLDER STATISTICS (CONT.)

As at 30 July 2010, 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	11,115,101	1.11%
National Nominees New Zealand Limited	9,782,615	0.98%
Accident Compensation Corporation	8,920,750	0.89%
Citibank Nominees (New Zealand) Limited	6,697,030	0.67%
HSBC Nominees (New Zealand) Limited	3,615,052	0.36%
New Zealand Superannuation Fund Nominees Limited	3,450,386	0.35%
Guardian Trust Investment Nominees (RWT) Limited	1,386,500	0.14%
NZ Guardian Trust Investment Nominees Limited	845,253	0.08%
TEA Custodians Limited	786,936	0.08%
New Zealand Equity Nominee Pool	595,985	0.06%

Substantial security holders as at 30 July 2010:

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, William Cairns, Warren Kyd and Karen Sherry are the registered holders of the shares held by the Auckland Energy Consumer Trust.

As at 30 July 2010, 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 30 July 2010:

RANGE	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 499	7,689	19.30%	2,435,594	0.24%
500 – 999	3,995	10.02%	3,121,494	0.31%
1,000 – 4,999	21,116	52.99%	37,835,824	3.79%
5,000 – 9,999	3,303	8.29%	21,847,087	2.18%
10,000 – 49,999	3,362	8.44%	59,678,990	5.97%
50,000 – 99,999	226	0.56%	14,321,786	1.43%
100,000 plus	158	0.40%	860,759,225	86.08%
	39,849	100.00%	1,000,000,000	100.00%

Analysis of shareholders as at 30 July 2010:

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	1,344	3.37%	14,783,102	1.48%
Individual Holders	24,905	62.50%	74,074,677	7.41%
Joint	12,066	30.28%	55,582,114	5.56%
Nominee Companies	847	2.13%	94,944,287	9.49%
Vector Limited	1	0.00%	4,244,923	0.42%
Other	685	1.72%	5,370,897	0.54%
	39,849	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 30 July 2010:

DIRECTOR	NUMBER OF SHARES
P Bird	10,000
J Carmichael	1,322
A Carter	51,322
H Fletcher	1,322
J Miller	1,713
A Paterson	10,000
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 2010 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	27 August 2009	$2.05	10,000
A Carter	Beneficial	10 March 2010	$2.06	20,000
P Bird	Beneficial	8 September 2009	$2.05	10,000

Disposals of relevant interests – Vector Limited ordinary shares:

DIRECTOR	NATURE OF RELEVANT INTEREST	DATE OF DISPOSAL	CONSIDERATION RECEIVED (PER SHARE)	NUMBER OF SHARES IN WHICH RELEVANT INTEREST SOLD
A Paterson	Beneficial	4 March 2010	$2.07	10,002

Financial calendar

2010

Annual meeting	October
1st quarter operational statistics	October

2011

2nd quarter operational statistics	January
Half year result	February
Half year report	March
Interim dividend*	April
3rd quarter operational statistics	April
4th quarter operational statistics	July
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 at www.nzx.com Further information about Vector is available on our website www.vector.co.nz

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